

REQUEST FOR PROPOSAL #6621
CUSTODY SERVICES

Washtenaw County Employees Retirement System

Issue Date: June 8, 2011

INTRODUCTION

REQUEST FOR PROPOSAL #6621–MASTER TRUSTEE / CUSTODY SERVICES

The Washtenaw County Employees' Retirement System (WCERS) currently has over \$216 million in its investment portfolio with a target allocation of 30% fixed income, 50% domestic equity, 10% international equity, and 10% real estate. WCERS is a contributory defined benefit plan that provides pension benefits for nearly 810 retirees, and over 1290 active employees. The System requires contributions from both the employer and employees in order to provide assets sufficient to meet the benefits promised to members.

The general administration, management and responsibility for the proper operation of the System is vested with the Board of Trustees. The Board consists of seven Trustees; three active member representatives, two County Commissioners, the Finance Director, and the County Administrator. The Board in consideration of their fiduciary responsibility and in conjunction with an Administrative Review Policy has issued a formal Request for Proposals (RFP) process to determine which master trustee / custody organization would best serve the needs of the Plan. As such, the purpose of this RFP is to define the Board's requirements, solicit proposals, and to gain adequate information from which the Board may evaluate such services.

Proposals must be presented by **12:00 p.m. (Eastern Standard Time) on Thursday July 7, 2011**, in a sealed envelope clearly marked as follows:

Washtenaw County Employees' Retirement System
RFP # 6621 Master Trustee/Custody Services
220 N Main Street, PO Box 8645
Ann Arbor, MI 48107

Late responses will not be considered

WCERS reserves the right to reject any and all submittals and to waive irregularities and informalities in the submittal and evaluation process. This RFP does not obligate WCERS to pay any costs incurred by respondents in the preparation and submission of an RFP. Furthermore, the RFP does not obligate WCERS to accept or contract for any expressed or implied services.

The Retirement Administrator will serve as the RFP Coordinator. Upon release of this RFP, all communication concerning this information request should be directed in written format to the RFP Coordinator, Monica L. Boote. Any oral communications will be considered unofficial and non-binding. Interested firms should rely only on written statements issued by the RFP Coordinator. Please review Section III regarding the process and timelines associated with requests for additional information.

RFP Coordinator:
Monica L. Boote, Retirement Administrator
bootem@ewashtenaw.org
734.222.6883 – Office
734.222.6775 – Facsimile

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SECTION I

OVERVIEW

The Board of Trustees of the Washtenaw County Employees' Retirement System ("Retirement Board") intends to secure a contract for master trustee/custody services. The purpose of this Request for Proposal (RFP) is to define the Board's minimum requirements and solicit proposals from which the Board of Trustees may evaluate such services.

The Washtenaw County Employees' Retirement System total portfolio value as of 3/31/2011 was \$216,213,275. The portfolio consists of 53% domestic equity, 10% international equities, 26% fixed income, 7% Real Estate and 4% cash. \$105,818,770 is held in a total of 6 commingled funds, with the remaining balance held in separately managed stock and bond portfolios. Assets are held in a total of 12 accounts: 5 accounts are separately managed, 6 accounts hold commingled funds, and 2 are cash accounts. 1 cash account administers transfers to and from the County to effect pension payments. The other cash account collects securities lending income and commission recapture payments. There are currently 803 retired participants and 1298 active participants.

The Retirement Board requires that all prospective service providers be in good financial standing, have strong credentials, at least ten (10) years of business history, and provide custody services for no less than \$500 million in tax-exempt assets.

SECTION II

SCOPE OF SERVICES

The Board of Trustees is attempting to identify a bank that has the ability to:

1. Provide superior safekeeping services
2. Settle securities transactions timely
3. Collect trust fund income when due
4. Provide first-class accounting services
5. Prepare useful, accurate, and timely investment reports
6. Provide quality cash management services
7. Provide superior administrative support
8. Calculate rate of return data accurately and timely
9. Lend securities profitably and safely
10. Provide all required services within reasonable fee levels
11. Provide accurate yearend financial statements by January 31 of each year

Supplemental services the Board may consider contracting for include:

- Providing all benefit payments and services
- Providing all federal and state reporting for benefits paid
- Providing all benefit accounting required

When responding to this Request for Proposal, the Board of Trustees encourages you to describe the ways in which you believe your service capability is special or distinctive.

SECTION III

RESPONSE FORMAT AND ORGANIZATION

Please complete all sections and parts in the order that they are presented in this Request for Proposal. Our review will be facilitated by having responses correspond to the sections of this RFP. **Responders shall acknowledge within their proposal the acceptance of all the terms and conditions as presented in the RFP.** Proposals should include the following:

- Title Page: Please indicate the RFP subject, name of your organization, address, telephone number, name of contact person, email address for contact person, and date.
- Letter of Transmittal: Please limit your letter to two (2) pages. Your letter should include a brief statement of your organization's understanding of the nature of the work, and include names of persons who will be authorized to make presentations, their titles, and contact information. Your firm's proposed total costs with and without benefits administration services must be included in the letter.
- Table of Contents: Please clearly identify the material by section, page number, and to the degree possible, correspond to the RFP.

All responses must be received by the RFP Coordinator no later than **12:00 p.m. EST on Thursday, July 7, 2011**. The date and time of receipt will be recorded on each proposal. All proposals must be sealed and labeled on the outside of the package to clearly indicate that they are in response to the REQUEST FOR PROPOSAL – MASTER TRUSTEE / CUSTODY SERVICES.

The Board of Trustees requests that a total of ten (10) complete proposals and one (1) copy on CD-ROM be submitted to the RFP Coordinator:

Washtenaw County Employees' Retirement System
RFP Coordinator: Monica L. Boote
RFP # 6621 – Master Trustee / Custody Services
220 N Main Street, PO Box 8645
Ann Arbor, MI 48107

Two (2) additional copies of your proposal as well as one (1) copy on CD-ROM should be submitted to the board's investment consultant, Morgan Stanley Smith Barney – The Holycross Group

Morgan Stanley Smith Barney
The Holycross Group
220 Park St, Suite 220
Birmingham, MI 48009

Potential Responders may submit written questions as to the intent or clarity of this RFP until 5:00 p.m. EST Tuesday June 21, 2011. All written questions must be submitted via e-mail to the RFP Coordinator, Monica L. Boote (bootem@ewashtenaw.org).

A Distribution List will be used for the distribution of written responses to questions and any RFP amendments. An e-mail address is mandatory for the receipt of written responses to questions and RFP amendments. Potential Responders should hand deliver or return by facsimile or by registered or certified mail the “**Acknowledgement of Receipt of Request for Proposals Form**” that accompanies this document (See Attachment A) in order to be placed on the distribution list. **The form should be signed by an authorized representative of the Responder, dated and returned by 5:00 p.m. EST Tuesday, June 21, 2011.** Failure to return this form, or to provide complete contact information, including an e-mail address, shall mean that the potential Responder’s name will not appear on the distribution list.

The following dates are set forth for informational and planning purposes and may be changed at our discretion.

- RFP Issued June 8, 2011
- Deadline to Submit “Acknowledgement of Receipt” Form June 21, 2011
- Deadline to Submit Written Questions June 21, 2011
- Response to Written Questions/RFP Amendments June 23, 2011
- Deadline to Submit Proposal July 7, 2011
- Oral Presentations by Finalists (if applicable) August 23, 2011

SECTION IV

QUESTIONNAIRE

Responses should be in the form of a thorough narrative to each mandatory specification. Failure to respond to any specification may result in the disqualification of the proposal as non-responsive.

A. Organization

1. How long has your company been in existence?
2. How many major accounts do you have? What is your definition of major account? List five of your largest client relationships.
3. How many municipal retirement systems accounts do you service? How many are located in Michigan? What is the aggregate market value of assets for which you have master trust/custody responsibility? What is the average size of all municipal accounts?
4. How many accounts has your organization lost within the past three years? Nationally? Locally? What are the reasons for these losses?
5. Please outline your organization's major business units, their respective annual revenues and number of professionals dedicated to each business line.
6. Please state the name, title, address, and telephone number(s) of the person(s) we may contact with any questions about your responses to this RFP.
7. Who would be responsible for our account? Please describe this person's background. What or whom is the backup source for this person?
8. From what geographic location will our account be serviced? Do you have a local branch in Washtenaw County? If not, what is your closest brick and mortar location to the County?
9. What significant organizational changes have occurred at the local and national level in the last twelve months?

B. Settlement of Securities

10. Are you electronically linked with the depositories for same-day settlement? Describe potential causes of delay and how you would work to rectify any delay.
11. Please provide two references from investment management firms who will share with the Board of Trustees their first-hand experiences regarding your abilities to settle routine securities transactions, both physical and book entry.

12. Please provide two additional references from different investment management firms who will share their first-hand experiences regarding your abilities to settle non-depository-eligible or non-routine transactions, such as financial futures, stock options, mortgage-backed securities, and derivatives.
13. Briefly describe your securities settlement process. Describe your procedures and capabilities for settling and accounting for “same day” (cash) trades.
14. For all securities types, indicate your source of pricing and frequency of price updates. Please describe any differences, including timing, in the pricing of domestic and international assets. Also describe your pricing ability for non-traditional asset classes, such as private equity and hedge funds.
15. Explain how reconcilements are made with investment managers including how differences are resolved between the investment manager and the custodian. What procedures are in place to investigate unusual or significant pricing changes from the previous pricing period?
16. Explain the process by which corrections or reversals are handled.
17. Explain your procedures for handling failed trades including:
 - a. How failed trades are monitored.
 - b. How failed transactions affect cash balances.
 - c. How accounts are compensated for failed trades.
 - d. How managers and the plan are notified of failed trades.
 - e. Provide fail experience as a percent of trades. Please list the major reasons and the percentages for each.
18. Explain your procedures or policy for settlement of purchases and sales including when funds are debited or credited to accounts. Also explain your procedures for crediting income payments.
19. What, if any, securities have been misplaced or lost, by your firm, if any, during the last five (5) years? Please describe the circumstances and what was done to make the client whole and what new procedures were implemented to prevent this in the future?
20. Describe your procedures for reporting corporate actions, related to security holding, to clients and to investment managers for both U.S. and non-U.S. corporate actions.
21. How do you provide for the prompt delivery of proxies and proxy statements to investment managers for their voting instructions? Please describe in detail.
22. What is your ability to report individual portfolios and/or consolidations of individual portfolios?

C. Safekeeping of Assets

23. Describe your use of central depository facilities and the Federal Reserve book entry system.
24. Is there anything special or distinctive about your safekeeping abilities that the Board of Trustees should know? If yes, please describe.

D. Income Collection

25. Please explain your income-collection verification procedures.
26. Describe the systems and procedures you have developed for ensuring that all income is collected when due and describe when income is credited.

E. Investment Accounting

27. Describe both the features and benefits of your accounting system. Be sure to include descriptions of your accrual accounting capabilities, availability of trade date and/or settlement date information, securities-pricing capabilities, front-end and back-end editing procedures, and internal audit practices.
28. Describe the infrastructure you have built for providing investment accounting services. Be sure to include a description of your computer hardware configuration, a separate description of your software applications, and a discussion of the staff dedicated to the accounting function.
29. Describe your accounting philosophy as it relates to the “effective” dating of transactions (trade vs. settlement date), the use of correcting and reversal entries, and the use of miscellaneous receipt and disbursement accounts.
30. The Retirement System's auditors from time to time may want to perform routine spot audits. Will the accounting records you maintain be “open” to auditors?

F. System Backup and Disaster Recovery

31. Please describe your system’s backup process?
32. Do you have a disaster recovery plan? If so, please describe. When was it last tested?

G. Reporting

33. Describe your reporting and data processing capabilities. Be sure to comment on issues relating to accuracy and timeliness.

34. How frequently do you audit investment manager accounts, thereby alleviating the need to correct reports after the fact? (Please provide a sample of your audited monthly asset and transaction reports.)
35. Describe your remote-access computer systems capabilities. Can clients retrieve, manipulate, and download data to a personal computer? If so, please describe the system's report generator, used in the clients' generation of reports in their own offices. What types of reports and data are available?
36. Please describe plans for improving remote-access computer system capabilities.
37. Please explain the security procedures in place to ensure the integrity of sensitive or confidential information.
38. Is it possible to extract and sort information for special reports or analysis? If yes, describe the programming time and cost involved.
39. Describe and provide a sample of the types of reports included in your basic fee structure.
40. Describe your ability to interface with performance measurement systems for data downloads on a daily basis. Do you work with Evare?

H. Cash Management

41. Do you use a fully automated system for sweeping cash balances? Do you sweep to the penny? Describe your procedures for "sweeping" uninvested cash balances from investment accounting into your short-term investment funds (STIF). How many types of collateral STIF funds (commingled, separate or customized) do you offer in the program?
42. Do your month-end statements include daily balances and transfers to STIF?
43. Please enclose the quarterly returns associated with your short-term investment funds. What fees are associated with your STIF? Do you invest in any securities that are prohibited per the provisions of Public Act 314 of 1965 as amended of the State of Michigan statutes?
44. The County Treasurer deposits retirement contributions to the custodian every payroll (biweekly plus interim payrolls run several times each month. Please describe your process for receiving and confirming deposits.
45. The County Treasurer requests withdrawals authorized by the Board of Trustees. Currently withdrawals are transferred monthly to cover retiree payroll. A separate monthly withdrawal is also requested to reimburse the County for fund administration costs. Please describe your process for receiving and remitting withdrawal requests.

I. Securities Lending

- 46. Describe your securities lending program.
- 47. How many clients currently participate in the program? What is the current market value of lendable securities in your program?
- 48. Have your clients experienced any losses in the history of your program in the collateral pool, either realized or unrealized?
- 49. Do you offer “indemnification”? (Do you promise to return to your client’s portfolios securities and accrued interest in a case of a broker default?) Have you ever experienced a broker default in your securities lending program?

J. Global Custody

Organization

- 50. When did the firm begin providing Global Custody? Provide a brief history of your Global Custody operations including the dates of implementation of key elements and enhancements.
- 51. What are the total Global Custody assets?
- 52. How many Global Custody clients do you currently have?

Security Movement and Control

- 53. Outside of the U.S., do you use any central depository facilities? Describe your settlement and clearing facilities for depository eligible and physical securities.
- 54. Describe your tax reclaim policy and procedures. How do you notify clients of any changes in local tax laws? How frequently are reclaims performed?

K. Administrative Support

- 55. Describe your administrative and operations staffs. How many administrative and operations personnel do you employ? What is the ratio of staff (all staff) to clients? What is your process for assigning personnel to your custody clients?
- 56. Provide the names, titles and credentials of the individuals who would be assigned to the Retirement System’s account. What are their specific responsibilities? Provide the names of other clients that they serve.
- 57. Will the administrative staff be available to meet with the Board at its request?
- 58. Describe how you monitor the performance of the people who would be assigned to work on our Account.

59. What is the average turnover of your staff?
60. Do you have formal training programs? If so, please describe.

L. Proxy Administration

61. Describe your proxy administration policies.
62. What alternatives (such as endorsing and sending back to clients or investment managers, or voting with management) do you offer?

M. Risk Management

63. Describe your system of controls to assure the accuracy of the processing and reporting of the master custody division? Do you have documented policies and procedures?
64. Describe the various types of insurance and indemnification provided to protect clients of service(s) proposed, including (Be sure to include specific dollar overages):
- a. Errors and Omissions Coverage
 - b. Risk Coverage
 - c. Carriers
 - d. Levels / Limits / Deductibles

N. Corporate and Class Actions Administration

65. How and when are corporate actions processed?
66. How and when are class actions processed? Does your firm separate them from corporate actions?

O. Management Commitment

67. Describe your firm's commitment to service quality and customer service.
68. Outline your organization's commitment to servicing the public sector market. What capital investments have occurred in the last three years? What capital investments are budgeted for in the current and following year?
69. Does your organization have a total quality management program? If yes, please describe the program and explain how it differentiates from your competition.
70. Do you survey your clients? If yes, provide the results for the last three years.
71. Describe other methods you use to monitor client satisfaction.

P. Miscellaneous

- 72. Is your organization a member of MAPERS and/or NCPERS? What other affiliations does your organization maintain to keep abreast or unique issues and developments affecting public employee retirement systems?
- 73. Has your firm been investigated by any state or federal regulatory or law enforcement agency in the last ten years? If yes, please describe in detail the substance and results of each such investigation.
- 74. Has your organization been a party to any lawsuit, including suits involving misfeasance or professional negligence, within the last ten years? If so, please describe the substance and results of each suit.
- 75. Please describe the transition process when taking on a new client previously serviced by another custodian. Please discuss computer systems and data issues.

Q. Pension Disbursements and Reports

- 76. On what day are benefit payments mailed? When is the account debited?
- 77. Who receives non-deliverable checks?
- 78. Do you offer electronic funds transfer as a method of payment?
- 79. Is benefit payment processing done internally or through an outside service bureau?
- 80. How does the bank view its responsibility for tax and/or legal advice to participants regarding lump-sum distributions, benefit statements and 1099?
- 81. How are changes communicated to and from clients?
- 82. Can clients get on-line access to their own beneficiaries' records? Is access on an inquiry-only basis?

SECTION V

FEES

Please provide a quote/bid to provide WCERS with a full-service contract associated with the Scope of Services referenced within this RFP. Please prepare proposed fees with and without pension benefit administration services.

Additionally please make sure your quote addresses the following:

- Costs involved in implementing your services?
- Domestic asset-based charges (in basis points).
- Active manager or separate account fees (per account).
- Line item fees (for pooled funds or mutual funds – per item).
- Domestic transaction fees (list fee for each item separately)
 - Purchases/Sales
 - Principal pay downs
 - Wire transfers
- Online Access
- GASB 40 Reporting
- Expense ratio for short term investment vehicle
- Foreign custody fees, detailing asset-based fees and transaction costs for every country in your network.
- Specify the terms related to the revenue sharing with respect to securities lending.
- List any or all other expenses that could be found on an invoice for this relationship, including any charges related to manager trading fails, interest charges, etc.
- Do you charge secretarial or clerical time to clients? If so, what are the rates?
- Do you charge for incidental fees such as copies, postage, telephone toll charges?
- Would you charge separately for travel expenses? If so, explain in detail your policy.
- How are fees for additional work determined?
- How do you determine fee increases? What has been the average fee increase in your organization's fees over the past three years? What would cause any of your fee quotes to change significantly?
- What other costs or expenses might we incur with your firm?
- Do you offer payment by cash on a pro rata quarterly basis billed in arrears?

SECTION VI

REFERENCES

- A. Provide the total number of master trustee/custody service clients currently under contract with your firm; include total assets, average assets per client, average relationship length per client, and the total number and percentage of public fund clients.
- B. Provide a reference list of at least three current clients that are of a similar size as the Retirement System who will share with the Board their first-hand experiences regarding your services (preferably public retirement systems).
- C. What was the client turnover (gains and losses) of the firm over the last three years relating to master trustee/custody services?

SECTION VII

OTHER REQUIREMENTS

- A. Inviting a proposal does not assume a “pre-qualification” of any proposer.
- B. The Commission will not be liable for any costs incurred in preparation of proposals.
- C. By submitting a proposal, the proposer certifies that he/she has fully read and understands the “Request for Proposal” and has full knowledge of the scope, nature, quantity, and quality of work to be performed. Unless specified to the contrary, submitting a proposal will be interpreted as agreement to all provisions in and requirements of the RFP.
- D. The proposer shall furnish such additional information as the Commission may reasonably require. The Commission reserves the right to investigate the qualifications of all proposers as it deems appropriate.
- E. The Commission reserves the right to conduct pre-contract negotiations with any or all proposers.
- F. The Board reserves the right to reject any or all proposals, the right in its sole discretion to accept the proposal which it considers most favorable to the Commission’s interest, and the right to waive minor irregularities in the procedures. The Commission further reserves the right to seek new proposals when such a procedure is in its best interest.
- G. All proposals submitted shall be binding for ninety (90) calendar days following the above due date for receipt of proposals to allow for evaluation and award of contract.
- H. Proposals received by the Board after the time specified for proposal opening will not be considered.
- I. All information required by the Request for Proposal shall be supplied to constitute an acceptable proposal. Failure to submit a complete proposal may result in the disqualification of your proposal.
- J. This RFP may be canceled at any time and any and all proposals may be rejected in whole or in part when the Commission determines such action to be in the best interest of WCERS.
- K. This RFP and any agreement with Responders that may result shall be governed by the laws of the State of Michigan.
- L. A large part of the communication regarding this process will be conducted by electronic mail (e-mail). Responders must have a valid e-mail address to receive this correspondence.

ATTACHMENT A:

ACKNOWLEDGEMENT OF RECEIPT FORM

In acknowledgement of receipt of the Request for Proposal – Custodial Services, the undersigned agrees that he/she has received a complete copy, beginning with the title page and table of contents, and ending with Attachment A.

The acknowledgment of receipt should be signed and returned to the RFP Coordinator no later than **5:00 p.m. EST Tuesday, June 21, 2011**. Only potential Responders who elect to return this form completed with the indicated intention of submitting a proposal will receive copies of all Responder written questions and WCERS written responses to those questions as well as RFP amendments, if any are issued.

- This Potential Responder does not intend to respond to this Request for Proposal.*
- This Potential Responder intends to respond to this Request for Proposal, and the authorized signature below indicates our acceptance of all the terms and conditions as presented in the Investment Consultant Services – RFP.*

POTENTIAL RESPONDER: _____

REPRESENTED BY: _____

TITLE: _____ PHONE NO.: _____

E-MAIL: _____ FAX NO.: _____

ADDRESS: _____

CITY: _____ STATE: _____ ZIP: _____

SIGNATURE: _____ DATE: _____

Acknowledgement Form should be directed to:

*Washtenaw County Employees' Retirement System
Monica L. Boote, RFP Coordinator
220 N Main Street, PO Box 8645
Ann Arbor, MI 48107*

*E-Mail: bootem@ewashtenaw.org
Facsimile: 734.222.6775*