

**SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

**REQUEST FOR PROPOSALS FOR
GLOBAL CUSTODY AND SECURITIES LENDING SERVICES**

DATE: DECEMBER 11, 2015

**DEADLINE FOR SUBMISSION: JANUARY 29, 2016, 5:00 P.M.
(PACIFIC TIME)**

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Request for Proposal for Global Custody and Securities Lending Services

Introduction

I. Overview

The San Francisco City and County Employees' Retirement System ("SFERS") is soliciting proposals from qualified organizations for global custody and securities lending services.

Established in 1922, SFERS is dedicated to securing, protecting and prudently investing pension trust (the "Trust") assets and administering benefit programs for eligible members of the City and County of San Francisco (the "City"), San Francisco Unified School District, San Francisco Community College District, and the San Francisco Trial Courts. SFERS administers a defined benefit pension plan (the "Plan"), established to provide pension benefits for eligible members of the Plan. SFERS' Retirement Board and investment team oversee the investment of over \$20 billion in Trust assets in global public equities, fixed income and alternative investments.

SFERS' Retirement Board and investment team conduct all investment activities in accordance with applicable laws and in accordance with investment policies and procedures adopted by the Retirement Board and in the sole interest of Trust beneficiaries. The Retirement Board generally meets once a month to set policy, review investment performance and consider new investment opportunities as presented by SFERS' investment team.

Membership

The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost-of-living adjustments after retirement. The three main categories of Plan membership are: Miscellaneous Members, Firefighter Members and Police Members. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. Generally, SFERS also provides continuation benefits to qualified survivors.

SFERS MEMBERSHIP as of June 30, 2015 and 2014

SFERS Profile	2015	2014
Active Members	30,839	29,526
Retired Members	27,477	26,852
Terminated Vested (Deferred)	7,119	6,441
TOTAL MEMBERSHIP	65,435	62,819

Investments

Assets in SFERS are derived from three sources: (i) employer contributions; (ii) employee contributions; and (iii) investment earnings and are held separate from any other assets and are invested pursuant to investment policy guidelines as established by the Retirement Board.

Method of Reporting

SFERS financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, SFERS applies all applicable pronouncements issued by the Financial Accounting Standards Board (“FASB”) and predecessor standard setters on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. SFERS has elected not to apply private sector standards issued after November 30, 1989.

Various reports from Northern Trust, the incumbent custodian bank, are used to prepare the required schedules for financial reporting. SFERS applies the accounting standards listed below, when preparing investments-related sections of the financial statements. Additional accounting standards identified or issued in the future, not included here, may apply to SFERS.

GAAFR (Blue Book)	<i>Governmental Accounting, Auditing, and Financial Reporting, GFOA - Using the GASB 34 Model (Publication)</i>
GASB-Statement No. 3	<i>Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements</i>
GASB-Statement No. 10	<i>Accounting and Financial Reporting for Risk Financing and Related Insurance Issues</i>
GASB-Statement No. 25	<i>Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans</i>
GASB-Statement No. 28	<i>Accounting and Financial Reporting for Securities Lending Transactions</i>
GASB-Statement No. 31	<i>Accounting and Financial Reporting for Certain Investments and for External Investment Pools</i>
GASB-Statement No. 40	<i>Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3</i>
GASB-Statement No. 53	<i>Accounting and Financial Reporting for Derivative Instruments</i>

GASB-Statement No. 61	<i>The Financial Reporting Entity: Omnibus</i>
GASB-Statement No. 64	<i>Derivative Instruments: Application of Hedge Accounting Termination Provisions</i>
GASB-Statement No. 65	<i>Items Previously Reported as Assets and Liabilities</i>
GASB-Statement No. 67	<i>Financial Reporting for Pension Plans</i>
GASB-Statement No. 68	<i>Accounting and Financial Reporting for Pensions</i>

Please refer to Appendix D (SFERS Reports) for additional detail and specific reports required from the custodian bank.

SFERS – Investment Structure (June 30, 2015)

As of June 30, 2015, total market value of assets was \$20.3 billion and invested in diversified portfolios across multiple asset classes. Refer to Appendix E for Manager and Investment Structure and Appendix F for Asset Holdings.

Investment Structure	Market Value (\$ millions)
US Equities	\$5,241.7
Non US Equities	4,919.1
Global Equities	489.0
Alternatives	2,390.3
Fixed-Income	4,934.8
Real Assets	2,149.8
Cash	194.0
Total Fund	\$20,318.7

Summary Service Requirements

Custody: SFERS requires a comprehensive set of services from a custodian bank, including, but not limited to, safekeeping and asset servicing, performance measurement and analytics, plan and investment accounting, GASB reporting support, performance measurement and analytics, short-term sweep cash management, trade processing and settlements, compliance monitoring, commingled fund look through, proxy voting notification support, class action processing support and corporate actions, derivatives processing, proactive investment manager reconciliation, and alternative investment support.

Given the multiple asset classes that SFERS is invested in, the preferred custodian should have robust capabilities in safe keeping, asset servicing, trade processing, and financial reporting. The ability to aggregate and compile data and composites is important. Derivatives processing is

required and experience in fund look through is preferred. Income collection and corporate actions are essential in the day to day administration of the Plan. A cash sweep vehicle (short term cash management) is also required. Although investment managers are responsible and have investment discretion for foreign exchange (“FX”), SFERS requires full transparency to FX transactions executed by the custodian bank on behalf of the Plan. SFERS also employs two commission recapture managers, ConvergeEx and CAPIS.

The account structure of the Plan is predominantly in separate accounts, commingled funds, and limited partnerships. In light of this structure and the multi-manager configuration, SFERS is particularly interested in custodian capabilities to support collecting information and providing financial reports, which can be used to satisfy GASB Standards and included in the City’s Comprehensive Annual Financial Report (“CAFR”). The custodian is expected to assist SFERS in year-end preparation of annual reports. The custodian is expected to assist SFERS and its external auditors in the completion of the annual financial statement audit which includes allowing external auditors to have read only access to online account information and reports. Please note that SFERS utilizes Institutional Shareholder Services Inc. (“ISS”) to assist in establishing the proxy voting policy and coordinate the voting with the custodian. SFERS utilizes third party legal counsel to monitor U.S. and international class action lawsuits and notify SFERS of any lawsuits where SFERS held shares during the class period; these counsel require ongoing access to SFERS’ holdings and transactions data. The custodian is responsible for filing claims for SFERS and collecting any settlement proceeds.

SFERS does not currently fully utilize the back office administrative support services of the custodian to support the alternative investment and real asset sleeves of the portfolio. The custodian receives statements and notices from GPs to record market values and cash flows for accounting and performance measurement purposes. The custodian also supports the processing of capital calls and distributions as per instructions from SFERS staff. SFERS accounting staff also receive statements from the GPs for the monitoring and accounting of the alternative investment and real asset portfolios and maintain accounting records internally for each GP to cross verify the custodian and consultant valuations. SFERS would like to understand the full capabilities of how your firm can support its alternative investment and real asset portfolios.

SFERS requires a flexible data management and reporting system that can quickly provide detailed performance and other analytics at the portfolio, asset class, manager, or security level using the latest dashboard technology. The ability to drill down or “see through” commingled funds for shadow accounting and performance and risk oversight would be ideal. Key considerations surrounding risk management are being evaluated such as compliance monitoring, corporate governance support, advanced performance measurement and analytics, including VaR/scenario/stress testing. SFERS requires performance measurement services such as return calculations, portfolio characteristics, universe comparison, attribution and custom benchmark support. While SFERS currently subscribes to the performance measurement reporting services and investment guideline compliance monitoring services of the custodian, it is interested in deploying a comprehensive enterprise risk management platform. SFERS is also interested in commingled fund “look through” capability for compliance monitoring, performance measurement and risk oversight.

Another important consideration in the custody structure of SFERS is the ability to support the internally managed S&P 500 ex tobacco portfolio and a domestic fixed income portfolio managed by SFERS' fixed-income investment staff. SFERS investment staff will require support for a trade order management system and access to affirm trade instructions. SFERS utilizes Bloomberg, StyleResearch and eVestment in the management of the in-house portfolios for analytics and research.

SFERS' cash balances and investment manager idle cash balances average approximately \$50 million (range of \$50 million to \$100 million per month). Uninvested cash balances or frictional cash is swept at the end of the day into the short term custodian STIF product.

SFERS does not require a full suite of treasury and banking services from the custodian bank. SFERS does not utilize the custodian's web-based treasury platform for cash/money movement, however, this option is being considered as a possible structural enhancement to support the initiation of cash movements for capital calls, distributions and administrative payments by SFERS investment staff. SFERS would like to understand how your firm can support these cash/money movement needs.

For review purposes only, SFERS would like to fully understand your benefit payment capabilities, specifically as a disaster recovery platform for the payment of benefits. There is no intent to make changes to the current arrangement with the City and its local service provider.

SFERS understands that your organization, as a global banking entity, is required to meet and exceed the disaster recovery and business continuity requirements of the Federal Reserve and other regulators. Given that the custodian is intertwined in the daily process of SFERS, we would like to better understand your firm's disaster recovery and business continuity plan. SFERS would like to review your SSAE-16 (SAS 70) for regular penetration audit, data transfer and delivery mechanism, data retention and destruction process, PKI support, encryption, and vendor relationship and management processes. Please note that SFERS would conduct this extra due diligence, taking into consideration national security and confidentiality concerns.

Securities Lending: Securities lending will be utilized primarily to generate incremental return. Through this RFP process, SFERS would like to evaluate the merits of a securities lending program that prioritizes risk management over revenue generation. Thus, SFERS would like to understand if securities lending is worth it after taking into consideration all levels of risks emanating from the program. SFERS would also consider either a bundled (with custody) or unbundled (3rd party lending agent) program based on risk management, intrinsic value lending, and the best platform to mitigate risks. SFERS reserves the right to consider a program either bundled or unbundled, implement a risk averse program rooted on intrinsic value lending with the commensurate level of risk/reward trade-off, or after evaluation of all proposals, discontinue or stop securities lending altogether.

At the current time, SFERS participates in securities lending through the custodian through a risk-controlled program. Northern Trust, the custodian bank, administers and manages the

securities lending program on a bundled basis. Northern Trust oversees the cash collateral reinvestment management for the lending program using the investment guidelines in Appendix G. SFERS requires a fully indemnified program specific to operational risk and borrower default. Additional levels of indemnification beyond operational risk and borrower default are also welcome, including collateral reinvestment risk.

Summary: SFERS is going through a best practice review to incorporate your organization's best thinking, enhance risk oversight, deploy meaningful technology solutions, and achieve cost efficiencies. Upon contract award, a commitment from your firm to perform a workflow analysis of SFERS' operations would be beneficial to ensure that SFERS maximizes the services and capabilities of your organization.

We are inviting your organization to submit a proposal to provide the aforementioned services. Of particular concern to SFERS are cost-effective solutions that embrace technology and expert systems, and a disciplined approach in the delivery of custody services. Finally, it is very important that a knowledgeable, seasoned and responsive client servicing team is assigned to SFERS' account.

II. Requirements and Rules for this Request for Proposal

A. Blackout

For the duration of the Request for Proposals ("RFP") process, SFERS and the Retirement Board will enter into a "blackout" period during which communications and meetings between interested parties ("Proposers") and SFERS employees and Retirement Board members related to the subject matter of this RFP and any Proposer's response to this RFP will be prohibited. This blackout will be effective immediately upon the release of this RFP, and will continue until the either review and evaluation process is completed and a contract executed with the selected Proposer of the search process is otherwise ended by the Board.

This blackout will enable SFERS to treat all Proposers fairly during the RFP process and permit the unbiased review of responses.

Blackout conditions are outlined below:

- Proposers are to refrain from face-to-face meetings or communications with SFERS employees and Retirement Board members (communications include telephone conversations, letters and email), except as provided in Section IV(B)(2) herein;
- This blackout remains in effect until the successful Proposer enters into a contractual agreement with SFERS; and
- Proposers may meet with SFERS employees or a Retirement Board member only if the meeting is limited to discussions that are not related to this RFP or any Proposer's response to this RFP. SFERS' Executive Director will be notified of such meetings and

will maintain a log of all such meetings occurring during the “blackout” period for this RFP.

Nothing in this “blackout” policy shall limit a Proposer, who is currently engaged by SFERS as a service provider, from engaging in all meetings and communications with SFERS employees required to effectively conduct SFERS’ business under an existing engagement.

If you have any questions regarding the blackout conditions, please submit your question in writing as provided by Section IV(B)(2) of this RFP.

Intention to Participate

If you intend to respond to this RFP, kindly send to Robert Shaw via e-mail (bob.shaw@sfgov.org) a letter that your organization will be replying to this RFP. Please copy Bo Abesamis (Abesamis@callan.com).

B. Time and Place for Submission of Proposals

Proposals must be submitted and received by 5:00 p.m. (Pacific Time), on January 29, 2016 as follows:

- 1. Maximum length is 250 pages (if singled-sided) or 125 (double-sided) using 12 point font;**
- 2. Hard Copies: Seven (7) copies (spiral bound – no hard binders or marketing materials);**
- 3. Electronic Copies: Two (2) using MS-Word or PDF on a CD-R (recordable compact disc); and**
- 4. Marked "Custodial and Securities Lending Services Proposal".**

Proposals are to be mailed to:

6 Hard copies + 1 Electronic Copy:

Robert Shaw
Managing Director, Public Markets
San Francisco City and County Employees' Retirement System
Attn: Custodial and Securities Lending Services Proposal
1145 Market Street, 5th Floor
San Francisco, CA 94103
e-mail: bob.shaw@sfgov.org

1 Hard Copy + 1 Electronic Copy:

Bo Abesamis
Callan Associates
600 Montgomery Street, Suite 800
San Francisco, CA 94111

For purposes of determining if a response to this RFP has been received by the above deadline, receipt by SFERS will be the deciding factor. Late submissions will not be considered. Postmarks will not be considered in judging the timeliness of submissions. Proposals that are submitted by fax will not be considered. Timely submission of only electronic copies of the proposal is insufficient to timely submit the proposal.

Redacted version:

In addition, please send **one unbound copy**, and **one CD-R**, each marked "REDACTED" as part of your response. The redacted copies should exclude all material from your proposal that you believe in good faith is exempt from disclosure under the California Public Records Act, Cal. Government Code section 6250 et seq. Redactions should appear as blacked out material or blank page(s) with the word "REDACTED" or "PROPRIETARY" inserted. Please also indicate the basis for the redaction under the Act. Please see the section below regarding "Sunshine Ordinance" for further information.

C. Format and Content of Proposals

COMPLETENESS, CLARITY, AND BREVITY ARE IMPORTANT. PROPOSERS SHOULD SUBMIT ALL INFORMATION REQUESTED IN THIS RFP IN THE SPECIFIED FORMAT. RESPONSES NOT MEETING FORMAT REQUIREMENTS OR THAT ARE INCOMPLETE IN ANY WAY MAY BE REJECTED. PROPOSERS ARE URGED TO READ THIS RFP CAREFULLY, TO TAKE CARE IN THE PREPARATION OF RESPONSES, AND TO CAREFULLY PROOFREAD THE FINAL VERSIONS FOR ACCURACY AND COMPLETENESS.

The Proposer's response to this RFP must be organized in the format detailed in Appendix A (Technical Proposal).

SFERS intends to award this contract to the firm (or firms) that it considers will provide the best overall set of services. SFERS reserves the right to accept offers other than the lowest priced offer and to reject any proposals that are not responsive to this RFP. SFERS seeks innovative ideas, presented in a complete custody service package, which can meet the requirements of SFERS and assist SFERS in the oversight of the Plan. SFERS reserves the right: (i) not to select any proposal; (ii) to select any portions of a particular proposal for further consideration; (iii) to accept a proposal other than the lowest cost proposal submitted; or (iv) to reject any and all proposals received if such action is considered by SFERS in its sole discretion to be in the best interests of the Plan.

III. Evaluation and Selection Criteria

A. Minimum Qualifications

Custody

1. At least \$1 billion in total market capitalization as of September 30, 2015.
2. At least \$500 billion in total tax-exempt assets under trust/custody as of September 30, 2015.
3. Minimum of 10 years' experience in providing global trust/custody services for institutional tax-exempt investors.
4. Minimum of 5 years' experience in providing performance measurement (portfolio characteristics, universe comparison, and attribution) and advanced risk analytics (Value at Risk, Scenario and Stress Testing) for institutional tax-exempt investors as of September 30, 2015.
5. The firm must carry Errors and Omissions Insurance coverage or must have applied for such coverage by the submission date of the RFP. E&O insurance will be required throughout the duration of the contract.

Securities Lending

1. At least \$1 billion in total market capitalization as of September 30, 2015.
2. Minimum of 10 years' experience in providing securities lending services for institutional tax-exempt investors.
3. At least \$100 billion in securities lending lendable base for each of the last five years ending September 30, 2015.
4. Will accept responsibility for securities lending program as a fully indemnified agent program specific to borrower default and operational negligence.
5. The firm must carry Errors and Omissions Insurance coverage or must have applied for such coverage by the submission date of the RFP. E&O insurance will be required throughout the duration of the contract.

B. Selection Criteria

The proposals will be evaluated by a selection committee comprised of evaluators with expertise in custodial and securities lending services. SFERS intends to evaluate the proposals relative to each other generally in accordance with the criteria and weighting percentages itemized below. A Proposer can submit a response to this RFP for custody services only (Appendix A, Sections I and III), securities lending services only (Appendix A, Sections II and IV), or for both service mandates (Appendix A, Sections I, II, III, and IV). SFERS will evaluate the custody and securities lending proposals separately. SFERS may consider either a bundled or unbundled arrangement (custody and securities lender together, or custody with a separate securities lending agent), or after evaluation of all proposals, SFERS may determine to discontinue its securities lending program. Proposers are requested to indicate whether they will provide unbundled custody or unbundled securities lending services.

Custody

<u>Component</u>	<u>Weighting Percentage</u>
1. Organization and Experience	20%
2. Custody and Accounting Capabilities	20%
3. Systems and Technology	20%
4. Value Added Services (Performance Measurement, Risk Analytics, Look Through Capability and Alternative Investment Support)	20%
5. Fee Proposal	20%

Securities Lending

<u>Component</u>	<u>Weighting Percentage</u>
1. Organization and Experience	20%
2. Securities Lending Program Structure and Capabilities	20%
3. Risk Management Discipline	20%
4. Level of Indemnification and Risk/Reward Trade-Off	20%
5. Cost Proposal	20%

IV. Schedule

A. Schedule of Events

<u>Action</u>	<u>Date</u>
RFP is advertised and issued	December 11, 2015
Deadline to submit written questions and requests for interpretation	January 6, 2016
Response to written questions to be provided to all participants	January 15, 2016
Deadline for submission of proposal	January 29, 2016
Review of proposals, selection of finalists	To be determined
Retirement Board approval to interview finalists	To be determined
Retirement Board approval of successful Proposer	To be determined
Contract, fee and guideline negotiations commence	To be determined
New contract takes effect	To be determined

B. Explanation of Events

1. This RFP will be posted on SFERS' website (www.mysfers.org). All firms meeting minimum qualifications, as stated in Section III, will be welcome to participate.
2. Any questions or requests for information or clarification concerning this RFP must be in writing, and any substantive replies to all timely requests received by SFERS will be issued as written addenda posted to the SFERS website. No questions or requests for interpretation will be accepted after January 6, 2016. SFERS will respond to all Proposers' written questions by January 15, 2016.

In preparing their responses, Proposers should rely only on written material concerning this RFP issued by SFERS.

3. The deadline for submission of the RFP response is:

5:00 PM, Pacific Time, January 29, 2016.

No exceptions to this deadline will be granted.

4. SFERS will interview finalists at SFERS' offices in San Francisco (dates to be determined). SFERS expects that the key professionals assigned to its account will make the final presentation and Proposers would be advised to mark their calendars accordingly. *SFERS reserves the right to change the date for these interviews at any time for any reason.*
5. All proposals submitted will be considered public documents. Any material that the Proposer considers "Business-Confidential" should be so marked on the proposal.

C. Contract Award

To be considered, all proposals must comply with the requirements and specifications outlined in this RFP.

SFERS will select a Proposer with whom SFERS will commence contract negotiations. The selection of any proposal shall not imply acceptance by SFERS of the terms of the proposal, which are subject to further negotiations. During contract negotiations, if SFERS or its agent is unable to agree to contract terms with the selected Proposer, SFERS, in its sole discretion, may terminate contract negotiations with that Proposer without undertaking another RFP process, and to negotiate with another Proposer.

1. Termination – This RFP in no manner obligates SFERS or any of its agencies to the eventual procurement of services described, implied or which may be proposed, until confirmed by a written contract. Progress toward this end is solely at the discretion of SFERS and may terminate at any time prior to the signing of a contract.

SFERS reserves the right to cancel this RFP at any time and to reject any and all proposals submitted in response to this RFP, if SFERS determines such action or actions are in its best interest.

2. Proposal Applicability – To allow sufficient time for contract negotiation, all fees and conditions stated in the proposal must be firm for a period of 180 days from the deadline for submission of proposals.
3. Negotiation Requirements – SFERS reserves the right to negotiate a change in terms if, in its sole opinion, the representatives assigned by the Proposer are not adequately meeting SFERS' needs for this contract.
4. Legal Review – SFERS expects that all candidates will agree to be bound by the terms and conditions articulated in this RFP. For this reason, it is strongly recommended that Proposers

have the terms and conditions contained herein reviewed with corporate counsel and that concerns be brought to the attention of SFERS staff in a timely manner.

5. Governing Law – This procurement and any agreement with Proposers that may result shall be governed by the laws of the State of California and the City. Submission of a proposal constitutes acceptance of this condition.
6. Basis for Proposal – Only information supplied by the SFERS staff in writing or in this RFP should be used in the preparation of proposals.
7. Proposal Preparation Cost – Any cost incurred by the Proposer in the preparation, transmittal or presentation of any proposal or material submitted in response to this RFP will be borne solely by the Proposer.
8. Proposer Qualification – SFERS may take such investigations as necessary to determine the ability of the Proposer to adhere to the items as identified within the questionnaire portion of this RFP. SFERS reserves the right to reject the proposal of any Proposer who, in SFERS' opinion, is not a "responsible candidate" as defined below:

"Responsible candidate" means a candidate who submits a complete proposal and who has furnished, when required, information and data to prove that its financial resources, production and service facilities, personnel, service reputation and experience are adequate to make satisfactory delivery of the services described in the proposal.

9. Non-Discrimination in Contracts - All contracts are subject to the non-discrimination ordinance of the City. Contractors should note the provision prohibiting discrimination by contractors in the provision of benefits between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees.

V. Terms and Conditions for Receipt of Proposals

A. Errors and Omissions in RFP

Proposers are responsible for reviewing all portions of this RFP. Proposers are to promptly notify SFERS, in writing, if the Proposer discovers any ambiguity, discrepancy, omission, or other error in the RFP. Any such notification should be directed to SFERS promptly after discovery, but in no event later than five working days prior to the date for receipt of proposals. Modifications and clarifications will be made by addenda as provided below.

B. Inquiries Regarding RFP

Inquiries regarding the RFP and all requests for written modification or clarification of the RFP must be directed in writing, via-e-mail, to:

Robert Shaw
Managing Director, Public Markets
San Francisco City and County Employees' Retirement System
Attn: Global Custodial and Securities Lending Services RFP
1145 Market Street, 5th Floor
San Francisco, CA 94103
Fax: (415) 487-7002
E-mail: bob.shaw@sfgov.org

Bo Abesamis (Abesamis@callan.com) at Callan Associates is to be copied on all communications.

All such inquiries must be received prior to January 6, 2016.

Should a Proposer object on any ground to any provision or legal requirement set forth in this RFP, the Proposer must, not more than ten calendar days after this RFP is issued, provide written notice to SFERS setting forth with specificity the grounds for the objection. The failure of a Proposer to object as required under this paragraph shall constitute a complete and irrevocable waiver of any such objections.

C. Addenda to RFP

SFERS may modify this RFP, prior to the proposal due date, by issuing written addenda. Addenda will be posted on SFERS' website (www.mysfers.org). The Proposer shall be responsible for ensuring that its proposal reflects any and all addenda issued by SFERS prior to the proposal due date regardless of when the proposal is submitted. Therefore, the SFERS recommends that the Proposer consult the SFERS website frequently, including shortly prior to the proposal due date, to determine if the Proposer has received all addenda.

D. Term of Proposal

Submission of a proposal signifies that the proposed services and prices are valid for 180 calendar days from the proposal due date and that the quoted prices are genuine and not the result of collusion or any other anti-competitive activity.

E. Revision of Proposal

A Proposer may revise a proposal on the Proposer's own initiative at any time before the deadline for submission of proposals. The Proposer must submit the revised proposal in the same manner as the original. A revised proposal must be received on or before the proposal due date.

In no case will a statement of intent to submit a revised proposal, or commencement of a revision

process, extend the proposal due date for any Proposer.

At any time during the proposal evaluation process, SFERS may require a Proposer to provide oral or written clarification of its proposal. SFERS reserves the right to make an award without further clarifications of proposals received.

F. Errors and Omissions in Proposal

Failure by SFERS to object to an error, omission, or deviation in the proposal will in no way modify the RFP or excuse the Proposer from full compliance with the specifications of this RFP or any contract awarded pursuant to this RFP.

G. Financial Responsibility

SFERS accepts no financial responsibility for any costs incurred by a firm in responding to this RFP. Submissions of responses to this RFP and associated materials will become the property of SFERS and may be used by SFERS in any way deemed by SFERS to be appropriate.

H. Proposer's Obligations Under the Campaign Reform Ordinance

Proposers must comply with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code (the "Contributions Ordinance"), which prohibits any party or prospective party who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any contribution to (a) an individual holding a City elective office if the contract must be approved by such individual, the board on which that individual serves or a state agency on whose board an appointee of that individual serves, (b) a candidate for the office held by such individual, or (c) a committee controlled by such individual or candidate, at any time from the commencement of negotiations for the contract until (1) the termination of negotiations for such contract, or (2) six months have elapsed from the date the contract is approved.

The negotiation period begins with the first point of contact, either by telephone, in person, or in writing, when a contractor approaches any City officer or employee about a particular contract, or a City officer or employee initiates communication with a potential contractor about a contract. The negotiation period ends when a contract is awarded or not awarded to the contractor. Examples of initial contacts include: (i) a vendor contacts a City officer or employee to promote himself or herself as a candidate for a contract; and (ii) a City officer or employee contacts a contractor to propose that the contractor apply for a contract. Inquiries for information about a particular contract, requests for documents relating to a RFP, and requests to be placed on a mailing list do not constitute negotiations.

Violation of the Contributions Ordinance may result in criminal, civil or administrative penalties.

For further information, Proposers should contact the San Francisco Ethics Commission at (415) 252-3100.

I. Sunshine Ordinance

In accordance with San Francisco Administrative Code Section 67.24(e), contracts, contractors' bids, responses to RFPs and all other records of communications between the City and persons or firms seeking contracts shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person's or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefits until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

J. Public Access to Meetings and Records

If a Proposer is a non-profit entity that receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the San Francisco Administrative Code, the Proposer must comply with the reporting requirements of that Chapter. The Proposer must include in its proposal (1) a statement describing its efforts to comply with the Chapter 12L provisions regarding public access to Proposer's meetings and records, and (2) a summary of all complaints concerning the Proposer's compliance with Chapter 12L that were filed with the City in the last two years and deemed by the City to be substantiated. The summary shall also describe the disposition of each complaint. If no such complaints were filed, the Proposer shall include a statement to that effect. Failure to comply with the reporting requirements of Chapter 12L or material misrepresentation in Proposer's Chapter 12L submissions shall be grounds for rejection of the proposal and/or termination of any subsequent Agreement reached on the basis of the proposal.

K. Reservations of Rights by SFERS

The issuance of this RFP does not constitute an agreement by SFERS that any contract will actually be entered into by SFERS. SFERS expressly reserves the right at any time to:

- 1) Waive or correct any defect or informality in any response, proposal, or proposal procedure;
- 2) Reject any or all proposals;
- 3) Cancel the pending RFP at any point in the process;
- 4) Reissue a RFP;
- 5) Prior to submission deadline for proposals, modify all or any portion of the selection procedures, including deadlines for accepting responses, the specifications or requirements for any materials, equipment or services to be provided under this RFP, or the requirements for contents or format of the proposals;

- 6) Procure any materials, equipment or services specified in this RFP by any other means; or
- 7) Determine that no RFP proposal will be pursued.

L. No Waiver

No waiver by SFERS of any provision of this RFP shall be implied from any failure by SFERS to recognize or take action on account of any failure by a Proposer to observe any provision of this RFP.

M. Local Business Enterprise Participation

SFERS strongly encourages proposals from qualified “Local Business Enterprises (LBEs)” as defined in Chapter 14.B of the San Francisco Administrative Code. If Proposer desires to participate in the City’s Local Business Enterprise Program, which helps certain financially disadvantaged businesses increase their ability to compete effectively for City contracts, Proposer should go to the “Qualify to do Business” tab on the Office of Contract Administration website at www.sfgsa.org for details and required forms.

N. Chapter 12B and 12C: Nondiscrimination in Employment and Benefits

The provisions of Chapter 12B and 12C of the San Francisco Administrative Code are incorporated by reference as though fully set forth herein. Such provisions prohibit discrimination by City contractors in employment, the use of property, the provision of public accommodations and in the provision of benefits to employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees.

O. Conflicts of Interest

The successful Proposer will be required to agree to comply fully with and be bound by the applicable provisions of state and local laws related to conflicts of interest, including Section 15.103 of the City's Charter, Article III, Chapter 2 of City’s Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California. The successful Proposer will be required to acknowledge that it is familiar with these laws; certify that it does not know of any facts that constitute a violation of said provisions; and agree to immediately notify the City if it becomes aware of any such fact during the term of the agreement.

Individuals who will perform work for the City on behalf of the successful Proposer might be deemed consultants under state and local conflict of interest laws. If so, such individuals will be required to submit a Statement of Economic Interests, California Fair Political Practices Commission Form 700, to the City within ten calendar days of the City notifying the successful Proposer that the City has selected the Proposer.

VI. Contract Requirements

A. Standard Contract Provisions

The successful Proposer will be required to enter into a contract substantially in the form of custody agreement to be provided by SFERS. Failure to timely execute the contract, or to furnish any and all certificates, bonds or other materials required in the contract, shall be deemed an abandonment of a contract offer. SFERS, in its sole discretion, may select another firm and may proceed against the original selectee for damages.

B. Required Standard City Forms

Before the City can award any contract to a Proposer, the Proposer must file three mandatory standard City forms with SFERS. The required forms are:

1. IRS Form W-9 (Request for Taxpayer Identification Number);
2. Form P-25 (Business Tax Declaration Form); and
3. Form CMD-12B-101 (Declaration of Nondiscrimination in Contracts and Benefits).

Complete descriptions of these required forms are available at the “Qualify to do Business” tab of the Office of Contract Administration website at www.sfgsa.org or in Appendix B of this RFP.

The three required forms are to be included with your RFP materials.

In addition, and under separate cover at the time you submit the proposal, please submit one copy of the above forms in a separate, sealed envelope addressed to:

Jim Burruel, Finance Manager
San Francisco Employee’s Retirement System
Attention: Global Custody and Securities Lending Services RFP
1145 Market Street, 5th Floor
San Francisco, CA 94103

If these forms are not filed at the time you submit your proposal, the proposal may be determined to be non-responsive and rejected.

Appendix A: TECHNICAL PROPOSAL

Read this document thoroughly before formulating a proposal. You are encouraged to be succinct and answer the questions as asked. Please be specific. Please note that the response to the RFP will be made part of the final legal custody agreement between SFERS and the custody provider. *Kindly restate each question and provide the answers accordingly.*

MINIMUM QUALIFICATIONS

Kindly state if your organization is able to satisfy all of the qualifications and statutory requirements listed below and furnish appropriate documentation, accordingly.

A Proposer can submit a response to this RFP for custody services only (Sections I and III, securities lending services only (Sections II and IV), or for both service mandates (Sections I, II, III, and IV).

Custody

- At least \$1 billion in total market capitalization as of September 30, 2015.
- At least \$500 billion in total tax-exempt assets under trust/custody as of September 30, 2015.
- Minimum of 10 years' experience in providing global trust/custody services for institutional tax-exempt investors.
- Minimum of 5 years' experience in providing performance measurement (portfolio characteristics, universe comparison, and attribution) and advanced risk analytics (Value at Risk, Scenario and Stress Testing) for institutional tax-exempt investors as of September 30, 2015.
- The firm must carry Errors and Omissions Insurance coverage or must have applied for such coverage by the submission date of the RFP. E&O insurance will be required throughout the duration of the contract.

Securities Lending

- At least \$1 billion in total market capitalization as of September 30, 2015.
- Minimum of 10 years' experience in providing securities lending services for institutional tax-exempt investors.
- At least \$100 billion in securities lending lendable base for each of the last five years ending September 30, 2015.
- Will accept responsibility for securities lending program as a fully indemnified agent program specific to borrower default and operational negligence.
- The firm must carry Errors and Omissions Insurance coverage or must have applied for such coverage by the submission date of the RFP. E&O insurance will be required throughout the duration of the contract.

I. CUSTODY AND SAFEKEEPING SERVICES

A. Experience

- 1) State your firm's lines of business. Where does custody of retirement plans fit within the organization as a service or product offering?
- 2) What is the approximate revenue contribution of your Institutional Trust and Custody Business to overall company revenue in percentage terms?
- 3) Are there any current organizational issues (i.e., mergers, acquisitions, personnel changes, business concerns, etc.) at your institution that we should know about? Have there been any organizational issues over the last three years?
- 4) Describe in detail any potential conflicts of interest your firm may have in the custody of the SFERS account, or in the alternative, state that no potential conflicts exist, including any known relationships the organization or any staff has with any member of SFERS' Retirement Board or staff. Respondent must list all gifts or things of value given to members of SFERS' Retirement Board and staff within the twelve months immediately prior to the date of this RFP. Include (1) the name of the person receiving the gift or thing of value, (2) the earlier of the date the gift of thing of value was promised or given, (3) a brief description of the gift or thing of value, and (4) the fair market value of the gift or thing of value when promised or given, whichever is greater.
- 5) Describe in detail any potential conflicts of interest your firm may have with Callan retained by SFERS for the solicitation and procurement of master global custody and related services.
- 6) Provide the number of your organization's clients as categorized in the following matrix. Report aggregate values of their total assets under custody in US\$ millions for the periods specified.

Total Tax Exempt Trust and Custody Clients Only

	Total Number of Clients	Asset Value (US\$ millions)
2010		
2011		
2012		
2013		
2014		
As of September 30, 2015		

Public Fund Custody Clients Only

	Total Number of Clients	Asset Value (US\$ millions)
2010		
2011		

2012		
2013		
2014		
As of September 30, 2015		

- 7) Provide the number of **tax-exempt trust and custody accounts**, including global custody clients, gained and/or lost for the periods listed in the following matrix. Report corresponding market values in US\$ millions as of initiation date for clients gained and termination date for clients lost.

Total Trust and Custody Clients Only

	Clients Gained (Number)	Clients Gained (US\$ millions)	Clients Lost (Number)	Clients Lost (US\$ millions)
2010				
2011				
2012				
2013				
2014				
As of September 30, 2015				

- 8) List and provide a summary description of all pending or threatened litigation, class action lawsuits, penalties, censures, regarding custody or securities lending services, against your organization. List and describe all agency supervision associated with the pending or threatened litigation. What has been your experience with regard to litigation or agency supervision over the past seven years? (Please note that providing a link to a website or company maintained internet portal will not be accepted and will be deemed unresponsive specific to this question.)
- 9) Provide your organization's client distribution as specified in the following table. Report aggregate market values of total assets under custody in US\$ millions as of September 30, 2015.

Tax-Exempt Client Asset Size Distribution

Distribution	Number of Clients	Number of Plans	Aggregate Market Value (US\$ millions)
<i>Public Funds</i>			
Below \$500 million			
\$500+ million to \$1 billion			
\$1+ billion to \$5 billion			
\$5+ billion and Up			
<i>Corporate</i>			
Below \$500 million			
\$500+ million to \$1 billion			
\$1+ billion to \$5 billion			
\$5+ billion and Up			
<i>Taft Hartley-Union</i>			
Below \$500 million			
\$500+ million to \$1 billion			
\$1+ billion to \$5 billion			
\$5+ billion and Up			
<i>Endowments & Foundations, etc.</i>			
Below \$500 million			
\$500+ million to \$1 billion			
\$1+ billion to \$5 billion			
\$5+ billion and Up			
TOTAL			

B. Client Servicing

- 1) What is your approach to client servicing and what would be the most distinct element of your client servicing approach that SFERS would benefit from and consider exceptional as per the Overview Section of this RFP?
- 2) How do you propose to staff for SFERS both from a client servicing perspective and actual daily service deliverables point of view?
- 3) Please provide the names and bios including experience of the proposed client servicing team members as follows and as specified in the table below:
 - Management Sponsor
 - Client Servicing Team
 - Custody and Accounting
 - Trade Processing and Securities Settlement, including Cash and Expense Reconciliation
 - Technology and Systems Support
 - Performance Measurement and Analytics
 - Alternative Investment Support
 - Banking

Name	Responsibility	Location	Number of Client Relationships	Years with Bank	Years of Experience and Credentials

- 4) Does the team handle other public fund clients, with a similar configuration as that of SFERS? Kindly list other clients handled by the team. (Please note that SFERS reserves the right to accept or request changes to the team and individuals assigned to the relationship.)
- 5) Please discuss opportunities, which your financial institution offers to clients for training and continuing education, and whether those educational opportunities would be available to SFERS and the cost to be incurred for such training and education.
- 6) Please provide a list of three (3) current and three (3) former/departed public fund client references of similar size and configuration as SFERS over the last three years and furnish corresponding contact information.

C. Risk and Insurance

- 1) Please address any substantive issues raised by independent auditors in your SSAE 16 and/or SAS 70 and issues published in your Form 10-Q. Provide a copy of the most recent annual report, Form 10-Q and SSAE 16 or SAS 70. Please label appropriately.
- 2) Provide the following data and explain how it meets the Federal Reserve stipulated requirements.

**Capital Base
December 31, 2014**

Capital Requirements	Actual	Current Requirements
Tier 1 Capital Ratio		
Total Capital Ratio		
Leverage Ratio		
Tangible Common Equity		

- 3) Provide your organization’s current short term and long term credit rating.
- 4) Please provide guidance on how you intend to meet Basel III in terms of capital adequacy and liquidity.
- 5) Has your firm participated in the Federal Reserve’s most recent assessments of capital adequacy for bank holding companies including the Comprehensive Capital Analysis and Review (CCAR) or Capital Plan Review (CapPR)? If so, please disclose the results if permitted.
- 6) What is the nature and size of any “off balance sheet items” in your annual report and what are the three critical areas that pose the most at risk exposure to the bank?
- 7) Please furnish a copy of a Standard Trust/Custody Agreement for a Public Fund for SFERS’s review. Kindly label accordingly as a separate attachment.
- 8) Describe the various types of insurance coverage and indemnification provided by your firm to protect clients of service(s) proposed. Each description should include:

- Risk Coverage
 - Carriers
 - Levels
 - Limits
 - Deductibles
 - Expiration
- 9) Does your organization subcontract any of the services required by SFERS? Kindly state contract vendor name and for which service a subcontractor would be used (e.g., subcustody network, pricing, accounting & reporting, internet delivery, securities lending, performance measurement, proxy, disaster recovery, data storage and retention, etc.).
 - 10) Describe your business continuity and disaster recovery plans, including pandemic planning. When was the most recent test done? Indicate the date, scope, and results of the last testing of such emergency plan(s) and promptly report to SFERS the results of any test conducted subsequent to your response to this RFP.
 - 11) What will be the recovery time(s) and service level for critical custodial services in the case of a major disaster?
 - 12) Does your organization perform periodic vulnerability assessments or penetration tests on internal or external networks? If possible, please indicate the date, scope, and high level results of the last such testing.
 - 13) As noted in the Overview Section, SFERS would like to understand your data retention, data transfer, and vendor relationship processes specific to custody and related services requested in this RFP. Please describe.

D. Systems, R&D and Technology

- 1) Please provide the Technology, R&D and Systems budgets (in actual US\$ terms) specific to trust and custody services over both the past three and next three years.
- 2) Provide a brief description of the information delivery system or workstation for client interface. Include a description of client interface technical requirements (i.e., PC operating system, web browser software and version). Describe the levels of service, if any.
- 3) Is the above information delivery system subcontracted or in-house? If subcontracted, please specify the vendor name and release number, including the description of the relationship and how access to the source code is defined.
- 4) Are you undergoing any level of system integration, retiring/sunsetting of platforms, major software or application upgrades, migration to a new application internal or to a 3rd party vendor specific to custody/asset servicing, accounting, performance measurement & analytics, and related services contemplated in this RFP?
- 5) What is your vision over the next five years in terms of your technology and processing capabilities that will ensure your competitiveness and existence?
- 6) Is your custody and accounting platform able to interface with various investment accounting systems? How does your organization handle client specified G/L feeds to an in-house application?
- 7) Is your organization able to deliver the next level of Microsoft Excel Spreadsheets (data direct and interactive spreadsheets)? If so, is this available or in development? What information and reports does interactive spreadsheets support (i.e., accounting, GASB, etc.)?

E. Trade Processing, Settlement and Custody

- 1) Are you able to meet the following functions?
 - Accept daily instructions from investment managers and SFERS.
 - Advise investment managers of daily changes in cash equivalent balances.
 - Immediately advise investment managers of additions or withdrawals from account.
 - Notify investment managers of tenders, rights, fractional shares or other dispositions of holdings.
 - Resolve any problems that investment managers may have relating to custodial account, including security pricing differences.
 - Safekeeping of securities.
 - Interest and dividend collection.
 - Process all investment manager transactions.
 - Collect proceeds from maturing securities.
 - Disburse all income or principal cash balances as directed.
 - Daily feed of beginning of day holdings and cash balances, including end of day information.
 - Provide monthly statements by investment manager account and consolidated statement of all assets on a plan and total trust levels.
- 2) State the value of assets held (as of September 30, 2015) at Depository Trust Company and Federal Reserve and the length of the direct participant relationship with these custodians.
- 3) State the value of assets for basic international depositories, such as Euroclear, Clearstream, etc. as of September 30, 2015.
- 4) Is your system capable of producing a report which shows all failed trades across all of a client’s investment manager accounts at any given point in time?
- 5) Does your organization employ actual or contractual settlement date? It is the requirement of SFERS to have a contractual settlement. Is this requirement acceptable?
- 6) Do you employ SEC 17f-5 and 17f-7 in the review and contracting arrangements with your sub-custody network? Please explain your role as Custody Manager and tracking of sub-custodians and the inherent risks associated with such arrangements. Please specify any limitations you make regarding your contracts with your sub-custodians.
- 7) List all depositories, agents, and sub-custodian banks used in each country, including the US as well as emerging and frontier markets/countries, on behalf of clients in the format described in the following chart. Identify those, which are affiliated with your company. For each country, indicate whether you use a central depository or physical delivery.

Country	Subcustodian Bank	Hired or Established	Ownership Structure (Direct or Sub-Contract)	Depository /Clearing Agent	FX Execution Restricted to Sub-Custodian (Yes or No)	Average Annual Fail Rate Sales + Purchases
ex. Japan	Bank of Tokyo	1987	subcontract	N/A	No	<5%

- 8) Concerning China A Shares, describe in detail how your organization handles the custody of on-shore (China A Shares, etc.) investments in China. Discuss procedures for working with investments through a Qualified Foreign Institutional Investor (QFII) as well as through the Hong Kong - Shanghai Connect program. Are these types of assets held in custody by your organization or through a sub-custodial relationship? If sub-custodians are used, please list the firms. Do you have clear indicia of ownership for clients?
- 9) What is normal protocol in handling non-in bank assets? What is different about your custody platform or product/service deliverable that distinguishes your capabilities compared with the competition?
- 10) Specific to the internally managed portfolio (both S&P 500 and Bond/Fixed-Income), is your firm able to provide a trade order management system (TOMS) to automate the manually intensive process and improve compliance checking (i.e., faxing and phone calls)? Please describe solutions available for SFERS' consideration.
- 11) In addition to the previous question, what would be the trade affirmation process required for the internally managed portfolios? Is this automated, and through what platform?

F. Income Collection

- 1) Describe your procedures for ensuring that interest and dividends (domestic and international) are paid.
- 2) When and in what instances do you rescind contractual income collections? What is/are your policy(s) for both domestic and international markets?
- 3) Do you track late collections of income? Can you produce a tracking report detailing outstanding claims? Do you notify clients of failures to collect or late collections of income?
- 4) Please describe your tax reclaim procedures for ADRs and international securities. Are you able to guarantee 100% relief?
- 5) What percentage and US\$ value of tax reclaims for the last three years ending December 31, 2014, was your organization able to reclaim?

Period	Total Tax Reclaims (US\$)	Actual Reclaims Collected (US\$)	Actual Reclaims Collected as a percent of Total Tax Reclaims (%)	Outstanding Reclaims (US\$)	Outstanding Reclaims as a percent of Total Tax Reclaims (%)
2012					
2013					
2014					
2015 (YTD)					

- 6) There is growing concern regarding the requirement for an Independent Tax Agent in certain countries in which SFERS is invested. Please describe how you support the Registration Process, designation of an Independent Tax Agent and preparation of the Global Power of Attorney for SFERS. How do you ensure that this is not a burden to SFERS?
- 7) There is always the potential that an investment could generate Unrelated Business Taxable Income (UBTI) (e.g., MLPs). Although your firm is not the portfolio manager, how do you assist clients

identify the potential for UBTI (Unrelated Business Taxable Income)? Please discuss any procedures that your organization has in place for assisting clients in dealing with any potential UBTI.

G. Corporate Actions, Proxy Voting Support and Class Action Claims Filing

- 1) Describe the organization structure and staffing of your corporate actions, proxy voting support, securities litigation and class action claims filing services. Do you have one or more dedicated units focusing on these services, or other structures
- 2) Specific to proxy actions, can you support proxy voting by the investment managers, third party vendor, or client? Please answer the following:
 - a. Briefly describe the custodian's corporate action procedures for domestic and foreign securities, including providing proxy notification, monitoring, etc. Include a list of the various sources the custodian uses for corporate action announcements.
 - b. How would SFERS access all proxy notification or voting matters?
 - c. Do you have the capabilities to transfer holding information on a daily, weekly or monthly basis to a third party?
 - d. Do you have the capability to monitor upcoming international votes?
 - e. How do you address the share blocking issues with global securities?
 - f. How do you address potential premiums paid for voting securities in certain markets?
 - g. How do you account for all possible shares being voted?
 - h. Are you able to recall shares on loan prior to record date to participate in the proxy process?
- 3) Please describe your experience with ISS as the 3rd party proxy voting entity currently utilized by SFERS.
- 4) What is distinct about your proxy notification and proxy voting support service, whether in-house or subcontracted to a third-party?
- 5) How do you obtain information about and handle class action suits both domestic and international? How quickly is security class action information updated in your system? What information is reported?
- 6) Is class action monitoring and filing of claims performed in-house or subcontracted? Please describe your class action monitoring and claims filing processes and procedures in detail, including but not limited to how you identify all eligible security positions and match trading history against open class action cases, calculate recognized losses, prepare supporting materials for a claim and submit a timely, complete and acceptable filing, track administration of the settlement, and handle award distribution payments to investors. Please describe how many claim deficiency notices you have received in the past 3 calendar years, and what percentage of claims filed that represents. What actions do you take in response to a deficiency notice. Please describe the technology and systems you use for this service, and all client reports you provide on class actions and claims filing and award distributions. Please describe any quality control processes or audits you use related to claims filing and distribution payments. Be very specific.
- 7) Are you willing to file all claims with class periods that predate the conversion using data supplied by a third party?

H. Accounting and Reporting

- 1) What are your investment manager reconciliation policies and procedures prior to issuing audited statements to clients? Is this proactive, reactive, or is the onus with the investment manager to reconcile to your information?
- 2) Specific to the above investment manager reconciliation process, how is it different for custodied

and non-in- bank assets?

- 3) SFERS (in coordination with the custodian and investment managers) has implemented a rigorous formal monthly reconciliation process to help monitor and resolve any valuation differences. Is your organization willing to continue this formal monthly manager reconciliation process?
- 4) Describe your organization’s trust and plan accounting capability (include system name and year developed).
- 5) Does your organization have a general ledger accounting system in a full accrual trade date multi-currency basis?
- 6) SFERS considers the custodian as the “book of record” of the sub-ledgers for assets and transactions. Do you accept this responsibility? Please describe.
- 7) Enumerate all data vendors utilized by your institution for pricing, fixed-income (i.e., swaps) and mortgage factors, corporate actions, etc. Specify primary, secondary and tertiary sources.

Pricing Sources	For what type of Securities, Instruments or Asset Class	Specify if Primary or Secondary	Daily Feeds (Yes or No)

- 8) As custodian and fund accountant provider, SFERS will rely on your organization for independent valuation and pricing of securities and transactions. Given your reliance on 3rd party vendors for pricing, data and market information, how do you ensure accuracy, appropriateness, and errors are detected/rectified? Do you indemnify SFERS for pricing, data, market information errors of your 3rd party vendors utilized in the provision of audited statements – Yes or No, and explain?
- 9) Describe your organization’s ability to provide a direct “data feed” of all investment account information to SFERS’s G/L Spreadsheet on a monthly basis. Include a description for the accounts held in at the custodian and those held by entities outside of the custodian (e.g., how would you gather the information and provide it to SFERS).
- 10) Are you able to generate the reports specified in Appendix E – SFERS Reports? If yes, are there any additional costs or fees that we should be aware of in order to generate the listed reports? Please specify.
- 11) Are you able to generate accounting and reporting information for GASB 3, 10, 25, 28, 31, 40 and 53 purposes? Please describe and provide sample reports.
- 12) How does your organization keep abreast of new GASB standards and provide support to your clients with implementation? Please describe your plan to track and address future GASB requirements.
- 13) Do you have the capability to generate trade cost analysis reports? Is there a cost for this service?
- 14) What is distinct about your derivatives processing and valuation capabilities that SFERS should be aware of beyond line item tracking? Provide detail of capabilities and support.
- 15) How does your organization handle GASB 53 requirements specific to commingled funds, real estate, commodities, private equity, absolute return, and OTC derivatives?
- 16) Are the general classifications for GASB 53 within GAAP guidelines as determined by an independent

third party vendor (i.e., E&Y, Deloitte, PwC, etc.)?

- 17) Describe your capabilities in custody and accounting of foreign currency (FX) overlay strategies.
- 18) Describe special procedures for the processing, valuing and reporting of Securities Held Elsewhere, such as real estate, commodities, alternative investments, private equity, and absolute return strategies (hedge funds).
- 19) Specific to commingled funds, do you have the ability to capture the plan's pro-rata share of holdings for use in terms of monitoring and analytics?
- 20) Are outside vendors or software employed to handle real estate and alternative investments? If not, how did your organization achieve the in-house expertise?
- 21) Specific to alternative investments, do you have capabilities to drill down to company (security) or partnership level in terms of monitoring? Kindly enumerate and delineate by types of alternative investments such as hedge funds, distressed, private equity, venture capital, real estate, absolute strategies, convertibles, senior secured debt, etc.
- 22) SFERS has a requirement to "right to audit" or examine the books and records at the custodian's place of business and/or the custodian making such books and records available for SFERS's inspection. Does your firm accept and agree to this requirement?

I. Cash Management (Short Term Investment Management)

- 1) To the extent that SFERS would use STIFs managed and offered by the custodian, please list acceptable vehicles for the sweep of frictional cash. Please identify each available vehicle as required in the table below and provide a summary description of each and attach appropriate prospectus/fund fact sheets, accordingly.

Short Term Fund Vehicle Name and Investment Manager	Regulatory Framework for Inv. Policies & Guidelines (Complies with SEC Rule 2a-7 MMF, OCC Reg 9 STIF, or Other - specify)	Valuation Methodology (Constant \$1NAV or Variable \$1NAV)	Available for Public Funds and Qualified Tax-exempt Institutional Investors (Yes or No)	Total Asset Market Value as of June 30, 2015 (US\$)	Asset Management Fees/Costs or Expense Ratios (bps)

- 2) What is(are) your position and policy specific to the pending SEC Rule 2a-7 requirements, primarily liquidity, gating/redemption and floating NAVs?
- 3) Have any of your short term investment vehicles ever "broken the buck" or experienced losses?
- 4) Did any of your firm's short-term Investment funds suffer losses or liquidity issues such that clients were unable sell shares/units in these funds? Explain why or why not.
- 5) What is your daily compensation and overdraft policy?
- 6) Does your organization have the capability to provide a cash availability projection report? How many days is the cash projection (i.e., 5 days, 10 days, 30 days, 60 days or 90 days)?
- 7) Specific to money movement, expense payment, wires and/or capital calls initiated by SFERS, what are your policies and procedures (i.e. authorization, approval, tracking/monitoring, access codes,

authentication process, etc.)? Describe a progressive cash flow movement and control process for SFERS.

- 8) Does your organization charge a penalty or administrative fee/cost for maintaining/holding balances in certain currencies? Please explain and provide specific pricing if applicable.
- 9) Please furnish discussion for each of the banking services you offer in the following areas:
 - Wire Transfer Services
 - Online account inquiry and payment processing
 - Integration with custody platform
 - Technology and Web Enabled Platform
 - Security and Authentication
 - User authorization levels
 - Disaster recovery/contingency

J. Foreign Exchange Capabilities

- 1) Describe your Foreign Currency (FX) management capabilities. Be sure to discuss the following:
 - a. How does your organization demonstrate the competitiveness of your foreign exchange and how does your firm ensure that custodial clients achieve best execution?
 - b. What documentation or analysis would your organization provide to SFERS that demonstrates such?
 - c. How does your organization handle the repatriation of foreign income (e.g., interest and dividends) into U.S. Dollars?
 - d. Is your organization willing to disclose both explicit and implicit costs of FX Trades?
 - e. Is your organization willing and able to provide a "time-stamped" FX trade and disclose at what price your firm valued the FX trade?
 - f. Does your organization flag off-market transactions (considered to be 10% or greater variance) automatically?
 - g. How are off market transactions reviewed independently?
- 2) Describe your trade settlement capabilities for FX trades executed with counterparties other than the custodian. How does your organization support the tracking of non-custody bank executed FX trades of investment managers and/or SFERS?
- 3) What different FX execution options can you provide to both SFERS and its investment managers beyond custody FX execution for both standing instructions (i.e., dividend repatriation) and settlement driven (i.e., cap calls, money movement to clear funding and settlement), including direct and indirect FX execution?
- 4) The FX controversy has not abated. What level of transparency can you provide SFERS to achieve peace of mind?
- 5) Has your firm been investigated for any issues related to FX trading? If so, please explain.
- 6) SFERS reserves the right to allow managers to execute any and all FX trades with third party brokers. What different FX execution options can you provide to both SFERS and its investment managers beyond custody FX execution venues (i.e., Street FX, Pre-Negotiated FX, Electronic FX Execution Platforms, etc.)?
- 7) Does your organization charge a penalty or administrative cost for currencies executed by a third-party other than the custodian bank?
- 8) Will your firm use a competitive bidding structure to execute FX transactions? Will your organization be able to provide performance reporting or best execution or trade cost analysis reports for FX transactions?

- 9) List and describe all pending or threatened litigation against your organization in reference to foreign exchange execution services. List and describe all agency supervision associated with the pending or threatened litigation. What has been your experience with regard to litigation or agency supervision over the past seven years? (Please note that providing a link to a website or company maintained internet portal will not be accepted and will be deemed unresponsive specific to this question.)
- 10) List and describe all pending negotiations or discussions regarding losses by clients in reference to foreign exchange execution services.
- 11) SFERS requires that the foreign exchange execution agent act as a fiduciary for the foreign exchange execution services function. Please verify that your firm is able to do this.

K. Performance, Investment Guideline Compliance and Risk Analytics

- 1) Are there different levels of performance measurement and analytics services? If there are different service levels, describe whether they reside in one performance measurement module/system or multiple modules/systems.
- 2) Are you able to calculate both gross and net of fees performance? How about lag and non-lag performance measurement calculations? Please describe the methodology employed.
- 3) What method do you use to calculate performance for public markets portfolios when there are cash flows in/out of the portfolio during a month? Are you able to provide multi-holding period calculations when there are intra-month cash flows? Please specify whether this option would be available only with daily portfolio pricing or regardless.
- 4) Are you able to assist SFERS with the monitoring and reporting of risk in the portfolio? Do you offer multiple levels of risk management reporting/analytics? If so, please state what services are included in your fee proposal and what services are available for an additional fee. Is your software or application able to produce reports for scenario testing, full bore risk analysis, and Value at Risk (VAR)? Please provide a sample report.
- 5) List all indices, benchmarks and universe returns available to SFERS. Are returns available on-line? How soon after month-end are audited returns (final) available? How far back do you carry historical returns and name the frequency (daily, monthly)? Do you have the ability to load prior months and/or years returns? Do you have the ability to accommodate custom benchmarks? Is there a limit on how many custom benchmarks a client can have?
- 6) Describe in detail your attribution analysis and peer group comparison capabilities.
- 7) Please provide a complete description of your capabilities for monitoring required compliance with the Patriot Act, Anti-Money Laundering, and OFAC SDN List. Are you able to identify companies held in SFERS accounts which have been fined by OFAC?
- 8) Please describe your organization's offering with respect to corporate governance tools and support to clients. What services are available?
- 9) If you are subscribing to private equity tracking software, will you provide administrative and technical support for the use of the software? Will you be responsible for loading historic cash flows and performance data into the software product? Describe the plan for accomplishing this conversion.
- 10) How do you handle hedge funds within your accounting, reporting and performance platform? Do you have Hedge Fund Transparency tools and tracking capabilities? Please explain.
- 11) Do you offer a compliance tool/module to monitor portfolios for investment guideline compliance? If so, are users able to add rules and guidelines or does it require coding by you. What support, initial and on-going, do you provide for the compliance tool /module?

- 12) Provide a description of the different levels of compliance monitoring (i.e., basic, intermediate or advanced) you provide and advise which services are included in your fee proposal and which are available for an additional fee.
- 13) Is compliance monitoring performed for all asset classes? Is it performed daily? Is it on a Post-Trade, Pre-Settlement basis? Is it available on-line?

L. Conversion Process

- 1) Describe your organization’s formal transition planning process as it would apply to this contract. In addition, describe the role of the client servicing team and/or conversion team assigned to the relationship.
- 2) For example, given a notification of engagement by March 31, 2016 and a targeted conversion of December 1, 2016, please provide a transition calendar.
- 3) On what date would you commence parallel processing in order to develop history, test procedures, and establish entitlements/accruals given a full conversion by December 1, 2016?
- 4) What should the SFERS look out for, and what are areas of concern and any heightened level of sensitivity during the conversion period? Please discuss how tax reclaims, reregistration, accruals, etc. are handled during the conversion period.
- 5) How will you handle class action filings and income due related to settlement periods under prior custodians and settlements that cross over from the prior custodian to the new custodial contract?
- 6) How will you handle open tax reclaims related to reclaims filed by prior custodian?
- 7) How should SFERS handle securities out on loan during the conversion process? What should SFERS consider in terms of unwinding without a loss, novation, substitution, recall, etc.?
- 8) Describe how you will support an external audit process to confirm and test assets balances during the transition.

M. Benefit Payment Services (For Review Purpose Only)

SFERS currently utilizes the services of a third party to provide benefit payment services. However, SFERS is reviewing a disaster recovery infrastructure for such services.

- 1) Does your organization have experience as a back-up or disaster recovery provider for benefit payment services for clients? Please describe the structure of such arrangements even though you are not the main provider of benefit payment services?
- 2) Please describe your benefit payment processing capabilities.
- 3) Please include your ability to withhold and remit payroll taxes to federal and state agencies for month-end and mid-month transactions.
- 4) Systems:
 - What hardware is used to process plan data? What type of interface is required from SFERS to access your system for inquiry?
 - Where is your computer hardware located?
 - Do you own the computer equipment?
 Yes ___ No ___
 If not, describe the relationship.
 - Is your hardware system shared or dedicated? If shared, describe the established priorities.
 - Describe your documented disaster recovery plan.
 - Do you have a secondary-processing site? If yes, where is the secondary site located?
 Yes ___ No ___

- Describe any recent experience in recovering from primary system failure.
 - Describe your maintenance and back-up procedures.
 - Number of daily backups
 - Retention Schedule
 - Do you store tapes off-site?
 - Who developed your software and when was it installed?
 - Who maintains your software?
 - If you are using an outside vendor, does the licensing agreement permit your company to modify the system?
 - Do you have access to the system source code?
 - How do you ensure participant data confidentiality and privacy? Please describe your data security procedures.
 - Have any breaches of security and participant data occurred over the last three years? Please describe such occurrences and the remedies provided. Have you had a security penetration test performed within the last 2-3 years? If so, please share the results of this test.
 - How many programmers and systems staff do you employ to maintain the system?
 - How often is the software updated? Provide information about any pending system modifications and include release dates.
 - Are you going through any system conversions or major changes now or in the next three years? If so, please describe and give dates.
 - Do you have on-line or web enabled applications that SFERS can utilize to access benefit payment information? Please describe.
 - Do retirees have the capability to call up his or her own account to see the status of his or her payment(s) via the Internet or on-line access is limited to SFERS as gatekeeper of all participant records?
 - Can SFERS or designated plan administrator track checks (cleared or outstanding) via the Internet or other on-line applications?
 - Can SFERS or designated plan administrator run ad-hoc reports via the Internet or other on-line applications?
- 5) Payment Processing:
- How many benefit payment checks (hard checks and electronic fund transfers/direct deposits) do you process on a monthly basis? Please delineate by recurring and non-recurring payments.
 - What is the error rate (i.e. wrong amounts, wrong checks, delivery to the wrong address, wrong deductions, etc.) for benefit checks and electronic fund transfers over the last three years?
 - How many earnings and deduction codes can the system handle?
 - Can the system handle multiple payment types on one check to the retiree?
 - Can you accommodate multiple payment cycles: i.e., some checks issued at the beginning of the month and some checks issued the end of the month?
 - Can you do off-cycle payments? Please provide a discussion of your process and how such occurrences fit in your reconciliation process.
 - How do you handle check forgeries and other fraudulent encashment of hardcopy checks?
 - Is a direct deposit service routinely provided to payees?
 - When are advices mailed?
 - Are you able to print messages with retiree checks? Any limitations on the text? Are there additional costs associated with such messages?
 - Can SFERS (the designated plan administrator) include additional mailings and flyers? Are there

extra costs associated with such additional mailings?

- Can you wire lump sum payments to rollover institutions?
- How does your organization handle current retirees under existing EFT agreements?
- Are state taxes, insurance premiums, etc. routinely withheld?
- Regarding benefit payment services, detail a typical processing cycle including timing requirements for additions, deletions and other changes to a file.
- Describe the funding process for the pension payment-checking amount, including checks and balances.
- Describe the policies and procedures for Timely Notification of Returned Payments.
- Can you handle customer service queries via email for the re-issue or stop payment of checks and other services that do not require an authorized signature for completion?
- How are refunds due to overpayments collected?
- What is your float management policy?
- Please provide a complete description of how outstanding check issues are handled, namely soliciting retirees, aging process, and death searches.
- Please provide complete process for handling and processing stale dated checks that are outstanding for a period of 12 months or longer.
 - What is the procedure for investment of the funds being disbursed, that is, funds for which checks have been written but have not cleared? Are interest bearing accounts operated to hold unpaid funds and who receives the interest on the float?
 - Is follow up on old outstanding checks provided and what type of interface with the plan sponsor and/or recordkeeper is required?

6) Reporting:

- What types of benefit payment reports/reconciliations are available to clients? Provide report samples.
- Since SFERS will require detailed reporting, does the benefit payment system allow tracking of pension payments, by type of payment (monthly pension, death, lump sum, \$5,000 or less, mandatory cash-outs, etc.), by subsidiary, by type of employee (i.e., executive, represented, non-represented)? Further, would the reporting separately track restorations, tax refunds, taxes withheld and actual benefits?
- In order to maintain the accuracy and timely funding of the monthly benefit payments, can you provide SFERS (the designated plan administrator) a summary of the funding required and the timing of the report? Will it be fully reconciled?
- Please describe in full your tax reporting capabilities, including disability payments.
- Please indicate how you report stop payments and re-issues with regard to reconciliation of tax reporting, especially when a tax year has passed.
- Are benefit payment fees adjusted on who gets the float? If so, is this consistent with DoL pronouncements?
- Is the acceptability of the float policy contingent on how the payment account is structured either as a demand deposit account (DDA) or controlled disbursement account (CDA)?
- Can mailing labels be provided upon request?
- How do you partner with customers to provide Plan Participants in pay status with communications?

II. SECURITIES LENDING SERVICES

Securities lending will be utilized primarily to generate incremental return. SFERS believes in a risk-controlled program. SFERS requires a fully indemnified program specific to operational risk and borrower default. Additional levels of indemnification beyond operational risk and borrower default are also welcome, including collateral reinvestment risk if reinvestment is included. Daily reporting should include internet access to information about its securities lending program, including security level loans outstanding, shares on loan, days out on loan, term and open trades, borrowers for each block of securities lent, collateralization levels, earnings (top 25 securities sorted by earnings), cash collateral reinvestment and other daily, weekly and monthly reporting requirements at the security and aggregate levels.

On a daily basis, SFERS requires full transparency to loans, counterparties, rebates/fees, collateral posted, and collateral investments, including information specific to NAV (fair market value), credit, risk and liquidity risks. THIS REQUIREMENT IS NON-NEGOTIABLE.

The following questions should be answered in full. Please tailor your response for each item, specifically in the areas of risk and return, relative to your proposed approach.

A. General Information

- 1) Are there any current organizational issues (i.e., mergers, acquisitions, personnel changes, business concerns, etc.) about your institution regarding securities lending that we should know about? Describe.
- 2) Describe in detail any potential conflicts of interest your firm may have in the securities lending of the SFERS account, or in the alternative, state that no potential conflicts exist, including any known relationships the organization or any staff has with any member of SFERS' Retirement Board or staff. Respondent must list all gifts or things of value given to members of SFERS' Retirement Board and staff within the twelve months immediately prior to the date of this RFP. Include (1) the name of the person receiving the gift or thing of value, (2) the earlier of the date the gift or thing of value was promised or given, (3) a brief description of the gift or thing of value, and (4) the fair market value of the gift or thing of value when promised or given, whichever is greater.
- 3) Describe in detail any potential conflicts of interest your firm may have with Callan retained by SFERS for the solicitation and procurement of securities lending services.
- 4) Describe the various types of insurance coverage and indemnification provided to protect your securities lending clients. Each description should include:
 - Risk Coverage
 - Carriers
 - A.M. Best Rating
 - Levels
 - Limits
 - Deductibles
 - Expiration
 - Dishonesty Coverage
- 5) List and describe all pending or threatened litigation against your organization in reference to securities lending services. List and describe all agency supervision associated with the pending or

threatened litigation. What has been your experience with regard to litigation or agency supervision over the past seven years? (Please note that providing a link to a website or company maintained internet portal will not be accepted and will be deemed unresponsive specific to this question.)

- 6) List and describe all pending negotiations or discussions regarding losses by clients in reference to securities lending services.
- 7) SFERS requires that the securities lending agent act as a fiduciary for the securities lending function. Please verify that your firm is able to do this.

B. Capabilities

- 1) What is the primary form of lending your firm offers - agent, principal, or both? Describe. What is the percentage breakdown between agent and principal lending from a total client basis?
- 2) Is your firm a NASD/FINRA member, a primary reporting dealer or a bank? Is your securities lending operation registered as an investment adviser (i.e., SEC, FSA, etc.)?
- 3) How is enterprise risk management deployed to assess borrower credit and cash collateral reinvestment credit analysis?

C. Organization

- 1) Provide names, brief profiles and biographies of individuals who are responsible for the lending function and the cash collateral reinvestment function. If your program can be truncated by asset class, (e.g. equity, fixed-income, international, etc.), delineate the professional staff as such.
- 2) Submit a breakdown of persons dedicated to providing securities lending services for each of the following categories: (Do not double-count)

Operations/Administration	_____
Credit and Liquidity Analysis	_____
Risk Mgmt/Compliance/Legal	_____
Asset/Liability	_____
Lending/Trading	_____
Non-Cash Collateral Management	_____
Cash Reinvestment	_____
Tax Specialist	_____
Currency Management	_____
Marketing/Client Servicing	_____
Others	_____
TOTAL	_____

D. Risk

- 1) How does your firm manage the following risks?
 - Borrower/Counterparty Risk and Default
 - Collateral Investment Risk
 - Interest Rate Risk
 - Credit Spread Risk
 - Liquidity Risk
 - Trade Settlement Risk
 - Operational Negligence
 - Sovereign Risk

- Currency Fluctuation Risk

- 2) Has your organization experienced any losses due to operational negligence, collateral reinvestment and/or security specific reinvestments, and/or broker default since the inception of your securities lending program? Describe. What was the recourse provided to clients and the level of dialogue to explain (resolve) the issues?
- 3) Please discuss in detail how your organization handled the 2008/2009 financial crisis as it related to Securities Lending. Where there any instances where client assets were frozen as a result – such as: (a) Securities out on loan were not returned when needed for settlement; (b) Deficits in Cash Collateral that required a “true-up” payment from a client; and, (c) Gating of the program to manage client redemptions and liquidity needs?
- 4) How does your organization conduct asset/liability (gap) analysis, specifically the duration of the loan and cash investments?
- 5) Does your firm stress test your securities lending program? Describe the methodology and procedures utilized for stress testing, including the frequency of testing.
- 6) Specify the weighted average duration mismatch between lending and reinvesting for the following quarters. (Provide separate answers for each lending pool or separate accounts offered in your program.)

Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
2010				
2011				
2012				
2013				
2014				
2015 (Thru 9/30)				

- 7) How quickly (# of days) can your firm shorten the duration or gap between investments and liabilities (loans) as requested by the client for whatever reason?
- 8) If a client wished to withdraw from your firm's securities lending program, what notice period is required to ensure 100% on the dollar payoff?
- 9) What are the specific redemption or gating policies for direct lending (custody clients) that your firm has enforced and the underlying rationale behind the policies and guidelines?

E. Borrower Consideration

- 1) Describe how credit analysis is performed and with what frequency the individual borrowers are reviewed.
- 2) Provide a list of your current borrowers. Identify the top ten borrowers and the percentage these borrowers represent of the total program. Can a client restrict specific borrowers?
- 3) Does the borrower list include your firm, affiliates, subsidiaries, and/or other entities managed or controlled by your firm or parent? If so, please identify.
- 4) Does your Borrower’s Agreement specify that “borrowing to manipulate a proxy” is restricted?
- 5) Kindly state when was the last time your organization visited the top ten borrowers within your program and enumerate accordingly.
- 6) Does your organization have compensation arrangements with borrowers beyond the normal form of negotiating rebates/fees that SFERS should know about?

F. Collateralization

- 1) What are the forms of collateral (cash and non-cash) that your organization accepts for all securities lending programs enterprise wide? Please enumerate and delineate if acceptable under ERISA DoL PTE 81-6 and 2006-16 or applicable/negotiated on a client by client basis.
- 2) What collateralization percentage is required for each of the security types (domestic and international equities and fixed income) and delineated by cash and non-cash collateral? What value (market value only, including accrued interest, etc.) is the basis for this percentage?
- 3) In addition to US\$, US Treasuries, and Irrevocable Letters of Credit, what are the other forms of non-cash collateral accepted by your program specific to Public Funds?
- 4) What are the collateralization levels (initial margin and daily margin) for non-cash collateral other than US Treasury and Agencies? Enumerate and specify by collateral type.
- 5) What is the “de minimus” policy?
- 6) How frequently does your firm mark to market the collateral? When is additional collateral requested (same day, next day)?
- 7) How far below the required collateralization percentage must the collateral dip before a margin call is made?
- 8) Is the mark to market process done by loan or security or in aggregate? Please describe both mark-up and mark-down process.
- 9) Is non-cash collateral covered under your borrower default indemnity regardless of SIPC and Orderly Liquidation Authority (OLA – Dodd Frank Act) pronouncements?

G. Indemnification

- 1) SFERS requires full operational and borrower default indemnification within the securities lending program. Is your organization able to comply with this requirement? Describe your full operational and borrower default indemnification policy. Be sure to address the following:
 - Borrower files for bankruptcy for whatever reason.
 - Failure to recall securities before settlement date.
 - Failure to secure additional collateral and margin requirements.
 - Failure to receive dividends, distributions, and all economic benefits of ownership.
 - Immediate use of Non-Cash Collateral in lieu of Borrower Bankruptcy.
- 2) Does your firm provide additional types of indemnification beyond broker default (i.e., collateral, negligence, trade settlement, etc.)? If so, can your firm provide SFERS with these additional levels of indemnification? Describe.
- 3) Is your organization able to provide for total or partial collateral investment risk indemnification? Does your organization have clients with such arrangements? If so, please describe?
- 4) What are the specific limitations of your indemnification?

H. Lending Clients

- 1) Describe your current client base. How many clients participate in your lending program? Without disclosing client names, list as follows as of **September 30, 2015**.

Plan Sponsor Type	No. of Clients (Agent Relationship)	Lendable Base (Agent Relationship)
<i>Public</i>		
<i>Corporates</i>		
<i>Endowment and Foundations</i>		
<i>Taft-Hartley, Union</i>		
<i>Mutual Funds, Investment Manager's Commingled Funds</i>		
<i>Insurance Companies</i>		
<i>Others</i>		
TOTAL		

- 2) Provide the number of **clients (all market segments)** gained and/or lost for the periods listed in the following matrix. Report corresponding market values in US\$ millions as of initiation date for clients gained and termination date for clients lost.

Securities Lending Clients Only

	Clients Gained (Number)	Clients Gained (US\$ millions)	Clients Lost (Number)	Clients Lost (US\$ millions)
2010				
2011				
2012				
2013				
2014				
2015 (thru 9/30)				

I. Lending Volume

- 1) What was the daily average dollar volume of securities loans outstanding for the last 12 months? Specify in US\$ millions.

For the 12 months ending September 30, 2015

Asset Classes	Daily Avg. Lendable Base (US\$ millions)	Daily Avg. Out on Loan (US\$ millions)	Utilization Rate (%)	Avg. Rebate Rate/Fees (bp)	Average Demand Spread (bp)	Average Reinvest Spread (bp)	Avg. Daily Spreads Net of Rebate (bp)
US Large Cap Equities							
US Mid & Small Cap Equities							
US Corp Bonds							
High Yield							
REITS							
US Govt Bonds							
TIPS							
Non-US Equity							
Non-US Fixed Income							
Other Assets (describe)							

J. Lending Process and Limits

- 1) Does your organization have an internal limit on how much of a client's portfolio of lendable assets can be lent on any given day? If so, please describe your policy.
- 2) Related to the question above, does your firm have an internal limit on how much of a client's lendable assets can be lent to a single borrower on any given day? What is the exposure limit? Is it possible during the allocation queue that SFERS can have full counterparty exposure to a single borrower at any given point in time?
- 3) Can a client limit lending on any specific security such as: 33 1/3 rule, maintain at least 100 shares, maximum of 25%, tradable lots per position, and/or client specific parameters per security? Please explain.
- 4) Can a client limit lending at a specific security level based on Intrinsic Value such as at least 50 bps of pure demand spread without reinvest, only on negative rebate levels, and/or earnings based on

overnight reinvest only? Please explain.

- 5) Describe your allocation or queuing process and relevant entitlement methodology.
- 6) What system is utilized for lending securities? What version? Who updates the program? What is distinct with your current system? Is the system only for lending?
- 7) What system is utilized for reinvestment of collateral? What is distinct advantage of the current system for compliance and risk management purposes?

K. Reporting

- 1) Is your firm able to provide internet access to information about your securities lending program, including loans outstanding, shares on loan, days out on loan, term or open trades, borrowers for each block of securities lent, collateral portfolio details, collateralization levels, earnings, and other weekly and monthly reporting requirements? If yes, provide samples.
- 2) On a daily basis, SFERS requires full transparency to loans, counterparties, rebates/fees, collateral posted, and collateral investments, including information specific to NAV (fair market value), credit, risk and liquidity risks. Are you able to comply with this requirement and how?
- 3) Does your firm provide audit (GASB 28) reports? If so, how frequent?

L. Collateral Reinvest Management

- 1) Provide a brief description of cash collateral reinvestment vehicles (REPO, overnight SFERS, STIF, commingled, customized, separate, 2a-7, etc.) utilized in the reinvestment of cash collateral applicable to SFERS.
- 2) Does your organization have cash collateral pools dedicated to securities lending or separate accounts that conform to a registered 2a-7 fund structure and Rule 619 of the Volcker Rule regarding Covered Funds? Does your organization have a 100% full overnight option? Please describe.
- 3) Please specify if the cash collateral reinvestment vehicles are daily valued at market or based on amortized cost.
- 4) Clearly state the gating and redemption procedures your firm instituted, enhanced, or codified regarding client's rights regarding securities lending exit or withdrawal from the program.
- 5) Are you able to handle separate cash collateral reinvestment accounts managed by a third party? Explain how cash flow and communication would work. What would be the minimum cash collateral balance for a sustainable and diversified separate account?
- 6) SFERS expects to require a separate account for the Reinvestment of Collateral. Provide details on your organization's Asset/Liability reporting capabilities as they related to Securities Lending. Will SFERS be able to monitor and track the following parameters: - a) Assets available to lend; b) Asset currently out on loan (and associated maturities); c) Reinvested collateral portfolio; and, d) Net Position? Please provide a sample report showing the above 4 parameters.

M. Conversion Process

- 1) Describe your organization's formal transition planning process as it would apply to securities lending program.
- 2) For example, given a notification of engagement by the end of March 2016 and a targeted conversion of December 1, 2016, please provide a transition calendar.
- 3) How should we handle securities out on loan during the conversion process? What should we consider in terms of unwinding without a loss, novation, substitution, recall, etc.?

III. CUSTODY AND RELATED SERVICES FEES

Based upon the information provided in this request for proposal, state your annual fee for the next five years for the proposed relationship with SFERS. Please provide six separate fee quotes:

- A. Custody with securities lending;
- B. Custody without securities lending (unbundled) whatsoever,
- C. Fees for banking services; and
- D. Fees for benefit payment services.

Please note that this Fee Section is divided into two (2) sections – Flat Fee Basis and Unit Cost Basis. The Securities Lending Revenue Sharing Arrangement is in Section IV.

FLAT FEE BASIS

- A. Please provide an annual flat fee for custody services required by SFERS. The flat fee should be quoted in a flat dollar (in US dollars) basis. Please note that the below fees are for Custody and Related Services Only. (Benefit Payment Services is not included, but specified as a separate fee schedule under the Unit Cost Section for information purposes only.)

If the function of securities lending is allowed: (Please note that SFERS is asking “if your organization is given the mandate” to lend securities and not to net the revenue stream generated from securities lending to the flat dollar fee.)

SFERS Custody and Related Services	Flat Dollar Fee
1 st Year	
2 nd Year	
3 rd Year	
4 th Year	
5 th Year	

If the function of securities lending is not allowed: (Please note that SFERS is asking “if your organization is not given the mandate” to lend securities.)

SFERS Custody and Related Services	Flat Dollar Fee
1 st Year	
2 nd Year	
3 rd Year	
4 th Year	
5 th Year	

- B. What are the short term investment vehicles you propose as applicable to SFERS? What is the total expense ratio, including management fees? (Specify: Sweep Options, Late Day Cash, Overnight, FDIC approved, 2a-7 funds, and US Government Only.)

C. What are the overdraft charges for domestic and international transactions?

D. What is the proposed Securities Lending Revenue Sharing Arrangement or Split, including the level of indemnification provided?

E. For foreign currency executed by the custodian bank for SFERS and investment managers, what is the minimum and maximum spread earned by your organization? Is your organization able to agree to pre-negotiate such spreads relative to a benchmark or range?

F. Identify the services included in the flat fee stated in Item A and based on the current investment structure of SFERS:

a) Custody Services for all Asset Types (i.e., domestic and international)? **yes ___ no ___**

If **no**, what are the charges?

Safekeeping \$ _____ charge or fee

Asset Servicing \$ _____ charge or fee

Transaction Processing \$ _____ charge or fee

Do the custody services include? (please check)

___ Power of Attorney Support

___ Global Tax Agent Support

___ Country Regulatory Registration

___ Tax-Exempt Filing Assistance

___ Market Guide

b) Multicurrency Full Accrual Trade Date Accounting and Reporting? **yes ___ no ___**

If **no**, what are the charges?

Standard reports \$ _____ charge or fee

Customized reporting \$ _____ charge or fee

c) Accounting - Monthly Valuation, but Daily Price? **yes ___ no ___**

If **no**, what are the charges?

Per portfolio \$ _____ charge or fee

Per Asset Level, Fund or Composite \$ _____ charge or fee

d) Daily On-line/Internet services? **yes ___ no ___**

If **no**, what are the charges?

_____ \$ _____ charge or fee

_____ \$ _____ charge or fee

e) Contractual Settlement and Auto credit program? **yes ___ no ___**

If **no**, what are the charges?

Domestic \$ _____ charge or fee

International \$ _____ charge or fee

ADR's \$ _____ charge or fee

f) Transition, conversion, and reregistration costs? **yes ___ no ___**

If **no**, what are the charges?

_____ \$ _____ charge or fee
_____ \$ _____ charge or fee
_____ \$ _____ charge or fee

g) Penalty costs? **yes** ___ **no** ___

If **no**, what are the costs?

Third-party FX trades _____ per trade
Third-party Sec lending _____ based administration fee
Others: (specify) _____ transactions (see below)

Specific to support for Third Party Securities Lending Programs (If fees are different than those delineated below list additional fees)

Third party	\$ _____ charge or fee
Annual third party collateral custody fee (based on Cash Collateral NAV)	\$ _____ charge or fee
Third party purchases/sales transactions – DTC Manual	\$ _____ charge or fee
Third party purchases/sales transactions – DTC Electronic	\$ _____ charge or fee
Third party purchases/sales transactions – Euroclear Manual	\$ _____ charge or fee
Third party loans/loan returns – DTC and FED book entry manual processing	\$ _____ charge or fee
Third party loans/loan returns – DTC and FED book electronic delivery	\$ _____ charge or fee
Third party marks – DTC SPO – Flat monthly fee – manual	\$ _____ charge or fee
Third party marks – DTC SPO – Flat monthly fee – electronic	\$ _____ charge or fee
Third party marks – DTC SPO – FED book entry – manual processing (each way)	\$ _____ charge or fee
Third party marks – DTC SPO – FED book entry – electronic processing (each way)	\$ _____ charge or fee
Third party outgoing wires	\$ _____ charge or fee
Third party incoming wires	\$ _____ charge or fee
Third party Cash Monitoring system fees	\$ _____ charge or fee
Third party DDA fees (monthly per DDA)	\$ _____ charge or fee
Third party Cash Monitoring installation fees	\$ _____ charge or fee
Third party technology/programming development time (hours) INCLUDED in core/transition	\$ _____ charge or fee
Third party technology/programming development time hourly rate after included quantity	\$ _____ charge or fee
Third party monthly file maintenance fee (24/7/365 monitoring, support and maintenance)	\$ _____ charge or fee
Any additional clarification of third party support	\$ _____ charge or fee

(bundled program support with all applicable limits (#
lenders, etc.) and clarifications)

Any/All other charges (explain). \$ _____ charge or fee

h) Out-of-pocket expenses? **yes** ___ **no** ___

If **no**, what are the charges?

Wire transfer	\$ _____	charge or fee
Courier service	\$ _____	charge or fee
Telex charges	\$ _____	charge or fee
Computer processing	\$ _____	charge or fee
Staff training	\$ _____	charge or fee
Stamp duty	\$ _____	charge or fee
Registration	\$ _____	charge or fee
Travel: (specify)	\$ _____	charge or fee
Others: (specify)	\$ _____	charge or fee

i) Corporate Actions – both Domestic and International?

Voluntary/Mandatory	\$ _____	charge or fee
Involuntary	\$ _____	charge or fee
Others:	\$ _____	charge or fee

j) Proxy notification? **yes** ___ **no** ___

If **no**, what are the charges?

Reporting:	\$ _____	charge or fee
On-line Access:	\$ _____	charge or fee
Others: _____	\$ _____	charge or fee

k) Class Action – both Domestic and International? **yes** ___ **no** ___

If **no**, what are the charges?

Reporting	\$ _____	charge or fee
On-line Access	\$ _____	charge or fee
Legal Filings	\$ _____	charge or fee
Others: _____	\$ _____	charge or fee

l) SFERS requires a minimum of 8 hours for training and continuing education specific to industry best practice, regulatory updates, enhancement to services, on-line training, custody related courses, etc. Are there charges for these services?

yes ___ **no** ___

If **no**, what are the fees or charges?

_____	\$ _____	charge or fee
_____	\$ _____	charge or fee
_____	\$ _____	charge or fee

m) Investment compliance checking **yes** ___ **no** ___

If **no**, what are the fees or charges?

Basic (Software Solution Only)	\$ _____ charge or fee
Intermediate (Monthly Outsource)	\$ _____ charge or fee
Advance (Daily Full Outsource)	\$ _____ charge or fee
Others: (specify)	\$ _____ charge or fee

n) Independent Derivatives Processing and Valuation **yes ___ no ___**

If **no**, what are the fees or charges?

Valuation and Reporting:	\$ _____ charge or fee
Processing:	\$ _____ charge or fee
Collateral Management	\$ _____ charge or fee
Others: _____	\$ _____ charge or fee

o) Performance Calcs **yes ___ no ___**

If **no**, what are the fees or charges?

Monthly return calculation	\$ _____
Daily return calculation	\$ _____
Historical data download	\$ _____
Gross and Net of Fees	\$ _____
Lagged and Non-Lagged	\$ _____
IRR and Time Weighted	\$ _____
Others: _____	\$ _____

p) Performance Measurement and Analytics **yes ___ no ___**

If **no**, what are the fees or charges?

Benchmark/Index	\$ _____
Peer Group/Universe Comp	\$ _____
Portfolio Characteristics	\$ _____
Risk-Adjusted Return Calcs	\$ _____
Historical data download	\$ _____
Board Reports	\$ _____
Drill Down Commingled funds	\$ _____
Customized benchmarks/universes	\$ _____
Bond Analytics	\$ _____
Attribution	\$ _____
Trading cost analysis	\$ _____
Others: (specify)	\$ _____

Specific to Performance Tools, are any of the following included? **yes ___ no ___**

BARRA Analytics	\$ _____
Vestek	\$ _____
Style Research	\$ _____
TUCS	\$ _____
BondEdge	\$ _____
BlackRock Solutions	\$ _____
Wilshire Analytics	\$ _____
Yield Book	\$ _____

Others: (specify) \$ _____

q) Advanced Risk Analytics **yes** ___ **no** ___

If **no**, what are the fees or charges?

Value at Risk (VaR) \$ _____
Stress Testing \$ _____
Scenario Analysis \$ _____
Others: (specify) \$ _____

r) Data Interface with 3rd Party Providers **yes** ___ **no** ___

If **no**, what are the fees or charges?

Fund Consultants \$ _____
Actuary \$ _____
External Auditors \$ _____
Eagle Systems \$ _____
Nottingham \$ _____
3rd Party Class Action Agent \$ _____
3rd Party Tax Reclaim Agent \$ _____
3rd Party Proxy Voting Service \$ _____
Others: (specify) \$ _____

s) Trade Order Management System and Cash Movement **yes** ___ **no** ___

If **no**, what are the fees or charges?

TOMS: Equity Specify Costs and Fees
Equity Portfolio Module \$ _____ charge or fee
Compliance \$ _____ charge or fee
Others _____ \$ _____ charge or fee
TOMS: Bond Specify Costs and Fees
Bond Portfolio Module \$ _____ charge or fee
Compliance \$ _____ charge or fee
Others _____ \$ _____ charge or fee

Cash Flow Module/Web Cash Movement \$ _____ charge or fee
Wires Transfers \$ _____ charge or fee
Others: (specify) \$ _____

t) Corporate Governance Tools? **yes** ___ **no** ___

If **no**, what are the fees or charges?

\$ _____ charge or fee
\$ _____ charge or fee
\$ _____ charge or fee

u) Alternative Investment Support

– Private Equity, Hedge Funds, Real Estate, Commodities, etc.? **yes** ___ **no** ___

If **no**, list the service and associated charge.

Basic Line Item Reporting \$ _____ charge or fee

Reporting and Monitoring \$_____ charge or fee
 Full Drill Down (Holdings) \$_____ charge or fee
 Full Outsource Support \$_____ charge or fee
 Shadow Accounting \$_____ charge or fee
 Distributions \$_____ charge or fee
 Capital Calls \$_____ charge or fee
 Document Management \$_____ charge or fee
 Others: (specify) \$_____ charge or fee

Specific to alternative inv. support, are any of the following included? **yes** ___ **no** ___

Burgiss Group
 Informant \$_____ charge or fee
 Archivist \$_____ charge or fee
 Others: (specify) \$_____ charge or fee
 SunGard Investran \$_____ charge or fee
 Private Edge \$_____ charge or fee
 Venture Economics \$_____ charge or fee
 Hedge Fund Research \$_____ charge or fee
 Others: (specify) \$_____ charge or fee

v) Document Management and Library Maintenance? **yes** ___ **no** ___

If **no**, what are the fees or charges?

_____ \$_____ charge or fee
 _____ \$_____ charge or fee

w) Specify other charges and fees not included in the proposed FLAT FEE. If a charge or fee is in direct response to a particular RFP question, identify both section and question. **Failure to specify other charges, whether explicit or implicit costs, would be considered a non-responsive proposal.**

_____ \$_____ charge or fee
 _____ \$_____ charge or fee
 _____ \$_____ charge or fee

UNIT COST BASIS

G. You are required to provide the following information. Provide an estimate of fees/costs that SFERS will incur annually based on the assumptions specified and the services specified in this RFP. Utilize your organization’s schedule or methodology, namely: traditional asset based, account based and transaction charges. State assumptions. Enumerate all charges for Custody and Related Services, Banking Services and Benefit Payment Services.

**SFERS
 Custody Services**

Account Fees	# of Accounts	Fees	Pro-Forma Cost
SFERS			
Number of Plans	1 DB Plan		
Domestic Equities			

Separate Accounts	14		
Commingled/Line Items	2		
International Equities			
Separate Accounts	10		
Commingled/Line Items	7		
Domestic Fixed Income			
Separate Accounts	3		
Commingled/Line Items	15		
International Fixed-Income			
Separate Accounts	7		
Commingled/Line Items	1		
Real Estate			
Direct/Separate Accounts REIT Securities	0		
Commingled/Line Items	35		
Private Equity			
Direct/Separate Accounts	0		
Commingled/Line Items	229		
Cash Accounts			
Direct/Separate Accounts	4		
Commingled/Line Items	0		
Transition Accounts			
Direct/Separate Accounts	3		
Custody Fees	Corresponding Market Values as of December 31, 2014	Fees	Pro-Forma Cost
SFERS	19,983,945,277.86		
Domestic Equities	5,397,439,880.51		
Separate Accounts	4,878,498,052.79		
Commingled/Line Items	518,941,827.72		
International Equities	5,101,558,073.04		
Separate Accounts	3,632,854,448.01		
Commingled/Line Items	1,468,703,625.03		
Domestic Fixed Income	1,828,584,895.41		
Separate Accounts	653,088,171.92		
Commingled/Line Items	1,175,496,723.49		
International Fixed-Income	3,083,663,837.21		
Separate Accounts	3,069,391,123.87		
Commingled/Line Items	14,272,713.34		
Real Estate	1,628,816,612.47		
Direct/Separate Accounts	0.00		
Commingled/Line Items	1,628,816,612.47		
Private Equity	2,383,547,598.27		
Direct/Separate Accounts	0.00		
Commingled/Line Items	2,383,547,598.27		

Cash Accounts	353,594,517.52		
Direct/Separate Accounts	353,594,517.52		
Commingled/Line Items	0.00		
Transition Accounts	206,739,863.43		
Direct/Separate Accounts	206,739,863.43		
For International Securities	Corresponding Market Values in USD as of December 31, 2014		
Argentina	103,739.58		
Australia	132,951,776.73		
Austria	6,911,424.23		
Barbados	529,321.18		
Belgium	33,317,073.90		
Bermuda	64,348,791.16		
Brazil	79,941,765.80		
British Virgin Islands	9,050,612.99		
Bulgaria	717,039.42		
Canada	155,522,792.57		
Cayman Islands	522,256,927.00		
Chile	9,287,231.69		
China – Hong Kong Dollar	31,611,303.19		
Colombia	8,986,309.76		
Cyprus	712,312.69		
Czech Republic	1,225,656.61		
Denmark	37,444,044.55		
European Union	14,375.31		
Finland	22,013,451.90		
France	288,435,948.28		
Germany	218,784,115.24		
Greece	6,737,448.77		
Guernsey, Channel Islands	4,733,533.29		
Hong Kong	174,386,805.62		
Hungary	706,812.13		
Iceland	1,338,725.02		
India	44,312,352.29		
Indonesia	25,675,768.38		
Ireland	87,377,396.61		
Isle of Man	3,538,760.63		
Israel	7,830,236.17		
Italy	77,566,201.97		
Japan	606,894,482.70		
Jersey, Channel Islands	56,386,028.67		
Kazakhstan	3,534,201.00		
Korea, Republic of	95,470,473.03		
Liberia	1,417,393.29		
Luxembourg	106,334,805.61		

Malaysia	30,545,811.66		
Marshall Islands	530,182.40		
Mauritius	592,041.75		
Mexico	53,129,760.09		
Multi-National Agencies Region	22,150,457.07		
Netherlands	211,502,495.17		
Netherlands Antilles	25,807,094.22		
New Zealand	11,851,960.63		
Nigeria	1,369,706.11		
Norway	19,330,787.83		
Panama	13,134,974.28		
Papua New Guinea (Independent State of)	7,649,032.91		
Paraguay	213,747.22		
Peru	3,891,803.19		
Philippines	11,211,054.79		
Poland	13,632,841.67		
Portugal	1,510,786.82		
Puerto Rico	362,564.40		
Qatar	8,371,923.19		
Romania	2,209,275.87		
Russian Federation	10,990,700.28		
Singapore	37,623,892.81		
South Africa	36,736,962.58		
Spain	67,655,584.99		
Sweden	99,316,046.84		
Switzerland	267,204,316.73		
Taiwan	58,896,911.61		
Thailand	14,593,424.87		
Turkey	29,449,150.34		
United Arab Emirates	6,011,559.58		
United Kingdom	833,102,736.09		
Transactions	Annual Volume	Fees	Pro-Forma Cost
SFERS			
Domestic Depository Trades (DTC/Fed Book)	28,390		
Domestic Non-Depository Trades	3,278		
Physicals	5		
Principal Payments	6,458		
Maturities	1		
Dividend/Income Receipts	27,370		
Tax Reclaims	253		
Wires	785		
Capital Calls	691		
Options/Futures	7,560		

Swaps	87		
3 rd Party FX	9,356		
Custody FX Trades	3,969		
Proxy Notification	5,060		
Corporate Actions (Splits, Voluntary/Involuntary)	1,355		
Class Action Filings	105		
Other International Transactions --			
Argentina	1		
Asia Region	52		
Australia	510		
Austria	72		
Bahamas	2		
Barbados	2		
Belgium	103		
Bermuda	16		
Brazil	564		
British Virgin Islands	8		
Bulgaria	4		
Canada	482		
Cayman Islands	142		
Chile	98		
China	865		
Colombia	85		
Costa Rica	2		
Cote d'Ivoire	2		
Cyprus	4		
Czech Republic	11		
Denmark	82		
Dominican Republic	2		
Emerging Markets Region	27		
Europe Region	25		
European Union	11		
Finland	147		
France	825		
Germany	472		
Ghana	4		
Global Region	199		
Greece	57		
Guatemala	3		
Hong Kong	804		
Hungary	1		
India	182		
Indonesia	180		
International Region	9		

Ireland	243		
Israel	150		
Italy	126		
Jamaica	1		
Japan	1,587		
Jersey, Channel Islands	6		
Kazakhstan	2		
Korea, Democratic People's Republic of	3		
Korea, Republic of	358		
Luxembourg	71		
Macau	6		
Malaysia	155		
Marshall Islands	1		
Mauritius	1		
Mexico	374		
Multi-National Agencies Region	10		
Netherlands	281		
New Zealand	22		
Nigeria	13		
North America Region	18		
Norway	95		
Panama	23		
Paraguay	1		
Peru	78		
Philippines	25		
Poland	36		
Portugal	57		
Qatar	28		
Romania	23		
Russian Federation	150		
Singapore	409		
South Africa	208		
Spain	288		
Sweden	205		
Switzerland	479		
Taiwan	231		
Thailand	116		
Turkey	97		
United Arab Emirates	56		
United Kingdom	1,670		
Others: (Enumerate)			
Global Custody – Support			
Power of Attorney			
Global Tax Agent			
Country Registration			

Tax-Exempt Filing Market Guide			
On-line or Internet Access User Interface Subscription Assets/Holding Cash Transactions Standard reports Customized reporting Executive/Board reporting Income Inquiry Reports Corporate Actions Reporting Terminal charge Communication software CPU connect time Others: (specify)			
Contractual Settlement and Auto Credit Domestic International ADRs			
Transition & Conversion Reregistration Scrip Fees Etc.			
Penalty Costs Third Party FX Third Party Seclending Etc.			
Out of Pocket Wire Transfer Courier Service Telex Charges Computer processing Staff Training Stamp Duty Reregistration Others:			
Corporate Actions Voluntary/Mandatory Involuntary			
Proxy Notification Reporting On-line Access Others			

Class Action Reporting On-line Access Legal Filings Others:			
Investment Guideline Compliance Basic Intermediate Advance (See below accounts)			
Domestic Equities			
Separate Accounts	14		
Commingled/Line Items	2		
International Equities			
Separate Accounts	10		
Commingled/Line Items	7		
Domestic Fixed Income			
Separate Accounts	3		
Commingled/Line Items	15		
International Fixed-Income			
Separate Accounts	7		
Commingled/Line Items	1		
Real Estate			
Direct/Separate Accounts	0		
Commingled/Line Items	35		
Private Equity			
Direct/Separate Accounts	0		
Commingled/Line Items	229		
Cash Accounts			
Direct/Separate Accounts	4		
Commingled/Line Items	0		
Transition Accounts			
Direct/Separate Accounts	3		
Independent Derivatives Processing and Valuation <u>OTC:</u> Reporting Pricing Processing Collateral Management <u>Non-OTC:</u> Reporting Pricing Processing			

Collateral Management <u>FX Overlay:</u> Reporting Pricing Processing Collateral Management			
Performance Measurement Monthly Return Calcs Historical Data Download Gross/Net of Fees Lagged and Non-Lagged IRR Time Weighted Portfolio Characteristics Peer Comparison Portfolio Attribution (see below accounts)			
Domestic Equities			
Separate Accounts	14		
Commingled/Line Items	2		
International Equities			
Separate Accounts	10		
Commingled/Line Items	7		
Domestic Fixed Income			
Separate Accounts	3		
Commingled/Line Items	15		
International Fixed-Income			
Separate Accounts	7		
Commingled/Line Items	1		
Real Estate			
Direct/Separate Accounts	0		
Commingled/Line Items	35		
Private Equity			
Direct/Separate Accounts	0		
Commingled/Line Items	229		
Cash Accounts			
Direct/Separate Accounts	4		
Commingled/Line Items	0		
Transition Accounts			
Direct/Separate Accounts	3		
Advanced Risk Analytics VaR Testing Stress Testing			

Scenario Testing Etc. (see accounts below)			
Domestic Equities			
Separate Accounts	14		
Commingled/Line Items	2		
International Equities			
Separate Accounts	10		
Commingled/Line Items	7		
Domestic Fixed Income			
Separate Accounts	3		
Commingled/Line Items	15		
International Fixed-Income			
Separate Accounts	7		
Commingled/Line Items	1		
Real Estate			
Direct/Separate Accounts	0		
Commingled/Line Items	35		
Non-USD Line Item			
Private Equity			
Direct/Separate Accounts	0		
Commingled/Line Items	229		
Cash Accounts			
Direct/Separate Accounts	4		
Commingled/Line Items	0		
Transition Accounts			
Direct/Separate Accounts	3		
Data Interface with 3rd Party Providers			
Fund Consultants			
Actuary			
External Auditors			
Eagle Systems			
Nottingham			
Class Action Agent			
Tax Reclaim Agent			
Proxy Voting Agent			
Others:			
Vaulting Services			
Specify –			
Corporate Governance Tools			
Specify –			

Look Thru Analysis (see accounts below)			
Domestic Equities			
Commingled/Line Items	2		
International Equities			
Commingled/Line Items	7		
Domestic Fixed Income			
Commingled/Line Items	15		
International Fixed-Income			
Commingled/Line Items	1		
Real Estate			
Commingled/Line Items	35		
Private Equity			
Commingled/Line Items	229		
Cash Accounts			
Commingled/Line Items	0		
Alternative Investment Support			
Basic Line Item			
Reporting/Monitoring			
Full Drill Down			
Full Outsource			
Shadow Accounting			
Distributions Mgmt.			
Capital Call Mgmt.			
Document Mgmt.			
Others:			
(see accounts below)			
Real Estate			
Direct/Separate Accounts	0		
Commingled/Line Items	35		
Private Equity			
Direct/Separate Accounts	0		
Commingled/Line Items	229		
Document Management and Library Maintenance			
Specify-			
Trade Order Management System – Equity and Fixed Income			
Specify-			
Module			
Compliance			
Wire and Movement			
Affirmation			
Others: _____			

FOR REVIEW PURPOSES ONLY

SFERS

Benefit Payment Services

As noted on Page 7, this is for review purposes only. SFERS would like to fully understand your benefit payment capabilities, specifically as a disaster recovery platform for the payment of benefits. There is no intent to make changes to the current arrangement with the City of San Francisco and its local service provider. Please use the following assumptions in your estimate. Include unit cost and pro-forma cost for all services required based on these assumptions (i.e. postage, 1099-R, Federal and State tax filings, etc.):

Number of Pensioners Receiving Monthly Payments: 26,852

Number of Monthly ACH Payments: 13,426

Number of Monthly Check Payments: 13,426

Benefit Payment Services	Annual Volume	Fees	Pro-Forma Cost
Number of Retirees			
New Payment Set-up			
ACH with Advice ex Postage			
Check periodic ex Postage			
Lump Sum Transfer			
Lump Sum Payments			
Postage			
Inserts			
Messages			
1099			
1099-R postage			
TEFRAs			
State tax filings			
Federal tax filings			
Express Deliv/Overnight			
Wires			
Reports (Standard)			
Reports - Check Registers			
Reports - Death Searches			
Others: (specify)			
TOTAL ESTIMATED COSTS			

IV. SECURITIES LENDING COSTS AND FEES

- A. Explain your methodology for calculating a client's income and splitting methodology.
- B. What is your organization's proposal for the revenue sharing arrangement and/or the split of security lending income?
- C. Is the split also applicable to negative income if it occurs? What are the limitations of your proposal specific to losses?
- D. Are you able to accept a "clawback" feature wherein if losses materialize, both SFERS and lending agent's revenues would be utilized to extinguish such losses or shortfall?
- E. Are you able to accept a "agent zero split" feature wherein if losses materialize the whole revenue split would be 100% to the client's favor for cash buffering purposes until losses are extinguished?
- F. Does your firm charge a management fee (bp) plus expense ratios for each type of collateral reinvestment fund, separate accounts or collateral reinvestment fund? If so, specify the fee and if fees are deducted before or after the split.
- G. Please provide your proposed securities lending income split:
SFERS ___% Bank ___%
- H. If you are proposing additional indemnification beyond operational and broker default for agency-basis lending, kindly specify.
____ Borrower/Counterparty Risk and Default (Inability to Recall, Failure to deliver Income, Failure to post adequate margins, etc.)
____ Collateral Investment Risk
____ Credit Spread Risk
____ Interest Rate Risk
____ Trade Settlement Risk
____ Operational Negligence
____ Currency and Sovereign Risk
- I. If your entity is willing to provide full or partial indemnification for collateral reinvestment risk, what would be the parameters of your bid proposal for securities lending splits and assets to lend?
- J. Specify administration, recordkeeping, and cash collateral reinvestment asset management fees for all types of cash collateral reinvestment vehicles, including separate accounts or SFERS guidelines.
- K. Furnish a revenue estimate of the securities lending income for SFERS for one (1) year ending December 31, 2014 utilizing the holdings listed in Appendix G. (Please note that the estimate is backward looking and not forward looking into the future. Thus for the one-year estimate ending December 31, 2014, utilize the holdings provided and assume that the holdings are in a buy and hold strategy from January 1, 2014 to December 31, 2014.) Assume that collateral is reinvested in a commingled fund or separate account that utilizes the following guidelines, namely: (a) strictly intrinsic value lending of 50 bps minimum with overnight cash collateral Indemnified US Treasury REPO reinvestment guideline; (b) strictly intrinsic value lending of 25 bps minimum with overnight

cash in an Indemnified REPO Collateral (50% US Treasury, 25% US Agency, and 25% Equity S&P 500/Russell 1000) with 30 Day Absolute Term; (c) Current Guidelines as specified in Appendix H, and, (d) Straight SEC 2a-7 money market guideline. Provide calculations in the matrix provided on the next 3 pages.

CALCULATION WORKSHEET #1

Securities Lending Revenue Estimate Worksheet – #1

(Assume Intrinsic Value Lending of at least 50 bps and invested Indemnified US Treasury REPO Overnight Basis Only)

Asset Class	Lendable Assets (US\$)	Percent on Loan (using a 12 month rolling average)	Assets on Loan (US\$)	Intrinsic Spread (bps)	Rebate Rate in bps (using a 12 month rolling average)	Re-invest Rate (bps)	Avg. Daily Spreads Net Rebate and Fees (bps)	Gross Income (US\$)	SFERS Share of Revenue w/ Borrower Default Indemnification (Percent)	Net SFERS Securities Lending Income (US\$ millions)
US Large Cap Eq										
US Mid & Small Cap Eq										
U.S. CorpBonds										
High Yield										
Mortgages										
U.S. Govt Bonds										
TIPS										
Non-US Equities										
TOTAL										

For example: \$100 million loan outstanding for one year with a 0.20% net spread and a split of 80/20 is equal to \$160,000 ($\$100,000,000 \times 0.002 \times 0.80$).

CALCULATION WORKSHEET #2

**Securities Lending Revenue Estimate Worksheet – #2
(Strictly intrinsic value lending of 25 bps minimum with overnight cash**

in an Indemnified REPO Collateral (50% US Treasury, 25% US Agency, and 25% Equity S&P 500/Russell 1000) with 30 Day Absolute Term)

Asset Class	Lendable Assets (US\$)	Percent on Loan (using a 12 month rolling average)	Assets on Loan (US\$)	Intrinsic Spread (bps)	Rebate Rate in bps (using a 12 month rolling average)	Re-invest Rate (bps)	Avg. Daily Spreads Net Rebate and Fees (bps)	Gross Income (US\$)	SFERS Share of Revenue w/ Borrower Default Indemnification (Percent)	Net SFERS Securities Lending Income (US\$ millions)
US Large Cap Eq										
US Mid & Small Cap Eq										
U.S. Corp Bonds										
High Yield										
Mortgages										
U.S. Govt Bonds										
TIPS										
Non-US Equities										
TOTAL										

For example: \$100 million loan outstanding for one year with a 0.20% net spread and a split of 80/20 is equal to \$160,000 ($\$100,000,000 \times 0.002 \times 0.80$).

CALCULATION WORKSHEET #3

**Securities Lending Revenue Estimate Worksheet – #3
(Assume Cash Reinvestment Guidelines as specified in Appendix H)**

Asset Class	Lendable Assets (US\$)	Percent on Loan (using a 12 month rolling average)	Assets on Loan (US\$)	Intrinsic Spread (bps)	Rebate Rate in bps (using a 12 month rolling average)	Re-invest Rate (bps)	Avg. Daily Spreads Net Rebate and Fees (bps)	Gross Income (US\$)	SFERS Share of Revenue w/ Borrower Default Indemnification (Percent)	Net SFERS Securities Lending Income (US\$ millions)
US Large Cap Eq										
US Mid & Small Cap Eq										
U.S. Corp Bonds										
High Yield										
Mortgages										
U.S. Govt Bonds										
TIPS										
Non-US Equities										
TOTAL										

For example: \$100 million loan outstanding for one year with a 0.20% net spread and a split of 80/20 is equal to \$160,000 ($\$100,000,000 \times 0.002 \times 0.80$).

CALCULATION WORKSHEET #4

**Securities Lending Revenue Estimate Worksheet - #4
(Assume SEC Rule 2a-7 Reinvestment Guideline)**

Asset Class	Lendable Assets (US\$)	Percent on Loan (using a 12 month rolling average)	Assets on Loan (US\$)	Intrinsic Spread (bps)	Rebate Rate in bps (using a 12 month rolling average)	Re-invest Rate (bps)	Avg. Daily Spreads Net Rebate and Fees (bps)	Gross Income (US\$)	SFERS Share of Revenue w/ Borrower Default Indemnification (Percent)	Net SFERS Securities Lending Income (US\$ millions)
US Large Cap Eq										
US Mid & Small Cap Eq										
U.S. CorpBonds										
High Yield										
Mortgages										
U.S. Govt Bonds										
TIPS										
Non-US Equities										
TOTAL										

For example: \$100 million loan outstanding for one year with a 0.20% net spread and a split of 80/20 is equal to \$160,000 ($\$100,000,000 \times 0.002 \times 0.80$).

CONTACT INFORMATION

Provide the following information:

Name of Organization _____
Business Address _____
Primary Contact _____
Address _____
Phone, Fax, Email _____

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 proposal upon behalf of _____ and that the information, commitments, representations, and other provisions of the foregoing proposal are true and correct to the best of his or her knowledge or belief."

Name _____
Title _____
Date _____

END OF RFP

APPENDIX B

REQUIRED VENDOR FORMS

All required forms are available at the Office of Contract Administration Web site located at:

<http://sfgsa.org/index.aspx?page=4762>

All vendors must fill out the first three forms before the City can do business with them:

1. IRS Form W-9 (Request for Taxpayer Identification Number);
2. Form P-25 (Business Tax Declaration Form); and
3. Form CMD-12B-101 (Declaration of Nondiscrimination in Contracts and Benefits)

1. IRS Form W-9 (Request for Taxpayer Identification Number)

This form provides the City with the vendor's taxpayer identification number, which is then used to assign a City 5-digit vendor number:

<http://www.sfgsa.org/Modules/ShowDocument.aspx?documentID=10970>

2. Form P-25 (Business Tax Declaration Form)

This declaration is required for vendors to determine if they are required to obtain a business registration certificate:

<https://sfgov.org/treasurer/sites/sftreasurer.org/files/P25%20Final.pdf>

3. Form CMD-12B-101 (Declaration of Nondiscrimination in Contracts and Benefits)

This declaration is used by the City's Contract Monitoring Division to determine if a vendor offers benefits to employees. When a vendor offers benefits, it must be verified that all benefits, including insurance plans and leaves, are offered equally to employees with spouses and employees with domestic partners.

<http://sfgsa.org/Modules/ShowDocument.aspx?documentID=12879>

APPENDIX C

SFERS INVESTMENT POLICY STATEMENT

Investment Policy, Objectives and Guidelines for the San Francisco City and County Employees' Retirement System

Mission Statement

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension Trust assets, administering mandated benefit programs, and providing promised benefits.



Approved: November 14, 2012

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INTRODUCTION

This document provides a framework for the management of the assets of the San Francisco City and County Employees' Retirement System ("SFERS" or the "System"). The purpose of the Investment Policy Statement ("IPS") is to assist the Retirement Board (the "Board") to effectively supervise and monitor the assets of SFERS (the "Plan"). Specifically, the IPS will address the following issues:

- The goals of the investment program;
- The policies and procedures for the management of the investments;
- Specific asset allocations, rebalancing procedures and investment guidelines;
- Performance objectives; and,
- Responsible parties.

The Board establishes this investment policy in accordance with applicable Local, State, and Federal laws. The Board members exercise authority and control over the management of the Plan, by setting policy that the Investment Staff executes either internally or through the use of external prudent experts with discretionary authority subject to policies established by SFERS. The Board oversees and guides the Plan and its policies subject to the following basic fiduciary principles:

- To act solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing contributions thereto, and defraying reasonable expenses of administering the Plan. The Board's duty to its participants and their beneficiaries shall take precedence over any other duty.
- To act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims.
- To diversify the investments of the Plan so as to effectively trade off the risk of loss and appropriate rates of return. Diversification is applicable to the deployment of the assets as a whole, and does not preclude the use of concentrated investment styles.

The IPS is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur and to establish reasonable parameters to ensure prudence and care in the execution of the investment program.

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INVESTMENT GOALS

SFERS' investment goals are:

- To provide SFERS participants with retirement benefits as required by City and County Charter and applicable laws. This will be accomplished through a carefully planned and executed long-term investment program.
- SFERS' assets will be managed on a total return basis. While SFERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.
- On an annualized net-of-fee basis, over a full market cycle, the total portfolio will be expected to:
 1. Exceed the assumed actuarial rate of return (currently 7.58%¹) over rolling five-year periods; and/or,
 2. Exceed a weighted index based on SFERS' asset allocation policy and respective asset class component benchmarks over rolling five year periods by an appropriate amount.
- To undertake all transactions for the sole benefit of SFERS members and beneficiaries, and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable administrative expenses associated with the Plan.
- To set asset allocation policy in a manner that encompasses a strategic, long-term perspective of capital markets as well as the nature and structure of SFERS' liabilities. SFERS recognizes that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.
- To make decisions and follow investment policies which comply with "prudent expert" standards.

¹ The actuarial rate of return is being reduced to 7.50% (from 7.75%) over a three time period. The actuarial rate of return, as approved by the Retirement Board, will be 7.66% in Fiscal Year 2012, 7.58% in Fiscal Year 2013, and 7.50% in Fiscal Year 2014, and thereafter.

INVESTMENT POLICIES AND PROCEDURES

The policies and procedures of SFERS' investment program are designed to maximize the probability that the investment goals will be fulfilled.

Asset Allocation Policy

SFERS adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities and benefit payments and the cost of contributions;
- Historical and expected long-term capital market risk and return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and,
- The current and projected funding status of the Plan.

This policy provides for diversification of assets in an effort to maximize the investment return of the Plan consistent with market conditions and risk tolerance. Asset allocation modeling identifies asset classes the Plan will utilize and the percentage that each asset class represents of the total fund.

Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. SFERS' Investment Staff ("Staff") and external consultants will monitor and assess the actual asset allocation versus policy and will evaluate any variation deemed significant.

Asset allocation policy shall be implemented through the use of investment managers (both internal and external) that will invest SFERS' assets subject to investment guidelines incorporated into the investment management agreements executed with authorized representatives of the System.

SFERS will also use passive management styles in market segments where there is a high degree of market efficiency, where low or no tracking error is desired, or to provide temporary exposure.

The long-term asset allocation targets and ranges for the investments of the Plan's assets are shown in Tab I. These targets and ranges shall be in effect for both broad asset classes and public market sub-asset classes.

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Investment Manager and Consultant Authority

The investment managers shall have full discretion to direct and manage the investment and reinvestment of assets allocated to them for management on SFERS' behalf in accordance with this document, applicable Local, State and Federal statutes and regulations, individual investment management agreements, approved investment guidelines, and executed contracts.

Consultants shall have no discretionary authority (unless such authority is delegated contractually by the Board and the Consultant) and shall be co-fiduciaries to the Plan. Consultants shall be responsible for making timely and appropriate recommendations on investment policy issues, for monitoring managers, and for reporting on manager and total fund performance (or asset class composite level performance for specialty consultants) on a quarterly basis. The Board and Staff will consider the comments and recommendations of Consultants in conjunction with other available information in making informed, prudent decisions.

Fiduciary Responsibilities

All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to SFERS. Once retained, an investment manager must acknowledge in writing the manager's fiduciary responsibility to SFERS and acknowledge the objectives and policies contained in this Policy. It is expected that, at all times, the manager(s) will conduct themselves as fiduciaries in conformance with the California Constitution, Article XVI, Section 17 and Charter Section 12.100, unless a lesser standard of fiduciary duty is necessary because of generally prevailing industry standards for an investment of that type and nature. Any such generally prevailing industry standard shall be established upon the written advice of the investment consultant responsible for that asset class.

Commission Recapture

SFERS requires that active equity managers use good faith efforts to direct a specific percentage of brokerage transactions for Plan assets under their management through designated commission recapture brokers. SFERS also encourages its fixed-income managers, on a "best effort" basis, to utilize the services of designated commission recapture brokerage firms. It is understood that the commission recapture brokerage firms must provide the best price and execution consistent with market conditions, bearing in mind the best interests of the Plan's beneficiaries and considering all relevant factors.

SFERS will monitor on an ongoing basis the services provided by the commission recapture brokers so as to assure that the investment managers are securing the best execution of SFERS' brokerage transactions.

All rebates or credits from commissions paid to the commission recapture brokers will be realized in cash and rebated back to the Plan.

Emerging Business Enterprises

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SFERS Staff, its investment managers, and its consultants shall make a good faith effort to retain and utilize the services and/or products of qualified Emerging Business Enterprises on a sub-contracting and/or joint venture basis when those services/products are provided consistent with the fiduciary responsibilities of the Board.

SFERS will also, to the extent possible, use and encourage the use by its managers of brokerage services offered by emerging brokerage firms, particularly certified San Francisco-based firms.

SFERS has also adopted a policy regarding emerging investment managers, which is included as Tab 8 of this document.

Proxy Voting

SFERS acknowledges that the ownership of equities requires proxies to be voted, and that such voting rights are a tangible asset of the System. The System commits to managing its proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing its other assets, in the sole interest of the System's members and beneficiaries and in accordance with all applicable statutes.

The voting rights of individual stocks will be exercised by an assigned proxy provider under the supervision of the Investment Staff consistent with policy direction from the Retirement Board. The Board shall review the actions of the assigned proxy provider at least annually.

Securities Lending

The Board has authorized the execution of a "Security Lending Program," which will be performed by the Plan custodian or qualified third party securities lending agent(s). The program will be monitored and reviewed by the Investment Staff and will be established and governed by a written agreement. Unless otherwise designated, the income or losses generated by the lending program accrues to the Investment Cash account.

The SFERS Investment Policy and Program Overview for Securities Lending is included as Tab 12 of this document.

Custody of Assets

With the exception of assets invested in commingled funds or assets invested in an investment program approved to use one or more Prime Brokers, the assets of the Plan shall be held in a custody/record-keeping account in a master custody bank located in a national money center and in the international sub-custodian banks under contract with the custodian bank.

Staff shall be responsible for reviewing the cost-effectiveness and performance of the custodian on a regular basis (at least every five years), with input from SFERS' consultants as needed.

Derivatives

Derivatives may be employed by SFERS' investment managers (including internal managers) if permitted in the manager's written guidelines. The purpose of derivatives shall be to control

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portfolio risk, aid in liquidity management, augment return, and/or execute portfolio strategies in a timely and cost-effective manner. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or instruments including, but not limited to futures, forwards, options, options on futures and private swaps. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, executing a passive management style, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration of fixed income portfolios.

Unless permitted to do so in their written guidelines, SFERS' investment managers are not allowed to utilize derivatives for speculative purposes, including creating leverage. SFERS' managers typically shall not borrow funds to purchase derivatives; any exceptions shall be specified in the investment manager's written guidelines. No derivatives positions can be established that create portfolio characteristics outside of portfolio guidelines. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Short Sales and Leverage

Short sales of securities and leverage may be allowed only if permitted in the investment manager's written guidelines, and shall typically be subject to expressed limits.

Rebalancing

A systematic rebalancing procedure, implemented on a regular basis when asset allocation ranges are breached, or when cash flows occur (e.g., for benefit payments or funding new investments), or for other reasons judged to be in the best interests of the Plan and its beneficiaries, will be used to maintain or to move asset allocations within their appropriate allowable ranges as delineated in Tab I of this Investment Policy Statement.

The Deputy Director for Investments ("DDI"), supported by the Deputy Division Directors for Public Markets and Private Markets, shall be responsible for undertaking rebalancing at the broad asset class level. The Senior Investment Officers or Senior Portfolio Managers ("SIO's or "SPMs") shall be responsible for making rebalancing recommendations to the appropriate Deputy Division Director for their respective asset class(es) and for implementing those recommendations subject to approvals from the DDI. Rebalancing decisions will take into consideration a combination of various factors including but not limited to: cash needed for benefit payments and expenses, cash needed for investments, asset allocation shifts and weights relative to targets and permissible ranges, an assessment of capital markets conditions, and the performance, organizational and investment attributes of individual managers, including each manager's status under SFERS' Manager Monitoring and Retention Policy (Tab 7).

When broad asset class ranges are breached, the System will rebalance assets such that asset allocation is brought to within the ranges specified in Tab I. For sub-asset classes, the SIO or SPMs will make recommendations regarding allocations to sub-asset classes within their area of responsibility, and shall rebalance according to the same rule when relevant ranges are breached. Sub-asset class targets and ranges are also delineated in Tab I. Subject to approval by the appropriate Deputy Division Director and the DDI, Staff will also have discretion on how to redeploy assets within their asset class in accordance with applicable ranges. The Board

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recognizes that from time to time ranges may be breached for a period of time due to the absence of an appropriate manager and/or Staff judgment that an existing manager(s) should not be allocated additional assets, or when, in the judgment of Staff, market conditions are not favorable to rebalancing activities.

The DDI shall report to the Board monthly on the System's rebalancing activities, including any exceptions to policy.

Social Investment Procedures

Since it is necessary for adequate recognition to be given to the social consequences of corporate actions and security and portfolio investment decisions to achieve maximum long term investment returns from System assets, and since the individual decisions of Staff, Managers, Consultants, and other System fiduciaries have to be made within a framework that reflects the particular social situation and concerns of the participants and the System, the Retirement Board has adopted a set of Social Investment Procedures to guide the System. Social concerns to be addressed through investment policy shall follow the order of action as outlined in these policies. In no event shall these policies take precedence over the fiduciary responsibility of producing investment returns for the exclusive benefit of the participants. Exceptions to the restrictions on securities holdings outlined here may be made as needed to permit investment in commingled holdings deemed to be in the best interests of SFERS and its beneficiaries.

The investment restrictions based on these procedures are as follows:

Tobacco-Related Holdings

SFERS does not permit its managers (including internal management) to hold securities of US-based companies involved in the production of tobacco products. This restriction applies to both US equity holdings and to US corporate bond holdings.

The Board will periodically review the impact of this restriction on its overall performance.

Sudan Related Holdings

Because the US Congress and the State Department have found the Sudanese Government to be complicit in genocide in the Darfur region, SFERS does not permit its managers (including internal management) to hold securities of companies doing business in Sudan based on criteria established by SFERS. The Retirement Board directed Investment Staff to inform companies meeting specified criteria of SFERS' intention to divest. Companies will have 90 days to respond. Managers will be informed of companies meeting specified criteria and be given an opportunity to explain why they cannot achieve their mandate if required to divest.

The Social Investment Procedures and lists of restricted securities based on the above may be found in Tab 10 of this document. The Board will periodically review the impact of this restriction on its overall performance.

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Asset Class Definitions

SFERS will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document.

I. Capital Appreciation – The Capital Appreciation portfolio will serve as the long term “growth” engine of the portfolio. This portfolio will be the primary source of return as well as risk (volatility) for the portfolio. The Plan’s Capital Appreciation portfolio may be comprised of different market segments and approaches, including:

- **Public Market Equities** – SFERS anticipates that total returns to equities will be higher than total returns to fixed income securities over the long run, and may be subject to greater volatility. SFERS’ equity holdings will be well diversified with respect to region, capitalization ranges and investment styles. The public market equity components in the Plan’s asset allocation mix are:
 - **US Equities** – This segment of the portfolio will provide broadly diversified exposure to the US equity market, in both large and small cap market segments, as well as diversified exposure to different style segments (e.g., growth and value). Passive, enhanced passive, and active management strategies may be used in US equity holdings, including internal management by SFERS’ Staff.
 - **International Equities** – This portfolio provides access to equity markets outside the US and consequently plays a significant role in diversifying SFERS’ domestic equity portfolio. A core international segment will concentrate on larger companies in developed non-US equity markets while a small capitalization segment will ensure exposure to the smaller companies that are primarily located in developed markets. Both passive and active management may be used in the core international equity portfolio, although active strategies will be emphasized. An emerging markets segment further diversifies the developed market segments by investing in developing markets that have lower correlations with developed economies. As specified in their investment guidelines, active managers may be given discretion to hedge currency exposure in their portfolios. The System may retain external experts to provide currency overlay management.
 - **Global Equities** – A global stock portfolio will invest in both US and non-US companies, including emerging markets. Managers will have the discretion to allocate between US and non-US companies depending on their view of opportunities, valuations, and growth prospects.
 - **Opportunistic strategies** may also be included in the Public Market Equity segment for the purpose of enhancing return, managing risk, and/or taking advantage of management approaches or hybrid securities that embody equity as well as other characteristics.
- **Alternative Investment Program (“AIP” or the “Program”)** – This portfolio is a significant source of investment return that has lower correlation with SFERS’ other

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asset classes. The AIP will include investments in a variety of separate account or commingled/partnership vehicles including venture capital, buyout, turnaround, mezzanine, distressed securities, co-investments and direct investments, and special situations funds. The Program is recognized to be long-term in nature and highly illiquid. Because of their higher risk and illiquidity, alternative investments are expected to provide substantially higher returns over the long term than publicly traded equity securities. Alternative investments can also include more conservative but also relatively illiquid investments, which derive their returns from owning hard and natural resource related assets such as oil- and gas-related properties and timberland.

The primary objective of the AIP is to provide a substantial return premium (500 basis points or more) over the S&P 500 Index over rolling 10-year periods. This hurdle will be used to evaluate all alternative investment opportunities. The Program will also evaluate opportunities based on whether they diversify the Plan by investment type and by manager to reduce manager and asset-specific risks. A third objective of the program is to reduce total portfolio volatility by investing in assets with a lower correlation to public equity markets.

The Senior Investment Officers or Senior Portfolio Managers overseeing the Alternative Investment Program, Staff (including the Deputy Division Director for Private Markets), in conjunction with the Alternative Investment Consultant, will annually update the Statement of Objectives, Policies and Procedures for the asset class and submit to the Retirement Board for approval. Additionally, the Senior Investment Officers or Senior Portfolio Managers overseeing the Alternative Investment Program, in conjunction with the Alternative Investment Consultant, will normally submit an Annual Investment Plan no later than the December meeting of the Retirement Board for Board approval. The Annual Investment Plan will recap the status of the Program and achievement of plan goals, and will identify investment initiatives for the following calendar year. Upon adoption by the Retirement Board, the Statement of Objectives, Policies and Procedures and Annual Investment Plans (Tabs 4 and 5) shall become a part of this Investment Policy Statement.

II. Capital Preservation – The Capital Preservation portfolio is intended to provide “downside protection” to the portfolio in periods of financial market duress or disinflation by providing a stable return. Capital Preservation also aids in the diversification of the Plan’s assets. The Capital Preservation portfolio may be comprised of different market segments and approaches, including:

- **Public Market Fixed Income** – The primary role of the Fixed Income portfolio is to provide a stable, predictable income while diversifying SFERS’ investment portfolio. SFERS’ Fixed Income portfolio will be well diversified, and may include, but not limited to, both investment grade and non-investment grade holdings, US and non-US issues, developed and emerging market debt, mortgage-backed securities and direct mortgage holdings, and dollar and non-dollar denominated holdings. Internally managed fixed income as well as specialty managers may be utilized. Both passive and active management may be used in the Fixed Income portfolio. Currency exposure may be actively managed by the System’s Fixed

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Income manager(s) as specified in the manager's guidelines. Opportunistic strategies may also be included in the Fixed Income portfolio for the purpose of enhancing return, managing risk, or taking advantage of management approaches or hybrid securities that embody fixed income as well as other characteristics.

- **Cash** – Cash will be segmented into two categories:
 - **Cash needed for Payment of Benefits and Expenses** – This is cash that will be set aside for the specific purpose of paying benefits and expenses. This cash should generally not be used to meet capital calls or other investment funding requirements. The amount of cash “set aside” for this purpose should not be less than one or more than four months funding requirement, with a target of three months.
 - **Cash Available for Investment** – This is cash which is available for investment following SFERS' Investment Guidelines contained herein. As a matter of principle, SFERS will strive to maintain a “zero cash” policy, i.e., all funds available for investment should be kept invested in accordance with this Investment Policy. Cash Available for Investment should not exceed 1% of Plan assets, with a target of 0%.

III. Inflation Hedges/Real Assets – Inflation Hedges/Real Assets are assets that provide investors with a better hedge against loss of purchasing power than traditional asset classes including equities and bonds. Moreover, these strategies maintain lower correlation to traditional asset classes, providing diversification benefits. The Plan's Inflation Hedges/Real Assets portfolio may be comprised of different market segments and approaches, including:

- **Real Estate** – SFERS' real estate program (the “Program”) invests in real estate commingled funds, co-investments and separate accounts. The Program is diversified by property type and geography, exposed to properties both in the US and internationally, and includes global publicly listed real estate securities. The Program is designed to provide return from both income and capital appreciation. Real estate performance generally has low correlation with traditional public market asset classes, and therefore provides diversification benefits to the Plan. SFERS recognizes the illiquid, long-term nature of its private real estate portfolio and the role the Program plays in providing diversification to the overall portfolio. The Program is also a hedge against the possibility of severe and persistent inflation. SFERS has determined that active management will lead to returns that are superior for real estate than passive management strategies. Active management, value creation strategies, and the prudent use of third party debt are approved methods for generating the expected excess return.

The Senior Investment Officer or Senior Portfolio Manager overseeing the Real Estate portfolio, Staff (including the Deputy Division Director for Private Markets), and the Real Estate Consultant annually update the Investment Objectives, Policies and Procedures and the Annual Investment Strategy for the asset class and submit these documents to the Retirement Board for approval. The Annual Investment Plan recaps the status of the Program and the achievement of plan goals, and identifies investment strategies, projects and programs for the following fiscal

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year. Upon adoption by the Retirement Board, the Investment Objectives, Policies and Procedures and the Annual Investment Strategy (Tabs 2 and 3, respectively) shall become a part of this Investment Policy Statement.

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GENERAL INVESTMENT OBJECTIVES AND GUIDELINES FOR PUBLIC MARKET SECURITIES

Public Market Equity Portfolios

The public equity portfolios, both internal and external, will be managed on a total return basis following specific investment styles and will be evaluated against specific market benchmarks that represent their investment style. These benchmarks will be specified in the written investment guidelines governing each portfolio. In the case of active managers where such comparisons are applicable, investment results will also be compared to returns of a peer group of managers with similar styles. These benchmarks may also be modified, as appropriate to the manager's investment style, to exclude US tobacco stocks. General equity guidelines for active managers include the following.

- SFERS' holdings by all managers in aggregate in a single stock shall not constitute more than 5% of the outstanding voting stock of any company.
- Unless authorized in guidelines, equity managers' cash holdings shall not exceed 5% of portfolio market value.
- American Depositary Receipts or other depository receipts listed on a major stock exchange or on the NASDAQ are permitted if specified in the managers' guidelines.
- Convertible securities may be held in equity portfolios if authorized in guidelines, and shall be considered equity holdings.
- Securities must be traded on a regulated stock exchange, or listed on the NASDAQ or a comparable foreign market operation.
- Forward or futures contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in or the settlement of any such securities transactions only in portfolios designated specifically to hold these types of securities (i.e., currency overlay).

Any exemption from these general guidelines requires review by Investment Staff and approval from the Board.

Fixed Income Portfolios

The internal and external fixed income portfolios will be managed on a total return basis, following specific investment styles and will be evaluated against specific market indices that represent a specific investment style or market segment. Where applicable, fixed income portfolio investment results will also be compared to returns of a peer group of managers investing with a similar style.

General fixed income guidelines for active managers include the following:

- Permissible securities shall include, but are not limited to, cash equivalents, forward foreign exchange contracts, currency futures, financial futures, government and government agency bonds, Eurobonds, mortgage backed securities (including collateralized mortgage obligations, commercial mortgages, commercial mortgage backed securities, asset-backed bonds, corporate bonds (including convertible bonds),

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or other securities specifically authorized by the Retirement Board and incorporated in the Manager's Investment Guidelines. If authorized in written guidelines, derivatives, including forward or futures contracts for foreign currencies, may be used to control risk and augment return, or to effect portfolio management decisions in a timely, cost-effective manner.

Any exemption from these general guidelines requires review by Investment Staff and approval from the Retirement Board.

INVESTMENT MANAGER POLICY

The selection of investment managers will be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each investment manager must function under a formal contract that delineates responsibilities, establishes guidelines, and articulates performance expectations.

Specific policies with respect to managers in non-public market segments are addressed in the Real Estate Investment Objectives, Policies and Procedures (Tab 2) and the Alternative Investments Statement of Objectives, Policies and Procedures (Tab 4).

SFERS will utilize both internally and externally managed portfolios based on specific styles and methodologies. The external managers will be expected to acknowledge in writing that they are Plan fiduciaries and will have discretion and authority to determine investment strategy, security selection and timing within their assigned mandate, and subject to IPS guidelines and any other guidelines specific to their portfolio. Performance of each portfolio will be monitored and evaluated on a regular basis relative to a suitable benchmark and, where appropriate, relative to a peer group of managers with similar investment styles.

A policy framework for Opportunistic Strategies in Global Equity and Public Market Fixed Income is included at Tab 9 of this Investment Policy Statement.

Investment managers, as prudent experts, will be expected to know SFERS' policies (as outlined in this and other appropriate documents) and any specific guidelines for their portfolios, and to comply with those policies and guidelines. It is each manager's responsibility to identify policies and guidelines that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said policies or guidelines through Board action.

The Board and Staff will also review each investment manager's adherence to investment guidelines, and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by SFERS will be responsible for informing the Board and Staff of all such material changes on a timely basis.

SFERS shall follow the Guidelines for Manager Monitoring and Retention that appears at Tab 7 in evaluating its fixed income and equity managers.

Investment managers under contract to SFERS shall have discretion to establish and execute transactions with any securities broker/dealer as the manager determines to be in the best interest of SFERS. The investment managers must obtain the best available prices and most

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favorable executions with respect to all portfolio transactions, keeping in mind SFERS' desire to transact with commission recapture and emerging brokers, as market conditions permit. Unless otherwise approved in writing, managers are prohibited from engaging in transactions with an affiliated broker/dealer.

Selection Criteria for Investment Managers

Criteria will be established for each manager search undertaken by SFERS, and will be tailored to SFERS' needs in each search.

In general, eligible managers will possess attributes including, but not limited to, the following:

- The firm must be SEC-registered or exempt from registration. Firms claiming exemption from registration requirements must provide appropriate documentation and disclosures indicating reasons for exemption.
- The firm or its senior investment professionals must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by SFERS.
- The firm must display a record of stability in attracting and retaining qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- The firm must have an asset base sufficient to accommodate SFERS' portfolio. In general, firms should have at least \$250 million of discretionary institutional assets under management, and SFERS' portfolio should make up no more than 20% of the firm's total asset base after funding. Exceptions may be made on a case-by-case basis.
- The firm must demonstrate adherence to the investment style sought by SFERS, and adherence to the firm's stated investment discipline.
- The firm's fees should be competitive with industry standards for the product category.
- The firm must comply with the "Duties of the Investment Managers" outlined herein and conform to CFA Institute/Global Investment Performance Standards for performance reporting.

When making a recommendation to retain a manager, any exceptions to these attributes for a recommended manager shall be noted to the Board in writing by Staff or the General Investment Consultant.

Criteria for Investment Manager Termination

SFERS reserves the right to terminate an investment manager at any time for any reason. Guidelines for manager monitoring and retention are included at Tab 7.

Grounds for investment manager termination may include, but are not limited to, the following:

- Failure to comply with the guidelines agreed upon for management of SFERS' portfolio, including holding any restricted issues.

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- Failure to achieve performance objectives specified in the manager's guidelines.
- Significant deviation from the manager's stated investment philosophy and/or process.
- Loss of key personnel or changes in ownership structure.
- Evidence of illegal or unethical behavior by the investment management firm or its principals.
- Lack of willingness to cooperate with reasonable requests by SFERS for information, meetings or other material related to its portfolios.
- Loss of confidence by the Board or Staff in the investment manager.
- A change in the Plan's asset allocation program, which necessitates a shift of assets to another sub-asset class or sector.

The presence of any one of these factors will be carefully reviewed by SFERS' Staff and the Board, but will not necessarily result in an automatic termination.

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DUTIES OF RESPONSIBLE PARTIES

Duties of the SFERS Board

The Board will adhere to the following procedures in the management of SFERS' assets:

- The Board's primary responsibility is to set the policy framework in which the implementation of SFERS' investment program will take place. Staff will be responsible for the timely implementation and administration of the Board's policy decisions.
- The Board shall formally review SFERS' investment structure, asset allocation and financial performance at least every three years, or more frequently should capital markets or the financial condition of the Plan undergo a material, long-term change necessitating such a review. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or SFERS' financial condition.
- The Board shall review target allocations and allowable ranges to asset class sub-sectors in the public markets portion of the Plan on at least an annual basis.
- The Retirement Board shall review SFERS' investment results at least quarterly,² or more often as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The sources of information for these reviews shall include Staff, outside consultants, the custodian, the performance measurement provider, and SFERS' investment managers.
- The Board may retain investment consultants to provide such services as conducting performance and manager reviews, asset allocation, and investment research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Board in making informed, prudent decisions. In selecting external consultants, the Board shall consider the recommendations of Staff.
- The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed.
- The Board shall direct Staff to administer SFERS' investments in a cost-effective manner subject to Board approval. Investment-related costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to SFERS.
- The Board shall be responsible for selecting a qualified custodian with advice from Staff, and from the Consultant(s) if directed by the Staff or the Board.
- The Board shall provide oversight of the effectiveness of Staff's implementation of its policy directives.

Duties of the Investment Staff

SFERS' Investment Staff plays a significant role in the management and oversight of the Plan, and is responsible for the timely implementation and administration of the Board's policy decisions. The Board shall monitor the performance of the Investment Staff in carrying out the duties,

² Performance of Alternative assets and equity real estate is reviewed semi-annually.

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which include:

- Managing investment funds according to written investment guidelines as directed by the Board.
- Carrying out rebalancing activity in accordance with the policy stated in this document.
- Monitoring external managers for adherence to SFERS' written policies and guidelines, and in accordance with SFERS' Manager Monitoring and Retention Policy for Equity and Fixed Income. Reviews for portfolios managed by external managers will focus on:
 1. Compliance with the investment guidelines.
 2. Compliance with the terms of the contracts, and the manager's ability to provide the System with timely, accurate and useful information.
 3. Manager's ability to continue to achieve its objectives given its investment process and resources.
 4. Material changes in a manager's organization. This may include, but is not limited to changes in investment philosophy, personnel or ownership, acquisitions or losses of major accounts, etc. The manager will be responsible for advising SFERS' Staff of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
 5. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines as well as the manager's rankings in an appropriate peer group comparison.
 6. Manager's status under the Plan's policies related to Manager Monitoring and Retention.
- Providing due diligence, oversight, and investment recommendations regarding all investment portfolios, including real estate and alternative investments, with assistance from the respective Consultant(s).
- Identifying, measuring and evaluating risk in SFERS' public market holdings.
- Evaluating and managing relationships with the Consultant(s) to the Plan to ensure that the Consultant(s) are providing all the necessary assistance to Staff and the Board as set forth in their service contracts and meeting the needs of the System.
- Making recommendations to the Board regarding retention of Consultant(s).
- Conducting manager searches with assistance from Consultant(s).
- Managing portfolio restructurings resulting from manager terminations with the assistance of Consultants, managers, or other parties, as needed.
- Conducting, directing Consultants and/or managers to conduct, or participating in any special research required to manage the Plan more effectively and in response to any questions or issues raised by the Retirement Board.
- Reviewing the cost-effectiveness and performance of the custodian on a regular basis (at least every five years), with input from SFERS' Consultants as needed or as directed by the Board.
- Monitoring and reviewing the System's securities lending program (if any) on an ongoing basis.
- Monitoring on an ongoing basis the services provided by the commission recapture brokers so as to ensure that the investment managers are securing the best execution of SFERS' brokerage transactions.
- Supporting the Board in the development and approval of the Real Estate Annual Investment Strategy and Annual Investment Plan for Alternative Investments,

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implementing and monitoring the Plan, and reporting at least quarterly on investment activity and matters of significance.

Duties of the Investment Managers

The duties of the Investment Managers shall include:

- Provide the Plan with a written agreement to invest within the guidelines established.
- Provide the Plan with proof of liability and fiduciary insurance coverage on an annual basis.
- Be an SEC-Registered Investment Advisor under the 1940 Act or exempt from registration, and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
- Adhere to the investment management style, concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, and purchasing and selling securities.
- Execute all transactions for the benefit of the Plan with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Plan, and, where appropriate, facilitate the recapture of commissions on behalf of the Plan.
- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian.
- Maintain frequent and open communication with the System on all significant matters pertaining to the Investment Plan, including, but not limited to, the following:
 1. Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure;
 2. Significant changes in ownership, organizational structure, financial condition or senior personnel;
 3. Any changes in the Portfolio Manager(s) or other personnel assigned to the Plan;
 4. Each client which terminates its relationship with the Investment Manager, and whose assets represent 5% of the firm's AUM or \$100 million, whichever is less, within 30 days of such termination;
 5. All pertinent issues which the Investment Manager deems to be of significant interest or material importance to its investment process; and
 6. Meet with the Staff or the Board on an as-needed basis.

Duties of the Master Custodian

The Master Custodian shall be responsible for the following actions:

- Provide complete global custody and depository services for the designated accounts.
- Manage, if directed by the Board, a Short Term Investment Fund for investment of any cash not invested by managers, and ensure that all available cash is invested in this or other fixed income vehicles approved by the Board for this purpose. If the cash reserves

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are managed externally, full cooperation must be provided to the external cash manager.

- Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers and the performance of each portfolio.
- Collect all income and principal realizable and properly report it on the periodic accounting statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
- Report to SFERS' Staff situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Reconcile monthly with SFERS investment managers on price variance and portfolio valuation.
- Provide assistance to the Plan to complete such activities as the annual audit, transaction verification or other unique issues as required by the Board.
- Manage a securities lending program to enhance income if directed to do so by the Board. The custodian may also be called upon to manage the cash collateral associated with the securities lending program. If the securities lending program is managed externally, full cooperation must be provided to the external securities lending agent.

Duties of the Investment Consultants

The selection of Consultants will be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each Consultant shall be a co-fiduciary to the Plan, and must function under a formal contract that delineates responsibilities and appropriate performance expectations.

Consultants shall have no discretionary authority (unless such authority is delegated contractually by the Board and the Consultant). They shall be responsible for making timely and appropriate recommendations on investment policy issues, for monitoring managers, and for reporting on performance results on a quarterly basis. The Board and Staff will consider the comments and recommendations of Consultants in conjunction with other available information in making informed, prudent decisions.

Each Consultant shall abide by The Code of Ethics and The Standards of Professional Conduct established by the CFA Institute (formerly the Association for Investment Management and Research) in carrying out its responsibilities with respect to SFERS. The CFA Institute Code appears at Tab 6.

The General Investment Consultant shall be responsible for the following actions:

- Make recommendations to the Board and Staff regarding investment policy and strategic asset allocation, including sub-asset class structure.
- Assist SFERS Staff in the selection of qualified investment managers, and make recommendations to the Board and Staff on manager selection and manager guidelines.
- Assist Staff in the oversight of existing managers, including monitoring changes in personnel, organization, ownership, the investment process, compliance with guidelines,

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- and other issues likely to affect performance.
- Assist Staff in the selection of a qualified custodian (including a securities lending agent and/or a cash manager) if directed by the Board and Staff.
 - Prepare quarterly performance summaries regarding SFERS' manager, composite, and total plan results and make recommendations addressing any performance issues.
 - Provide topical research and education on investment subjects that are relevant to SFERS.
 - Other tasks as requested by the Board or Staff consistent with the function served by the General Investment Consultant.

The Real Estate Consultant shall be responsible for the following actions:

- Make recommendations to the Board and SFERS Staff regarding investment policy and strategic asset allocation as they pertain to real estate, and regarding public market securities that are affected by real estate-related issues.
- Assist SFERS Staff in the selection of qualified real estate investment managers and make recommendations to the full Board on manager selections. This will also include selection of managers of public market securities requiring real estate expertise.
- Assist SFERS Staff in the oversight of existing managers including monitoring changes in personnel, ownership and the investment process.
- Prepare a semi-annual performance report including performance of SFERS' real estate investment managers and total real estate assets, including a check on guideline compliance and adherence to investment style and discipline.
- Provide topical research and education on real estate investment subjects that are relevant to SFERS.
- Other tasks as requested by the Board or Staff consistent with the function served by the Real Estate Consultant.

The Alternative Asset Investment Consultant shall be responsible for the following:

- Make recommendations to the Board and SFERS Staff regarding investment policy and strategic asset allocation as they pertain to alternative investments.
- Assist SFERS Staff in the selection of qualified alternative asset investment managers and make recommendations to the full Board for selections requiring Board ratification.
- Assist in the oversight of existing managers (including any public market securities managers related to the Alternative Investment portfolio), including monitoring changes in personnel, ownership and the investment process.
- Prepare a semi-annual performance report including performance of SFERS' alternative asset managers and total alternative asset holdings, program policy guidelines, and adherence to investment style and discipline.
- Provide topical research and education on investment subjects that are relevant to SFERS, especially those that relate to alternative investments.
- Other tasks as requested by the Board or Staff consistent with the function served by the Alternative Asset Consultant.

Duties of the Proxy Consultant

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- Make recommendations to the Retirement Board regarding voting of proxies.
- Assist Staff in implementation of the Retirement Board's policy on voting proxies.
- Prepare an annual report documenting proxy voting activities performed on behalf of SFERS.

Duties of the Performance Measurement Provider

- The performance measurement provider shall provide regular performance reports including performance attribution of SFERS' asset class composites and total assets, and a check on guideline compliance and adherence to investment style and discipline. Performance calculations shall conform to the CFA Institute's Global Investment Performance Standards.

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**Tab I
Strategic Asset Allocation**

	Target Percent	Allowable Range	Composite Benchmark
Growth/Capital Appreciation	63%	53-73%	
<i>Global Equity</i>	<i>47.0%</i>	<i>40-54%</i>	<i>MSCI ACWI Investable Market Index (\$, ND)</i>
<i>Alternative Assets (Private Equity)</i>	<i>16%</i>	<i>10-20%</i>	<i>S&P 500 + 500 bps annualized (long-term)</i>
Real Assets/Inflation Hedge	12%	9-15%	
<i>Real Estate (including REITs)</i>	<i>12%</i>	<i>9-15%</i>	<i>8%</i>
Capital Preservation/Risk Reduction	25%	20-30%	
<i>Fixed Income</i>	<i>25%</i>	<i>20-30%</i>	<i>100% Barclays Capital US Universal Index</i>
<i>Cash</i>	<i>0%</i>	<i>0-1%</i>	<i>90-day Treasury Bills</i>
Total Fund Composite	100%		Benchmarks Weighted by Strategic Allocation Targets

Note: Asset Allocation Targets Approved: October 10, 2012.

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**Tab I (continued)
Sub-Asset Class Targets**

Global Public Market Equity

	Target Percent of Asset Class	Sub-Asset Class Minimum	Sub-Asset Class Maximum
Passive S&P 500	16%	10%	22%
Enhanced S&P 500	5%	0%	7%
US Large Cap Value	9%	6%	12%
US Large Cap Growth	9%	6%	12%
US Small Cap	6%	4%	8%
US Convertibles	3%	0%	5%
Core International	14%	9%	19%
Growth International	5%	3%	7%
Value International	11%	7%	15%
Small Cap International	6%	4%	8%
Emerging Markets	11%	7%	15%
Global Equity	5%	0%	7%
Opportunistic Strategies	0%	0%	10%
Currency Overlay (<i>% of the International Equity composite to be overlaid</i>)	<i>50% of Intl Equity Holdings</i>	<i>25% of Intl Equity Holdings</i>	<i>55% of Intl Equity Holdings</i>

Equity sub-asset class targets reviewed and approved October 10, 2012.

Fixed Income

	Target Percent of Asset Class	Sub-Asset Class Minimum	Sub-Asset Class Maximum
Internal Fixed Income	6%	0%	20%
BC Aggregate Index Fund	6%	0%	20%
Core/CorePlus US Bonds	59%	45%	70%
Commercial Mortgages	7%	5%	13%
High Yield Corporates/Bank Loans	8%	6%	10%
High Yield CMBS	5%	3%	10%
Emerging Market Debt	9%	4%	14%
Opportunistic Strategies	0%	0%	10%

Fixed Income sub-asset class targets reviewed and approved October 10, 2012.

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APPENDIX D

SFERS REPORTS

(Accounting, Securities Lending and Performance Measurement)

Account Balances
Account Summary by Type
Accounting Currency Balances
Accounting Positions
Accounting Status
Accounting Transactions
Asset and Accrual Detail
Asset Detail
Asset Detail as of Posting Date
Asset Detail with Yield - by Quality Rating
Asset Summary
Audited Statements
Bond Ratings - Fitch, Moody's, S&P
Book and Market Summary
Cash Balances
Cash Balances Summary
Cash Collateral Holdings Detail
Cash Ledger Statement Real-Time
Cash Statement
Cash Statement Inquiry
Cash Transaction Inquiry
Cash Worksheet
Class Actions Terms & Conditions of Service
Commentary Report
Concentration of Credit Risk By Issuer
Contractual Settlement Date Fails Charge
Counterparty Forwards Exposure
Counterparty Swap Exposure
Credit Risk by Quality Analysis
Currency and Country Exposure
Currency Exposure
Currency Settlement Statement
Custody Holdings
Custody Security Transactions
Custody Transaction History
Dividends and Interest Received
Effective Exposure Summary by Asset Class
Effective Exposure Summary by Currency
Exchange Rate per Base Currency
Foreign Currency Risk Exposure

Foreign Exchange Contracts
Foreign Exchange Contracts - Pending
General Ledger Detail
General Ledger Detail - Base
General Ledger Transactions
Holdings
Income Balances
Income Earned
Income Earned by Security
Income Receivable
Interest Rate Risk
Issuer Exposure
Market Value of Securities On Loan - Base
Open Futures Contracts Exposure
Open Options Contracts Exposure
Pending Foreign Exchange Contracts
Pending Foreign Exchange Contracts by Currency
Pending Foreign Exchange Contracts by Currency Pair
Pending Transactions
Performance History Quarterly Returns Currency Conversion
Portfolio Characteristics - Mean
Portfolio Detail Analytics
Posted History by Security
Priced Holdings
Quality Analysis
Security History Transactions
Settled Class Actions Paid Claims Summary
Settled Class Actions Pending Claims Summary
Statement of Change in Net Assets
Statement of Net Assets
Summary Client Earnings by Manager
Summary Collateral by Borrower
Sweep Statement
Tax Reclaim Status Report
Tax Reclaim Status Summary
Top 10 Equity Holdings
Top 20 Fixed Income Holdings
Top 25 Holdings
Top Purchases and Sales
Total Performance Summary
Total Portfolio Summary
Total Portfolio Summary by Time Range
Transaction Detail
Transaction Summary Report

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Transaction Trading Statement
Transactions - Pending
Transactions by Posted Date
Transactions by Reported Date
YTD Monthly History Earnings
YTD Monthly History Earnings by Manager
YTD Monthly History Spreads
YTD Monthly History Volumes

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APPENDIX E

MANAGER AND INVESTMENT STRUCTURE

INVESTMENT STRUCTURE	Account Type (Separate, Commingled, LP, etc.)
US Equity	
Bivium Capital Management – Small Cap Core	Separate
Bivium – Cupps Capital	Separate
Bivium – Nicholas Asset Management	Separate
Bivium – Phocas Financial	Separate
Bivium – Ranger Investments	Separate
Bivium – Signia Capital Mgmt	Separate
Bivium – Van Berkom & Associates	Separate
BlackRock – Large Cap Value	Separate
Dimensional Fund Advisors – Small Cap	Commingled Fund
Intech – Large Cap Growth	Separate
SFERS – S&P500 Tobacco Free	Separate
Northern Trust – Small Cap Growth	Commingled Fund
Profit Investment Mgmt. – Large Cap Growth	Separate
Quantitative Mgmt. – S&P500 Enhanced Index	Separate
Sands Capital Mgmt. – Large Cap Growth	Separate
State Street Global Advisors	Separate
Wellington Capital Mgmt. – Large Cap Growth	Separate
Convertible Securities	
Advent Capital Management	Separate
Zazove Associates	Separate
Non-US Equity	
AQR International – EAFE Core	Separate
Ashmore Global – Special Situations (multiple)	Commingled Fund (LP)
Capital Guardian Trust – EAFE Core, Growth	Separate
Capital International – Emerging Market	Commingled Fund
Causeway Capital Mgmt. – EAFE Value	Separate
Dimensional Fund Advisors – EM Core/Intl SC & EM SC (multiple)	Commingled Fund
LSV Asset Management – EAFE Value	Separate
Mondrian – Emerging Markets	Separate
Northern Trust – EAFE Core	Commingled Fund
Pyramis Global Advisors – Intl SC	Separate
State Street Global Advisors	Separate
Wellington Capital Mgmt – Emerging Markets	Separate
William Blair – International Growth	Separate
Currency Overlay	

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BlackRock	Separate
FX Concepts	Separate
Adrian Lee & Partners	Separate
Fixed-Income	
Aberdeen Asset Management, Inc. – Core Plus	Separate
Abry Partners, LLC (Multiple)	Commingled Fund (LP)
AFL-CIO – Agency Mortgages	Commingled Fund
Artio Global Investors – Core Plus	Separate
BlackRock – Index	Commingled Fund
Cerberus – Levered Loan Portfolio (Multiple)	Commingled Fund (LP)
FidelityRE Opportunity Income Fund	Commingled Fund
GMO – Emerging Country Debt	Commingled Fund
Emerging Market Local Currency Debt ETF	Commingled Fund
Internal Fixed Income – Core	Separate
Oaktree Capital Mgmt – High Yield/Mezzanine	Commingled Fund (LP)
Prima Capital Advisors – Comercial Mortgages	Separate
Pyramis Global Advisors – High Yield CMBS	Separate
Stone Harbor - Core Plus	Separate
Oaktree Capital Management	Separate
Real Estate	
AEW Capital (Multiple)	LP
Almanac Realty Securities (Multiple)	LP
Apollo RE Property Partners (Multiple)	LP
Blackstone Group (Multiple)	LP
Bristol Group	LP
CBRE Clarion	Separate
CIM Group (Multiple)	LP
DLJ Real Estate Capital Partners	LP
European Investors	Separate
Fortress	LP
Harrison Street Partners	LP
Hunt Investment Partners (Multiple)	LP
Invesco Real Estate	LP
Oaktree Capital Management	LP
Prologis (Multiple)	LP
Rockpoint Real Estate	LP
RREEF	LP
UrbanAmerica Advisors	LP
Alternative Investments	
U.S. Venture Capital	
ABS Capital Partners III LP	LP
ABS Capital Partners IV LP	LP
Advanced Tech Ventures V LP	LP

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Advanced Tech Ventures VI LP	LP
Advanced Tech VII LP	LP
Advent IX LP	LP
Advent VIII LP	LP
Alta V LP	LP
Bain Venture Fund 2012, L.P.	LP
Battery Ventures V LP	LP
Battery Ventures VI	LP
Bay Partners XI, LP	LP
BCI Growth V LP	LP
Canaan Partners IX LP	LP
Canaan Ptnrs VIII, LP	LP
Clarus Lifesciences II	LP
Crossroads Liq A/C LP	LP
DCM VI	LP
Draper Fisher Jurvetson X	LP
Grotech V LP	LP
Grotech VI LP	LP
Horsley Bridge VII LP	LP
Horsley-Bridge VI LP	LP
Instl Venture Ptnrs XII, LP	LP
Interwest X	LP
IVP XIII	LP
Knightsbridge Hld IV LP	LP
Knightsbridge V	LP
Knightsbridge VI	LP
Knightsbridge VII	LP
Menlo Ventures IX LP	LP
Menlo Ventures XI, L.P.	LP
Morgenthaler VC VI LP	LP
Morgenthaler Venture Cap VII L	LP
Morgenthaler Ventures V LP	LP
New Enterprise Associates XIII	LP
New Enterprise Associates XIV	LP
Pantheon Capital I LP	LP
Polaris Partners V, LP	LP
Polaris Venture II LP	LP
Polaris Venture III LP	LP
Polaris Venture IV LP	LP
Polaris Venture Partners VI	LP
Sofinnova Venture Partners VII	LP
Sofinnova VII, LP	LP
Sprout Capital IX LP	LP
Sprout Capital VII	LP
Sprout Capital VIII LP	LP
Summit Prtnr Gr Eq VIII	LP

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Summit V LP	LP
Summit Ventures III	LP
Summit Ventures IV	LP
Summit Ventures VI	LP
Summit Ventures VII	LP
TA X, LP	LP
TA XI	LP
Tamir Fishman II, LP	LP
Tamir Fishman III, LP	LP
Technology Crossover VII	LP
Technology Partners Fund VI	LP
Technology Partners Fund VII	LP
Technology Partners VIII	LP
Trinity Ventures X	LP
Weathergage Venture Cap	LP
Westin Presidio III LP	LP
Weston Presidio IV LP	LP
Weston Presidio V	LP
Worldview Tech IV LP	LP
Worldview Tech Partners III LP	LP
U.S. Private Equity	
Abry Brdcast Partners III	LP
Abry Broadcast Partners II	LP
Abry Partners IV	LP
Abry Partners V	LP
Abry VI	LP
Abry VII	LP
Advent GPE VI	LP
American Securities Ptrs VI LP	LP
Apollo Investment Fund IV	LP
Apollo Invt Fund V LP	LP
Apollo Invt Fund VI	LP
Apollo VII LP	LP
Bertram Growth Capital II	LP
Blackstone Capital III	LP
Blackstone Capital IV	LP
Blackstone Capital Partners VI	LP
Blackstone Capital V, LP	LP
Cerberus Partners IV, LP	LP
Clay Dub & Rice Fund VI L.P.	LP
Clay Dub & Rice Fund V LP	LP
DLJ Merchant Banking III LP	LP
DLJ Merchant Bkg II	LP
Energy Capital Partners II LP	LP
Fox Paine Cap Fd III, LP	LP
Fox Paine Capital Fund II LP	LP

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Freidman Fleischer II LP	LP
Friedman & Lowe Cap III	LP
Friedman Fleis Lowe LP	LP
GenNx360 Capital Partners, LP	LP
Green Eq Investors VI	LP
Gryphon Partners II LP	LP
GTCR X, LP	LP
Hellman & Freidman VI LP	LP
Hellman & Friedman Cap VII	LP
Hellman Freidman V	LP
Hellman Fried II	LP
Lightyear Fund II, LP	LP
Madison Dearborn Cap VI	LP
Madison Dearborn IV LP	LP
Madison Dearborn V, LP	LP
Oak Hill III, LP	LP
Oak Hill Partners II LP	LP
Odyssey IV LP	LP
Portfolio Advisor Secondary Fd	LP
Providence Equity III LP	LP
Providence Equity IV LP	LP
Providence Equity Ptrs VI, LP	LP
Providence Equity V LP	LP
Syndicated Ptrs V, LP	LP
Thoma Bravo X, L.P.	LP
Thomas H Lee Eq V LP	LP
Thomas H Lee Equity IV	LP
Thomas H. Lee Equity VI	LP
Thomas Weisel Partners LP	LP
TPG Partners III LP	LP
TPG Partners IV LP	LP
TPG Partners V, LP	LP
TPG Partners VI, LP	LP
TSG Capital Fund III LP	LP
Vestar III LP	LP
Vestar IV LP	LP
Vestar V LP	LP
Welsh Carson IX	LP
Welsh Carson VIII LP	LP
International Private Equity	
Actis Emerging Mkts III	LP
Advent Int. GPE VII-C L.P	LP
APAX Europe IV	LP
APAX Europe VII, LP	LP
Apax Eurpoe V LP	LP
APAX VI LP	LP

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APAX VIII LP	LP
Apollo European	LP
Asia Pacific Growth Fd II LP	LP
Asia Pacific Growth Fd III LP	LP
Avenue Asia Fund IV LP	LP
Baring Asia P.E Fund V	LP
BC Europe IX LP	LP
BC Europe VII LP	LP
BC Europe VIII LP	LP
BCEC VII TUF I	LP
Capital Intl PE Fund VI	LP
Capital Int'l Private Equity V	LP
Capvis Equity III LP	LP
Champ III, LP	LP
Charterhouse Capital Partners	LP
CharterHouse Ptrs VIII LP	LP
Chequers Capital XVI	LP
Clessidra Cap Prts	LP
Doughty Hanson & Co. V LP	LP
Doughty Hanson III	LP
Greenpark Int'l III, LP	LP
Harbour Vest Intl III LP	LP
Harbourvest Intl Ptr II	LP
Hony Capital Fund V	LP
Horsley-Bridge Euro Fund I	LP
Horsley-Bridge Euro Fund II	LP
Palamon European Equity LP	LP
Palamon European II LP	LP
Squadron Asia Pacific Fund II	LP
Squadron Asia Pacific, LP	LP
Strategic Asset Fund II	LP
Summit Partners Europe	LP
Towerbrook III	LP
Oil & Gas LPs	
First Reserve Fd XII LP	LP
First Reserve Fund X	LP
First Reserve XI, LP	LP
Merit Energy Partners VI	LP
Riverstone Carlyle IV	LP
Yorktown Energy III	LP
Other LPs	
Abry Senior Equity III	LP
Abry Sr Equity IV LP	LP
Landmark Equity Partners XII	LP
Lexington Capital II LP	LP
Lexington Capital Ptrs V	LP

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Lexington Capital Ptrs V	LP
Lexington Partners III LP	LP
Parish Capital Fund II, LP	LP
Parish Capital I, LP	LP
Parish Opportunity Fund I, LP	LP
Sankaty Cr. Opp. Fd IV LP	LP
Sankaty Credit III, LP	LP
TA Subord Debt Fd II, LP	LP
TA Subordinated Debt Fund III	LP
Weathergage Cap Inv A	LP
Weathergage Capital Inv B	LP
Weathergage Venture Capital II	LP
Windjammer Equity Fund III	LP
Windjammer Senior Eq. Fnd. I V	LP
Distressed LPs	
Apollo European Fund II, LP	LP
Matlin Patt Gbl III, LP	LP
Matlin Patterson Global Opp II	LP
Matlin Patterson Global Opp LP	LP
OCM Opportunities Fund II	LP
OCM Opportunities Fund III LP	LP
OCM Opportunities Fund V LP	LP
OCM Opportunities Fund VI, LP	LP
OCM Opportunities Fund VII LP	LP
OCM Opportunities Fund VII B LP	LP
OCM Opportunities Fund VIII	LP
OCM Opportunities Fund VIIIb	LP
Sun Capital Ptrns V, LP	LP
Cash Management	
Dedicated Cash	Comingled Fund
Investment Cash	Comingled Fund

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APPENDIX F

ASSET HOLDINGS AS OF December 31, 2014

Please refer to Excel Spreadsheet (SFERS-Asset Holdings Dec-31-2014.xlsx)

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APPENDIX G

INVESTMENT MANAGER OBJECTIVES AND GUIDELINES FOR THE SECURITIES LENDING SHORT TERM INVESTMENT ACCOUNT Collateral Schedule

THE SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM ("Lender")

INVESTMENT OBJECTIVE

To seek to maximize current income to the extent consistent with safety of principal, maintenance of liquidity and the investment standards set forth below. The Securities Lending Short Term Investment Account (the "Collateral Account", defined in section 3.2 herein) is initially intended as a separate account for the investment of U.S. dollar based cash Collateral received by Agent under the attached Agreement and to identify eligible non-cash collateral. The Collateral Account will also hold units of the SFERS Short Term Extendable Portfolio Liquidation Fund (as defined in the Agreement).

Upon the effective date of this Agreement, Lender and Agent hereby acknowledge that (i) the terms contained herein will apply to new purchases from such effective date; (ii) there may be certain assets held within the Collateral Account that do or may not meet the terms of this Collateral Schedule (such assets termed "Prior Purchased Assets"); and (iii) such Prior Purchased Assets will continue to impact the overall Collateral Account accordingly. Lender and Agent hereby agree that Agent may, at its sole discretion, hold such Prior Purchased Assets until maturity or dispose of such assets as otherwise determined by it in its sole discretion, unless otherwise directed by Lender in writing. Agent may, with prior approval from Lender, sell such Transition Assets if, in the professional opinion of Agent, a sale is necessary to preserve principal from further loss, reinvestment of sale proceeds improves the credit quality and investment return of the account, or for such other reasons as Agent, with agreement from Lender, may determine to be in the best interests of the Account.

Cash and Non-Cash Collateral Guidelines

Listed below are the cash and non-cash Collateral guidelines specifying eligible investments, credit quality standards, and diversification, maturity and liquidity requirements. Subject to the second paragraph above, all requirements, including diversification, listed in these guidelines are effective at the time of purchase or any security or instrument as a cash Collateral investment and at the time of receipt of any non-cash Collateral. Agent will make use of market standard settlement methods for cash investments and non-cash collateral including the use of a tri-party custodian as approved by Agent's appropriate risk committee. Settlement through a tri-party custodian may result in cash collateral.

Collateralization Levels

Initial Collateral levels will not be less than 102% of the Market Value of the Borrowed Securities,

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or not less than 105% if the Borrowed Securities and the Collateral are denominated in different currencies. Marking to market is performed every business day, subject to de minimis rules of change in value, and the Borrower is required to deliver additional Collateral when necessary so that the total Collateral held by Agent for all loans to the Borrower of all Participating Lenders will at least equal the Market Value of all the Borrowed Securities of all Participating Lenders loaned to the Borrower. Where the Borrowed Securities and the initial Collateral are denominated in the same currency, additional Collateral may be denominated in a currency different from that of the original Collateral, but Collateral levels shall be maintained throughout the loan as if all Collateral were denominated in the same currency as the Borrowed Securities.

Cash Collateral ("SL Cash Collateral Account")

INVESTMENT GUIDELINES

Eligible Investments

(a) Obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and custodial receipts with respect thereto.

(b) Obligations of domestic or foreign commercial banks, including Agent, (or branches thereof where deposits with branches are general obligations of the parent bank) and bank holding companies, including, but not limited to, commercial paper, bankers' acceptances, certificates of deposit, time deposits, notes and bonds.

(c) Units of The NTGI Collective Short Term Investment Fund. The fund ("Fund") is governed by the Fund Declaration/Investment Guidelines established by Northern Trust Investments, N.A. as trustee. The Fund Declaration as of the date of this statement is attached for reference, receipt of which is hereby acknowledged by Lender. It is understood that the Fund Declaration is subject to change from time to time. In the event that Fund Declaration is changed or amended, Agent shall notify Lender within five business days prior to the effective date of the change or amendment.

(d) Fully collateralized repurchase agreements with counterparties approved by the Agent's appropriate credit committee where the Collateral is held by Agent or for the account of Agent by an agent or sub-custodian of Agent or a central bank, depository, or a third party custodian. Collateral shall be subject to certain issuer and market diversification requirements established by the Agent's appropriate credit committee based upon Collateral type, from time to time. All repurchase agreements shall be collateralized at a margin of 102% or higher depending upon the Collateral type, as established by such committee from time to time. Collateral types will include the following security types:

- U.S. government securities or its agencies or instrumentalities,
- Commercial paper and certificates of deposit (A1/P1 or higher),

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- Investment grade or high yield corporate debt,
- Equity securities, which are part of a major U.S. equity index, such as the S&P 500 or Russell 1000, or any other equity index approved by Agent's appropriate credit committee.

(e) For the avoidance of doubt, the Collateral Account shall also hold units of the SFERS Short Term Extendable Portfolio Liquidation Fund ("SFERS STEP Liquidation Fund"), a fund which is governed by Schedule D and shall initially comprise assets received from Lender's in-kind withdrawal from the NTGI Collective Short Term Extendable Portfolio ("STEP") as invested in Schedule D.

Credit Quality:

(a) With respect to commercial paper and other short-term obligations, investments shall be limited to obligations rated (or issued by an issuer that has been rated) at the time of purchase in the highest rating category (within which there may be sub-categories or gradations indicating relative standing) by all of the Nationally Recognized Statistical Rating Organizations ("NRSROs") followed by the Agent's relevant internal credit committee that have assigned a rating to such security (or issuer).

(b) Notwithstanding (a) above, Northern may invest assets of the SL Cash Collateral Account in the NTGI Collective Short Term Investment Fund, which shall be deemed to be of equal or superior credit quality to eligible rated investments.

Diversification:

Except for obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, and the NTGI Collective Short Term Investment Fund, a maximum of 5% of the value of the total assets of the SL Cash Collateral Account may be invested in securities of any one issuer.

A maximum of 15% of the SL Cash Collateral Account may be invested with any one counterparty in a repurchase agreement.

For the avoidance of doubt, issuers held in the SFERS STEP Liquidation Fund shall be excluded from the diversification requirement.

Liquidity/Maturity:

- (a) A minimum of 25% of the value of the assets of the SL Cash Collateral Account should mature daily. Holdings of the NTGI Collective Short Term Investment Fund, will be included in this calculation.

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- (b) The maximum weighted average maturity, as measured to final maturity (as herein defined), of the SL Cash Collateral Account shall be 3 months. The weighted average maturity of NTGI Collective Short Term Investment Fund shall be deemed to be 1 business day.

The maximum final maturity of any security or instrument as defined below is one year from settlement date.

For the avoidance of doubt, assets in the SFERS STEP Liquidation Fund and Prior Purchased Assets from Global Core Collateral Section shall be excluded from the maturity requirements.

For the purposes of this SL Cash Collateral Account the "maturity" (or maturities) of a security or instrument shall be defined as follows:

- i. The shorter of the date on which the principal amount is ultimately required to be paid or the put date due to a demand feature, or
- ii. Variable rate eligible U.S. government obligations shall have a maturity equal to the next readjustment of the interest rate, with a final stated maturity not to exceed two years from date of purchase or
- iii. The maturity of a pooled investment fund shall be the number of days required to liquidate an investment in the fund.
- iv. In the case of a security or instrument with a put date, the final stated maturity shall not exceed one year.

Non-Cash Collateral

Eligible Instruments

- Obligations issued or guaranteed by OECD (Organization for Economic Cooperation and Development) member states or their local governments, agencies or authorities which have been assigned a long-term rating of AA- (or the equivalent) or higher by any NRSRO.
- Certificates of Deposit issued by banks approved by Agent's relevant internal credit committee.
- Equity securities which match the currency of the borrowed securities and which are part of any of the following indices, or part of any other indices approved by the Agent's relevant credit committee at the time of receipt:

German DAX 30
France CAC 40
Japan NIKKEI 225
United Kingdom FT 100
United States S&P 500

Corporate debt securities, including convertible securities.

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Credit Quality

With respect to short-term obligations, non-cash collateral shall be limited to those obligations rated (or issued by an issuer that has been rated) at the time of receipt in the highest rating category (within which there may be sub-categories or gradations indicating relative standing) by all of the Nationally Recognized Statistical Rating Organizations ("NRSROs") followed by the Agent's relevant internal credit committee that have assigned a rating to such security (or issuer).

With respect to bonds and other long-term obligations, non-cash collateral shall be limited to obligations rated (or issued by an issuer that is rated with respect to a class of long-term obligations or a comparable long-term obligation) at the time of receipt in one of the two highest rating categories (within which there may be sub-categories or gradations indicating relative standing) by at least two NRSROs. If there are more than two ratings by NRSROs, then all must be in the two highest rating categories.

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