

REQUEST FOR PROPOSALS

MASTER CUSTODY SERVICES AND SECURITIES LENDING

REQUIRED BY

OFFICE OF THE TREASURER

STATE OF MISSOURI



Submit Proposals to:

Office of the State Treasurer
Attention: Mark Mathers, Director of Investments
Truman Building, Suite 780
301 West High Street
Jefferson City, MO 65101
(573) 751-2411

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I. INTRODUCTION

A. PURPOSE OF RFP

The Missouri State Treasurer's Office (STO) is accepting written proposals from qualified financial institutions to serve as its master investment custodian and/or securities lending Contractor for the State of Missouri (State). The STO maintains and oversees the investment of state monies. The purpose of this Request for Proposal (RFP) is to select either one contractor (hereafter referred to as "Contractor") to provide both custodial services and securities lending or a combination of a custodial bank and separate third-party securities lending agent. Bidders may choose to submit a stand-alone proposal for custodial banking services, a stand-alone proposal for securities lending services or combined custodial banking and securities lending services. The term of the awarded contract(s) shall be for a four-year period commencing October 1, 2008, and ending September 30, 2012 with a one-year option available to the STO at the STO's discretion.

The STO reserves the right to terminate securities lending services at any time during the term of this contract based upon market conditions and other criteria. Accordingly, bidders should take this into consideration when preparing their bids, especially their proposed compensation.

B. BIDDERS CONFERENCE

The STO will hold a bidders teleconference at **10:00 AM, March 15, 2008**, to address questions regarding this RFP. Attendance is not mandatory to submit a response; however, Bidders are encouraged to call into this teleconference since information relating to this RFP will be discussed in detail. The RFP will be used as the agenda for the conference and Bidders will be encouraged to discuss questions regarding the RFP. Additional instructions for registration for this conference call will be provided via e-mail prior to the call.

In addition, Bidders are encouraged to submit questions in writing in advance of the bidders conference. Such questions should be e-mailed to the State Treasurer's Office at CUSTRFP@treasurer.mo.gov.

C. SUBMISSION INSTRUCTIONS

Proposals must be completed, signed and returned (in the volumes required and with all necessary attachments) to the STO (Truman State Office Building, Suite 780, Jefferson City, Missouri) **by 1:00 p.m. Central Standard Time, June 11, 2008.** The response must include five (5) copies in addition to the original document. *Responses must be in paper form and delivered directly to the STO by the deadline date.* (Neither faxed copies nor

electronic submissions will be accepted.) However, included with the original copy of the response, the bidder shall include an electronic copy of the pricing tables and the answers to the Specific Questions to Bidders as indicated in Section IX.B., Format and Submission of Proposal.

Each proposal must include the following:

- ◆ Certified statement attesting the bidder is eligible to respond to this RFP (see section IX.A)
- ◆ Transmittal letter
- ◆ Clear, unambiguous documented acceptance of the mandatory requirements or an alternative solution to provide the requirements (see sections III and V)
- ◆ Answers to the specific questions posed to the bidders by the STO (see sections IV and VI)
- ◆ A CD-ROM or diskette containing only the answers to the Specific Questions to Bidders in Microsoft Word or Adobe Acrobat file format. (If any discrepancies occur between the paper copy and the CD, the paper copy will prevail.)
- ◆ Completed Pricing Sheet for Custodial Service (Appendix D), the Securities Lending Earnings Estimate (Appendix E) and Supplemental Pricing Information.
- ◆ A CD-ROM or diskette containing the completed Pricing Sheet for Custodial Service (Appendix D), the Securities Lending Earnings Estimate (Appendix E) and Supplemental Pricing Information in Microsoft Excel file format. (If any discrepancies occur between the paper copy and the diskette, the paper copy will prevail.)
- ◆ Proposed Method of Performance (see section IX.F.)
- ◆ Community Investment (see section IX.G)
- ◆ Signature of company officer.

The Contractor must uphold all service and pricing commitments. All costs bid are firm, fixed costs for the duration of the contract period.

D. AWARD AND IMPLEMENTATION

The STO expects to award this contract within forty-five (45) days of the due date. Proposals must include an implementation schedule. The Contractor must be prepared to assume responsibility for custodial services and/or securities lending of the State Treasurer's Office effective October 1, 2008. The STO will work with the Contractor as necessary to complete implementation in a timely manner.

E. BID EVALUATION AND SELECTION CRITERIA

Proposals for Custodial Banking and Securities Lending Services will be evaluated first separately. The award of a contract(s) resulting from this RFP shall be based in accordance with the evaluation criteria stated below:

Custodial Banking

Price	50%
Proposed Method of Performance	25%
Experience, Quality and Reliability	20%
Community Investment	5%

Securities Lending

Price	50%
Proposed Method of Performance	25%
Experience, Quality and Reliability	25%

Based upon institution's individual scores for Custodial Banking and/or Securities Lending, the State Treasurer's Office will then determine the most cost-effective and appropriate method for a Custodial Banking and Securities Lending Program (i.e., bundled versus unbundled).

F. ANTICIPATED TIMETABLE

Release RFP	May 12, 2008
Bidders Conference	May 15, 2008
Proposals Due	June 11, 2008
Bidder Presentations (tentative)	June 23 – June 27, 2008
Evaluation Committee Recommendation	July 2008
Contractor Selection	July 2008

II. SCOPE OF SERVICES

A. CUSTODIAL SERVICES

The State Treasurer's Office (STO) currently has an investment portfolio totaling approximately \$4.5 billion. Of this amount, approximately \$1 billion is held in certificates of deposits with Missouri banks, which are separately collateralized and do not fall under the purview of this contract. The remainder of the portfolio is held in the following types of securities: repurchase agreements, commercial paper, bankers' acceptances, U.S. Agency securities including Agency Mortgage-Backed Securities (MBS) and U.S. Treasury securities.

Appendix B provides a summary table of the State's investment portfolio by asset class as of December 31, 2007. A detailed listing of all U.S. Treasury, Federal Agency and commercial paper holdings by month is available at <http://www.treasurer.mo.gov/holding.asp>.

The STO purchases investments from Missouri financial institutions, regional dealers and primary dealers. All investments are delivered to the contract bank with Delivery versus Payment (DVP) instructions. Commercial paper transactions will be held in the STO's name at the contracting bank's account at the Depository Trust Company (DTC).

Investment transactions of US Treasury and Agency securities are executed daily. These purchases are made usually in blocks of \$5,000,000 to \$25,000,000. Occasionally, purchases are made in blocks as large as \$50,000,000 to \$100,000,000. Commercial paper transactions also occur daily in the same block size.

Each day the STO also enters into overnight and term repurchase agreements. The STO currently has tri-party agreements with its current custodial bank and five dealers, whereby the dealers deliver collateral directly to the custodial bank and the custodial bank is responsible and liable for the allocation of collateral to its different clients, including the STO. If a custodial bank is selected that does not maintain a sufficient number of tri-party relationships with dealers serving the STO, the STO would execute repurchase agreements with dealers whereby collateral will be delivered directly by the dealer for the STO's account. Collateral for these transactions shall be delivered versus payment to the Contractor on the trade date and returned to the security dealer delivery versus payment of principal and interest the following morning. For deliverable collateral, the STO may also execute open-ended repurchase agreements where collateral is only delivered back to the dealer when the transaction amount changes, when collateral is being substituted, or the transaction is closed. Interest on open-ended repurchase agreements is paid weekly via a wire transfer from the security dealer to the appropriate investment account at the contracting bank.

The STO maintains the following custodial accounts:

- General Account
- Trust Account

- State Lottery Account
- Department of Secondary Education (DESE) Account
- Seminary Account

The vast majority of securities are purchased and sold into and out of the General Account, although there may be daily activity in the Trust Account as well.

Each day the STO provides information regarding each transaction occurring that day to the Contractor. The STO also provides a spreadsheet showing a total of all debits and all credits occurring in the General and Trust investment accounts.

The STO has access to the Bloomberg Financial Market Information System through two computers at the Treasurer's Office. The current contractor provides for this service through Bloomberg and is responsible to Bloomberg for all costs associated with this service. These costs are included in the contractor's billing statement as a pass-through cost.

B. SECURITIES LENDING

The STO's current contractor also manages a cash collateral Securities Lending program for those STO-owned securities in their custody. Securities lending is authorized in the State Treasurer's investment policy and by State law. The scope of services for the securities lending program includes:

- Entering into securities lending agreements with borrowers, subject to STO's approval, which set forth terms consistent with this RFP and the agreement between the STO and the contractor; and negotiation of fees with eligible borrowers to be paid to Contractor on behalf of STO.
- Delivering to eligible borrowers securities held in STO's custodial clearing account, as selected by the Contractor, for securities lending.
- Receiving from each borrower at the time the securities are loaned, eligible collateral securities at a value of 102% of the market value of the loaned securities and accrued interest, if any. Such collateral shall be held as security pursuant to the borrower's securities lending agreement with Contractor.
- Holding the collateral such that the STO maintains a perfected interest in the collateral at all times.
- Investing cash collateral consistent with the State of Missouri's investment policy, provided in Appendix A, and the Securities Lending Cash Collateral Investment Guidelines in Appendix H.

- Upon termination of any loan, returning the collateral securities to the borrower so long as the borrower is not in default and Contractor received the loaned securities from the borrower.
- Receiving and collecting from the borrower all interest payments received on loaned securities and remitting to STO.
- Performing ongoing credit monitoring of borrowers and in association with the investment of cash collateral.
- Collecting securities lending fees owed by borrowers and all income earned on cash collateral investments and remit to STO, less fees agreed to by STO and Contractor.
- Providing daily and monthly reporting of all securities lending activity to STO.

III. CUSTODIAL SERVICES MANDATORY REQUIREMENTS

All of the following items must be initialed by the bank officer or bidder's representative signing the bid indicating the bidder's acceptance to perform the mandatory requirements as stated and the bidder's understanding of the State's operations and its expectations of the contractor. However, a bidder may asterisk an item (*) and document an alternative solution to the requirement. If such an alternative solution is as cost effective and meets the same needs as the current system, the bidder will be considered to have accepted the mandatory requirement.

Failure to comply in the above manner may be cause for rejection of the bidder's proposal.

A. ORGANIZATIONAL REQUIREMENTS

1. Minimum Contractor Qualifications

- _____ a. The Contractor and its subcontractor(s) must have at least five (5) years experience in master custodial services with governmental organizations.
- _____ b. The Contractor must have sufficient net equity to collateralize deposits and to process all security transactions without impairment to the STO's operations and investment program. **[Please note that it is not atypical for the STO to purchase up to \$500 million or more of commercial paper in any single day or have a similar amount mature in any single day. The Contractor must be able to accommodate this level of trading activity and may not charge the State for any daylight overdraft if there are timing mismatches between the maturing and purchase of securities and/or the disbursement of funds from maturing securities by ACH. The Contractor may not prevent the timely disbursement of funds pending receipt of ACH credits or debits processed by the STO.]**

2. Regulatory Requirements

- _____ a. The Contractor must meet the following regulatory requirements:
 - i. The Contractor must be chartered either by the federal government or a state government.
 - ii. The Contractor must maintain a commercial banking or trust facility in the State of Missouri in which deposits may be received.
 - iii. The bidder is a federally insured banking institution.

- iv. The bidder complies with Federal regulation guidelines indicating bidder is well capitalized.

B. OPERATIONAL REQUIREMENTS

1. Establishment of Bank Accounts and Funds Transfers

- _____ a. The Contractor shall establish five (5) separate custodial bank accounts for investment transactions to settle for the accounts listed on pages 7-8 and a sufficient number of DDA accounts to process incoming and outgoing wire and ACH transfers and internal transfers of funds. These accounts must be located at a financial institution with a commercial banking or trust facility in the State of Missouri.
- _____ b. The Contractor shall accept all electronic receipts (ACH and wire transfers) on behalf of the STO.
- _____ c. The Contractor shall provide ACH debit blocks and/or filters on DDAs established at the Contractor or its designated financial institution.
- _____ d. The Contractor understands and agrees that the STO will fund ACH disbursement files processed by the Electronic Banking Services contractor by initiating an ACH credit transaction each business day for settlement the following business day. Such ACH transactions will be covered by maturing investments with the custodian on the date of settlement.
- _____ e. The Contractor shall provide for electronic access to information on outgoing ACH payments each day. (The STO must be able to generate a paper copy of this information.)
- _____ f. The Contractor shall provide a means for the STO to create and send ACH transactions and produce reports of those transactions.
- _____ g. All incoming wire transfers shall be processed and posted to the appropriate STO account the day the wire is received by the Contractor.
- _____ h. The Contractor shall provide a system to allow the STO to initiate both repetitive and non-repetitive wire transfers.
- _____ i. The Contractor shall provide the STO with the ability to perform on-line (same day) transfers between accounts.

- _____ j. Information on incoming wires from the Electronic Banking Services contractor or from repurchase counterparties shall be communicated by the Contractor to the STO on a same-day basis.
- _____ k. The Contractor shall provide daily balance and detailed transaction reporting for all accounts for same day and prior day's business. This must be available electronically.
- _____ l. The Contractor shall provide monthly bank statements detailing transaction activity on all accounts in electronic form.
- _____ m. When corrections/adjustments are required to bank statements to reflect actual activity, documentation shall be provided to the STO within three (3) business days of notification of the error. Documentation shall be in a manner acceptable to the STO.

2. Consolidated Balance Requirements

- _____ a. The Contractor agrees that individual accounts may be overdrawn as long as the combined total balances maintained by the STO with the Contractor are positive.

3. Account Activity Analysis and Reporting

- _____ a. On a monthly basis, the STO requires an account analysis or fee statement from the Contractor showing the type and amounts of each service provided, service charges incurred (as quoted in Appendix D), and a computation of the accounts' average daily collected balances and high ledger balance during the month. Uncollected overdrafts shall be included in the calculation of average daily collected balance.
- _____ b. If the State chooses to pay for fees via a compensating balance, the account analysis must show the excess or deficit position based upon explicit prices for services and their conversion to balance compensation at the current applicable Earnings Credit Rate (ECR). The STO will review the excess or deficit position for the month to determine the appropriate compensating balance for the following month. Any excess balance from the previous month will be carried forward and used to pay for the next month's services. Any deficit balance from the previous month will be covered by adjusting the next month's balance (See section VI. A., Method of Compensation).

- _____ c. The STO does not foresee uncollected overdrafts related to this contract. If however, one does occur, there shall be no charge for an uncollected overdraft, but the occurrence shall be included in calculating the average daily collected balance on the account analysis. The uncollected overdraft will essentially be compensated for at the current month's ECR.

4. Location Requirements

- _____ a. If the Contractor's location is outside the Jefferson City local telephone area, the Contractor must provide telecommunication access for the state so that state agency and STO personnel do not incur long distance charges in contacting the Contractor. Such access may be in the form of a dedicated telephone line or in-bound toll-free number.
- _____ b. All meetings between employees of the STO and the Contractor must be held at the offices of the STO in Jefferson City unless otherwise agreed.

5. Processing Requirements

- _____ a. The Contractor shall handle debit and credit activity associated with all investment transactions. All transactions must be processed on a same-day or designated-day basis.
- _____ b. The Contractor shall process all outright purchases of treasury and agency securities and repurchase agreement transactions. These securities will be received delivery versus payment (DVP) and safe kept by the Contractor in the STO's name at the Federal Reserve Bank.
- _____ c. The Contractor shall process all commercial paper transactions on a book entry basis and bankers' acceptances and hold them for the STO at the Depository Trust Company (DTC).
- _____ d. For those purchases involving special funds of the state, the Contractor will receive the securities either free or delivery versus payment (as indicated by the STO) and transferred to a separate (or the appropriate) safekeeping account maintained by the Contractor.
- _____ e. The Contractor must coordinate collateral substitutions for repurchase agreements as requested by the STO.
- _____ f. The Contractor must be able to meet the following functions for all legally permissible securities for the STO:
- Accept, review and enter daily instructions from STO staff into Contractor's portfolio accounting systems.

- Immediately advise STO staff of additions to or withdrawals from account.
 - Resolve any problems that STO staff may have relating to custodial account.
 - Safekeeping of securities.
 - Interest and dividend collection.
 - Daily cash sweep of the idle principal and income cash balance.
 - Process all security transactions.
 - Collect proceeds from maturing securities.
 - Disburse all income or principal cash balances as directed.
- _____ g. On a daily basis, receive and review a document from the STO showing the total of all debits and all credits occurring in both the General and Trust accounts and inform the STO of any discrepancies by 11:30 AM Central Time (CT).
- _____ h. On a daily basis, inform the STO of the status of all securities transactions (i.e., delivered and failed securities) by 1:30 PM Central Time (CT).
- _____ i. On a daily basis, the Contractor shall receive trade tickets properly endorsed by authorized STO staff via facsimile transmission and key in necessary trade information into Contractor's securities database.
6. Reporting Requirements - The successful Bidder shall provide the following minimum information electronically to STO. The specific names of the reports listed below do not have to match the Bidder's nomenclature, but each of the individual fields listed below must be provided in one or more reports.
- _____ a. Month-end Statements – this should list all securities held by the Bidder on behalf of the STO, including the asset class, CUSIP, security description, coupon, maturity, par, yield to call/maturity, original cost, amortized cost and market value.
- _____ b. Daily Settlement Report – this intra-day report should list the CUSIP, security description, coupon, maturity, par, settlement date and total cost for each security purchased by the STO, grouped by fund. This intra-day report should be available by 11:30 AM Central time.
- _____ c. Expected Interest and Maturity Report – this report should list all upcoming maturities, coupon payments, dividends, and securities scheduled to be sold by date for at least the upcoming business day. The report should include the CUSIP, security description, coupon and maturity. This report should be available by 3:00 Central time for the following business day's activity.

- _____ d. Daily Asset Report – this should list all securities held by the Bidder on behalf of the STO, including the asset class, CUSIP, security description, coupon, maturity, par, yield to call/maturity, original cost and amortized cost.
- _____ e. When corrections/adjustments to reports are required to reflect actual activity, the Contractor will provide documentation for the correction/adjustment in a manner acceptable to the STO within 24 hours of posting to the state’s account.
- _____ f. Detailed Statement of Transactions listing all cash activity to each custody account including each security purchase and maturity for the prior day’s business.
- _____ g. The state may request customized reports on an as needed basis and will negotiate and pay a reasonable fee for such reports.

7. Customer Service Requirements

- _____ a. The Contractor must appoint a Relationship Manager and Account Representative for the account. The STO must approve the selection of substitute personnel in advance with the exception of the termination or departure from the firm of Contractor’s employees.
- _____ b. Customer service must be staffed and available from 7:00 AM to 3:00 PM Central time, Monday through Friday, except on bank holidays.

8. Miscellaneous Contractor Requirements

- _____ a. The Contractor shall pay all charges incurred in connection with accounts at the Federal Reserve Bank, and pass through the STO’s direct charges via the account analysis. All supporting documentation will be forwarded to the STO along with the account analysis.
- _____ b. To protect the STO account in situations where a securities dealer fails to deliver securities, the contractor must be able to collateralize up to an additional \$50,000,000 in deposits at any time.
- _____ c. The Contractor shall contract with Bloomberg Financial Services for STO access to Bloomberg’s financial information system. The Contractor shall be responsible to Bloomberg for all costs associated with this service. The Contractor may pass through the charges to the STO as a pass-through or soft-dollar arrangement.

IV. CUSTODIAL SERVICES QUESTIONS FOR BIDDERS

Bidders must provide clear and complete written responses to each of the following questions. Responses must be numbered in the same manner as the individual questions and will be used in evaluating each bidder's proposed method of performance. Where applicable, answer "yes" or "no". Failure to comply may result in rejection of the bidder's proposal.

A. ORGANIZATION OF PROPOSAL

1. Please indicate whether your proposal for Custodial Banking Services is submitted as :
 - a. A stand-alone proposal for custodial services only
 - b. Submitted as a joint proposal for custodial and securities lending services
 - c. Either

B. ORGANIZATION AND EXPERIENCE

1. Organization
 - a. Briefly discuss the history of your organization, ownership structure and lines of business.
 - b. How long have you maintained a custody department?
 - c. What is the revenue contribution of your Master Custody business to overall company revenue in percentage terms?
 - d. In the last three years, what, if any, significant organizational changes (i.e., mergers, acquisitions, business concerns, etc.) have occurred?
 - e. Provide the number of your organization's governmental clients for custody service as categorized in the following matrix. Report aggregate values of total assets under custody in US\$ millions for periods specified.

Total Governmental Clients

	Total Number of Clients	Asset Value (US \$mm)
2005		
2006		
2007		

- f. List all governmental Master custody clients in the United States with assets over \$500 million. Please provide contact names, e-mail addresses and phone numbers. The STO may contact any of these clients as part of its reference check process.
 - g. Do you use any sub-custodians or other subcontractors in order to provide this service? Please name them and specify their responsibilities and experience in the same format as above.
 - h. Provide an organization chart showing the operating interrelationships and authority within this service unit and the entire organization including subcontractors, highlighting staff members in key roles.
2. Please provide the following credit and financial information:
- a. Net equity capital
 - b. Your bank's ratings as determined by a Nationally Recognized Statistical Ratings Organization (NRSRO), as defined by the Securities and Exchange Commission.
 - c. Please provide details with respect to significant litigation against your firm for the last 10 years and any significant regulatory actions taken or pending that will impact your business.
 - d. Provide copies of the last two years' audited financial statements and audit opinion in a separate appendix.

C. CUSTODIAL SERVICES

1. Customer Service
- a. What is your approach to client servicing? What would be the most distinct element of your client servicing approach that STO would benefit from and considered exceptional relative to the custody industry?
 - b. Who will be the STO's primary contact? Is this the same person who will manage resolution to any day-to-day operational problems?
 - c. Who will handle policy issues? Pricing issues?
 - d. What is the current client load of your client servicing contact and relationship manager? Please indicate total number of clients served and the approximate total assets of these clients for each.

- e. Please provide the names and bios of the client servicing team members including their responsibilities, number of client relationships, years of experience with your firm, total years of relevant experience, and credentials/education.
- f. Does the client servicing personnel (i.e., relationship manager and accountants) maintain procedures manual for each client? What is the typical content of such a manual?

2. Risk and Insurance

- a. Describe the various types of insurance coverage and indemnification provided to protect clients of service(s) proposed. Each description should include:
 - Risk Coverage
 - Carriers
 - Levels
 - Limits
 - Deductibles
 - Expiration
- b. Please provide the location of your main custody operations and the location of off-site backup facilities. How quickly can you implement the use of these off-site facilities in the event of an emergency?

3. Trade Processing, Settlement and Custody

- a. Are you able to meet the following functions for all legally permissible securities for the STO? Please explain or clarify any issues you see with these duties.
 - Accept daily instructions from STO staff.
 - Immediately advise STO staff of additions to or withdrawals from account.
 - Resolve any problems that STO staff may have relating to custodial account.
 - Safekeeping of securities.
 - Interest and principal payment collection.
 - Daily cash sweep of the idle principal and income cash balance.
 - Process all investment manager transactions.
 - Collect proceeds from maturing securities.
 - Disburse all income or principal cash balances as directed.
 - Provide monthly statements by fund/account and consolidated statement of all assets.
- b. What is distinct about your custodial capabilities that we should know about?

- c. Briefly describe how your firm handles securities processing for each of the items listed below including the timeframe. Where automated processing is available, indicate the nature of the automation and level of availability (e.g., real-time, overnight batch).
 - Receipt of trade instructions including same-day (cash) trades
 - Notification of settled trades, failed trades, available balances, etc.
 - Securities position reporting and reconciliation
 - Reporting of income on securities held
 - Trade discrepancies
 - d. Briefly describe your policy and procedures on failed trades and the steps that will be taken to minimize trade failures. How do you notify both STO and their investment manager of a failed trade before and after the occurrence of the fail?
 - e. Describe your policy regarding restitution of lost interest and/or other remedies for STO on a failed trade.
 - f. Describe how you reconcile the STO's securities in your custody and how such reconciliation will be documented to the STO. How do you insure that securities have properly posted to the STO's account and/or that trades that have not settled as directed are properly reported to the STO? If an error is made, when will the STO be notified and how quickly will it be remedied?
 - g. How do you ensure that debits and credits for a client's accounts, including coupon interest, maturing investments and purchased investments, match the clients' accounts on a daily basis?
 - h. Do you maintain tri-party repurchase agreements with broker-dealers? If so, which broker-dealers use such agreements on a daily basis for repurchase agreements with their clients?
4. Income Collection
- a. Describe your standard policies on cash crediting and debiting.
 - b. Describe your procedures for ensuring that interest for STO is paid and properly credited to the STO.
 - c. Mortgage-Backed Securities

- (1) What are the sources of and how do you account for paydown information on all factor-based securities (i.e., MBS)? Do your reports show both the original face amount purchased and current face amount?
- (2) Briefly describe the processing of monthly principal and interest payments for MBS. Do your reports separately show principal and interest received on the bond's payment date?

5. Accounting and Reporting

- a. Provide a brief description of the information delivery system or workstation for client interface. Is the system available for viewing by STO? If so, is this an Internet application?
- b. 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.
- c. Provide copies of your standard daily and monthly reports in a separate appendix.
- d. Provide copy of your account analysis statement/fee statement in a separate appendix.
- e. What historical information is provided and available, and how long? How are corrections made, if at all, to historical reports if a correction is made?
- f. Can clients retrieve information in a customized reporting format? If so, describe your custom reporting flexibility and limitations.
- g. Can clients download information easily from your system into either CSV or Excel format?

6. Overnight Repurchase Agreement Sweeps

The following questions are related to the compensating balance or sundry cash maintained by the STO at its custodial bank. The STO requires that its compensating balance be swept to a repurchase agreement. Balances may not be invested in money-market funds or other securities not permitted by the State Constitution.

- a. For excess cash balances, does the bidder have an overnight repurchase agreement (repo) sweep product/process?
- b. Is the overnight investment sweep process an automatic process?

- c. How does the process operate?
- d. What is the cut-off time for the sweep?
- e. How will the repurchase balances appear when viewing the DDA activity of the investment accounts?
- f. Will balances in this repo appear on the account analysis in calculating earnings credits? Is reporting repo balances to the account analysis an automated or manual process?
- g. Are there any alternative sweep arrangements that your bank may provide to STO that gives credit for balances without the balances being subject to reserve requirements and FDIC assessments? Please note that money-market mutual funds are not an allowable security for the STO.
- h. Would you agree to offset custodial services costs against securities lending income rather than the STO maintaining a compensating balance with you?

7. Conversion

- a. Describe your organization's formal conversion planning process, if applicable, as it would apply to STO.
- b. What dedicated resources (personnel, equipment, training, etc.), procedures and controls will you provide or recommend in the conversion period to ensure a successful and timely conversion?
- c. Describe STO's responsibilities and the resources required from us during this process.
- d. Describe the on-site support you provide to new clients and existing clients during conversions. Also discuss systems support provided during conversions to ensure data integrity and timely settlements during transitions.
- e. Provide a copy of all agreements and forms the bidder desires the STO to complete and approve to implement ACH and Wire Transfer Services, Custodial Services and Securities Lending. (Acceptance of a bidders proposal does not indicate acceptance of the terms of any agreements provided in response to this item.)
- f. Is the bidder currently involved in, or planning any major system changes, acquisitions, or conversions? Please explain your plans and include the potential impact to the STO and this contract.

8. Community Investment

- a. Please indicate your institution's most recent FDIC Community Reinvestment Act (CRA) and the release date for that rating.
- b. For confirmation purposes, please indicate your financial institution's five-digit FDIC Certificate Number.
- c. Provide a copy of your institution's most recent Community Reinvestment Act (CRA) Summary Statement and CRA Public Disclosure received from the bidder's rating regulatory agency as a separate appendix.

D. COORDINATION WITH THIRD-PARTY SECURITIES LENDING AGENT

The State Treasurer's Office may choose at any time to use the services of a third-party securities lending agent rather than commingle custodial banking and securities lending services. The following questions pertain to such a situation.

1. Does your organization currently support third party lending programs for any of your custody clients? How long has your organization been supporting third party lending?. Please provide a list of all third-party lending agents with whom your organization is currently working or have worked with in the past.
2. Describe the method of coordination between your organization as custodian and third party agents.
3. Would your organization supply or build any required interfaces between your systems and third party lending agents? If yes, how long will it take to establish all necessary interfaces? At what cost?
4. In a situation in which securities lending is performed by a third-party administrator, the securities lending provider would be required to pay for reasonable and customary fees associated with the processing of lending transactions. Are there other conditions or requirements that you would insist on in such a situation?

E. COMPENSATION

The following information should be provided in a separate sealed envelope pursuant to the instructions provided in Section IX, B., following. The State Treasurer's Office encourages, but does not require, flat per-month custodial fees or in lieu of that, a limited number of fee codes or cost types.

1. Average volumes for account activity are provided in Appendix C. Based on these volumes, please provide a proposed fee schedule and fee estimate using the form provided in Appendix D. Please also indicate any other non-transaction based fees, such as account maintenance fees, on this form as well.
2. A bidder may choose to bid services on a flat per-month fee. If so, use of the form in Appendix D is not required. Please indicate the proposed per-monthly fee on a separate page.
3. A bidder may choose to provide two separate fee schedules, one based on providing just custodial banking services and one based on providing both custodial and securities lending services. If this is the case, please provide two separate fee schedules and mark clearly.

V. SECURITIES LENDING MANDATORY REQUIREMENTS

All of the following items must be initialed by an officer of the company or bidder's representative signing the bid indicating the bidder's acceptance to perform the mandatory requirements as stated and the bidder's understanding of the State's operations and its expectations of the contractor. However, a bidder may asterisk an item (*) and document an alternative solution to the requirement. If such an alternative solution is as cost effective and meets the same needs as the current system, the bidder will be considered to have accepted the mandatory requirement.

Failure to comply in the above manner may be cause for rejection of the bidder's proposal.

A. ORGANIZATIONAL REQUIREMENTS

- _____ a. The Contractor and its subcontractor(s) must have at least five (5) years experience in securities lending with governmental organizations.
- _____ b. The Contractor must have sufficient net equity to provide the required indemnification to the STO and to process all security transactions without impairment to the STO's operations and investment program.

B. OPERATIONAL REQUIREMENTS

1. Establishment of Bank Accounts

- _____ a. The Contractor shall establish five (5) separate accounts for securities lending transactions to settle for the accounts listed on pages 7-8 and a sufficient number of DDA accounts to process incoming and outgoing wire and ACH transfers and internal transfers of funds.

2. Investment Policy Restrictions

- _____ a. Contractor acknowledges and understands that Section X.A.8 of the State's Investment Policy sets the following broad requirements for a cash collateral securities lending program:
 - (1) The Treasurer may temporarily exchange securities held in the portfolio for cash or other authorized securities of at least equal value with no maturity more than one year beyond the maturity of any of the traded obligations.

- (2) Securities lending may be transacted through the State Treasurer's Office custodial bank, through a 3rd party lender, or directly with approved broker/dealers. Direct broker/dealers must have a signed Public Securities Association Securities Lending Agreement on file with the State Treasurer's Office.
- (3) All securities transferred must be delivered versus payment.
- (4) Securities lending transactions may be entered into for periods of 90 days or less.
- (5) All term trades will be reviewed weekly to determine pricing adequacy.

_____ b. Contractor acknowledges and understands that Appendix H of this RFP sets additional restrictions for a cash collateral securities lending program.

3. Operational Requirements

- _____ a. Contractor shall collect all interest or other distributions with respect to any loaned securities at least monthly.
- _____ b. The Contractor must appoint a Relationship Manager and Account Representative for the account. The STO must approve the selection of substitute personnel in advance with the exception of the termination or departure from the firm of Contractor's employees. Customer service must be staffed and available from 7:00 AM to 3:00 PM Central time, Monday through Friday, except on bank/market holidays.
- _____ c. The Contractor must receive approval from STO for all borrowers prior to engagement in the STO's securities lending program.
- _____ d. The Contractor must conduct ongoing credit analysis of approved borrowers and credit analysis for the reinvestment of cash collateral.
- _____ e. The Contractor must not impair the investment capabilities and authority of the STO including the sale of securities from the STO' portfolio based on mutually agreed upon daily cut-off times, unless otherwise agreed to by STO and Bidder.
- _____ f. The Contractor must maintain eligible collateral securities at a value of 102% of the market value of the loaned securities and accrued interest, if any.

4. Indemnification

- _____ a. The Contractor must provide full borrower indemnification due to a borrower's default to the STO at no additional cost.
- _____ b. The Contractor is responsible for the replacement of the STO's securities of the same CUSIP which are not returned as a result of a borrower's default.
- _____ c. The Contractor is responsible for any and all overdraft expenses, lost interest and other costs in the event of a simple default, which results from the late delivery of a security that has been sold by the STO.

5. Reporting and Information Access – The Contractor shall provide the following minimum information electronically to STO. The specific names of the reports listed below do not have to match the Contractor's nomenclature, but each of the individual fields listed below must be provided in one or more reports.

- _____ a. Contractor shall furnish the following reports on a daily basis:
 - (i) Availability Report – Lists all securities in STO portfolio, CUSIP, asset class, par, market value, maturity, amount on loan, % on loan, and price.
 - (ii) Loan Report – Lists all securities on loan, CUSIP, asset class, loan amount, settlement date, rebate rate, collateral percentage, market price, investment rate, spread and market value.
 - (iii) Performance Report – Lists securities on loan by broker, total market value of loan securities, total collateral value, and percentage of collateralization.
 - (iv) Cash Collateral Report – lists all cash collateral investments, CUSIP, ratings, asset class, purchase cost, market value, par, maturity, and yield.
- _____ b. Contractor shall furnish the following monthly summary reports in addition to the above daily reports:
 - (i) Income Summary – Lists gross earnings, rebate, net earnings, the bank fee, and net income to STO by broker and/or asset class.
 - (ii) Income Detail – Lists securities loaned during the month and cash collateral investments by day with gross earnings, rebate, net earnings, the bank fee, and net income to STO by broker and/or asset

class; or an equivalent report providing detailed information to the above summary report.

- (iii) Month-end Cash Collateral Report/Investment Compliance Report – lists cash collateral investments as of month-end by issuer (not broker).

_____ c. Contractor shall provide for electronic access by the STO for the above daily reports. Electronic access must be available through a dial-up or Internet connection.

6. Miscellaneous Contractor Requirements

_____ a. If the Contractor is submitting a bid for Third-Party Securities Lending services only, the Contractor shall pay all necessary and customary charges incurred in connection with the wiring and lending of securities.

VI. SECURITIES LENDING QUESTIONS FOR BIDDERS

Bidders must provide clear and complete written responses to each of the following questions. Responses must be numbered in the same manner as the individual questions and will be used in evaluating each bidder's proposed method of performance. Where applicable, answer "yes" or "no". Failure to comply may result in rejection of the bidder's proposal.

A. ORGANIZATION OF PROPOSAL

1. Please indicate whether your proposal for Securities Lending Services is submitted as :
 - a. A stand-alone proposal for third-party securities lending services only
 - b. Submitted as part of a joint proposal for custodial and securities lending services
 - c. Either

B. SECURITIES LENDING

2. Organization and Experience
 - a. Briefly discuss the history of your organization, ownership structure and lines of business.
 - b. Describe your Securities Lending Program, its level of importance to your organization and your level of commitment to this program in the context of overall corporate strategy.
 - c. Describe your strengths and differentiating factors in lending fixed income securities. Identify the advantages your firm has in dealing with the broker/dealer community and how this would benefit the STO.
 - d. How long has your firm conducted a securities lending program on behalf of clients?
 - e. Provide biographies of the individuals who manage your program. Include the biographies of the personnel responsible for the following areas: Client Service, Lending Activity, Compliance and Reporting/Accounting. Indicate the number of years of securities lending experience for each person.

- f. Are any aspects of your program outsourced to other firms, such as for investment management services? Are there any plans to consider outsourcing in the next four years?
- g. What was the daily average dollar volume of securities loans outstanding for the last 12 months for each of the last three years for US Agency and Treasury securities? Specify in US\$ millions, using the following matrix:

	Daily Average Lendable Base (in mil.)	Daily Avg. on Loan (in mil.)	Pct Utilization	Avg Daily Spread Net of Rebate (bp)
2007				
US Agencies				
<u>US Treasuries</u>				
Total				
2006				
US Agencies				
<u>US Treasuries</u>				
Total				
2005				
US Agencies				
<u>US Treasuries</u>				
Total				

- h. How many lending clients do you have? What is the average client size in terms of lendable assets?
- i. Provide the number of your organization's governmental clients for securities lending services as categorized in the following matrix. Report aggregate values of total lendable assets in US\$ millions for periods specified.

Total Governmental Clients	
	Asset Value (US \$mm)
Total Number of Clients	
2005	
2006	
2007	

- j. Please list 10 of your Securities Lending clients that are public institutions and provide the name, e-mail address and phone number of a contact person. If possible, list only references for fixed-income government portfolios, not retirement boards or special purpose organizations.

- k. Please provide details with respect to significant litigation against your firm for the last 10 years and any significant regulatory actions taken or pending that will impact your business.
- l. Provide copies of the last two years' audited financial statements and audit opinion in a separate appendix.

3. Credit Analysis

- a. Describe your credit analysis program, initial screening, and ongoing review. Do you perform formal credit analysis on cash collateral investment issuers
- b. How many credit professionals does your organization have? Are any of your credit professionals involved in the day-to-day lending or investment function? Provide an organization chart for your program and also the Credit function.
- c. What would be the maximum level of a loan outstanding (if any) to a single broker for our account and how is this level determined? Describe any other diversification limits you maintain.
- d. Has your firm ever been a party to a failed security in a lending transaction or have any of your firm's Securities Lending clients ever experienced a loss from these activities? If yes, please provide an explanation.
- e. How are credit limits monitored on an ongoing basis? How often is this done?
- f. Discuss your procedures to guarantee compliance of all the investment guidelines defined by the client. Is this automated?

4. Indemnification

- a. Describe your indemnification against borrower insolvency. Who provides the indemnity?
- b. Do you offer indemnification on cash collateral investments? If so, please describe.
- c. Describe your errors and omissions insurance coverage and any other insurance coverage your organization carries for securities lending agents.
- d. Provide a sample securities lending agreement. Indicate where the indemnification clause is in the document.

- e. In your securities lending agreement, what restrictive language (if any) is put into the agreement regarding the transfer or trading of loaned securities (by the borrower), and what penalties (if applicable) are applied for violation of the restrictions?

5. Description of Program

- a. Provide a description of your securities lending program based upon the STO's portfolio. Discuss the specific lending and reinvestment strategy associated with the bidder's proposal. How do you add value as an agent?
- b. Discuss the level of customization provided to clients in your program. Specifically, please address the following:
 - (1) Explain the degree to which clients can specify investment restrictions. Can clients help customize a pre-approved issuer list (a "buy list") for investment of cash collateral based on the client's specific risk tolerance?
 - (2) If the answer to the above question is in the affirmative, describe your process to maximize clients' lending utilization and revenues.
- c. Is there any additional communication required from/to STO staff with regards to the Securities Lending program for transactions conducted? Or does the firm's custodial securities staff interact exclusively with your firm's Securities Lending program and staff?
- d. What happens if the borrower does not return securities on time?
- e. Describe your loan allocation or queuing process. Is it an automated process? How do you ensure fairness in allocating loan opportunities?
- f. How do you determine which securities are lendable?
- g. How often do you evaluate the lending portfolio, and is each individual loan evaluated separately?
- h. How do you ensure that the investments placed by the bidder's firm meet the STO's legal requirements?

6. Reporting

- a. Describe the hardware and software that you utilize for lending securities and for investments of cash collateral.
- b. How is this reporting furnished to clients (e.g., via the internet, dial-up modem, etc)?
- c. Provide copies of your standard daily and monthly reports with explanations of the data presented in a separate appendix.
- d. What historical information is provided and available, and how long?
- e. Can clients retrieve information in a customized reporting format? If so, describe your custom reporting flexibility and limitations.
- f. Can clients download information easily from your system into either CSV or Excel format?
- g. How do you support GASB reporting requirements?

7. Conversion

- a. Describe your organization's formal conversion planning process, if applicable, as it would apply to STO.
- b. What dedicated resources (personnel, equipment, training, etc.), procedures and controls will you provide or recommend in the conversion period to ensure a successful and timely conversion?
- c. Describe STO's responsibilities and the resources required from us during this process.

C. QUESTIONS FOR THIRD-PARTY SECURITIES LENDING AGENTS ONLY

Please respond to the following questions only if you are willing to provide securities lending services as a Third-Party Securities Lending Agent.

1. There are costs associated with supporting a third-party agency lending program that a custodian would typically charge the lender. Is your firm willing to absorb such costs?
2. Is your firm willing to pay the additional operational costs associated with supporting a third-party securities lending program? Please elaborate.
3. Please provide a list of custodial banks that you currently work with as a third-party securities lending agent.

D. COMPENSATION

The following information should be provided in a separate sealed envelope pursuant to the instructions provided in Section IX, B., following.

1. Using the table included as Appendix E, please calculate STO's estimated net annual earnings. List all other fees and expenses that would be deducted from earnings on this table. Please also document any assumptions you made.
2. Provide a table showing a breakdown of the typical mix of assets the bidder would invest the STO's cash collateral in, which you used to derive the spreads in the table from Appendix E. This "model portfolio" should list the percentage invested in each eligible asset class on a typical day, the weighted average maturity or duration, credit rating(s) and approximate investment spread.
3. Assuming that the total amount of commercial paper, Treasuries and Agency securities held in the STO's portfolio did not fall below 75% of the totals for each category provided on the table from Appendix E, how much would the bidder be able to guarantee in net income to the STO in the first year of this agreement?

[Please note that the State Treasurer's Office takes such a revenue floor seriously for the purposes of this evaluation and upon selection of a firm. The STO has enforced such a revenue floor in the past.]

VII. GENERAL INFORMATION AND CONTRACT PROVISIONS

A. CONTRACTUAL AGREEMENT AND AMENDMENT

1. The contract between the State Treasurer's Office (STO) and the successful bidder(s) awarded the contract (Contractor) shall consist of (a) Master Custodial Services and/or Securities Lending contract, and Pledge Agreement; (b) a Contract for Banking Services if requested by the Contractor; (c) this RFP and any amendments thereto; and (d) the Contractor's response to this RFP including any and all attachments and additional information provided. These documents shall collectively be referred to as "the contract." In the event of a conflict between (c) and (d) above, the provisions and requirements set forth and/or referenced in this RFP shall govern. However, the STO reserves the right to clarify any contractual relationship in writing with the concurrence of the Contractor, and such clarification shall govern in case of conflict with the applicable requirements stated in the RFP or successful bidder's response. In all other matters not affected by the written clarification, if any, this RFP shall govern.
2. The STO reserves the right to negotiate with the Contractor for changes in services or additional service items, subject to mutual agreement. Any such amendments shall be agreed upon in writing as described in section III.A., item 3., immediately below.
3. Any change in the contract must be accomplished by a formal written contract amendment signed and approved by and between the duly authorized representatives of the Contractor and the STO. Any amendment to the contract shall (a) specify an effective date; (b) specify any increases or decreases in the amount of the Contractor's compensation, if applicable; (c) describe changes, if any, to the provisions of the contract; (d) be entitled as an "Amendment"; and (e) be signed by the parties identified in the preceding sentence. The Contractor expressly and explicitly understands and agrees that no other method and/or no other document, including correspondence, acts, and oral communications by or from any person, shall be used or construed as an amendment to the contract.
4. It is understood that in certain situations the Contractor may utilize the services of related financial institutions (i.e., banks within the same holding company as the Contractor) in performing certain services required under the contract. In all such situations, the Contractor retains sole, direct and primary responsibility for securing the required contractual performance from such related institution as well as sole, direct and primary responsibility for assuring that all contractual provisions, including all applicable legal, financial and eligibility requirements, are continuously met by such related institution. All rights and remedies vested in the STO by this contract apply with equal force and effect to the Contractor's related institution. Conversely, all rights and remedies vested in the

Contractor by this contract rest solely with the Contractor and not the related institution. The Contractor agrees to indemnify, save and hold the STO harmless from any expense, liability or payment arising out of the actions of a related institution pursuant to the contract or made by a related institution as a result of the contract.

5. The aforementioned documents in Section VII.A. represent the full and complete agreement between the parties.

B. CONTRACT PERIOD, DEFAULT, CANCELLATION OR TERMINATION

1. Except where specifically noted, the STO anticipates entering into a contract which will run through September 30, 2012 with a one-year option available to the STO at the STO's discretion. Contract amendments may provide for extension beyond the stated contract period, subject to mutual agreement.
2. If, in the sole discretion of the STO, the STO concludes that the Contractor has substantially defaulted in any manner in performing any of the contractual terms and conditions, and such default is not cured by the next banking day (as that term is defined in Section 400.4-104, RSMo (as amended)) after notice of such default is given to the Contractor, the STO may immediately terminate the contract and withdraw all State of Missouri funds on deposit with the Contractor.
3. The STO may cancel the contract, in whole or in part, at any time for a breach of any contractual obligation. Should the STO exercise its right to cancel the contract for such a reason, the cancellation shall become effective on the date specified in a written notice of cancellation sent to the Contractor.
4. The STO reserves the right to terminate the contract, in whole or in part, at any time, for the convenience of the State of Missouri, without penalty or recourse, by giving written notice to the Contractor at least 120 days prior to the effective date of such termination. In the event of termination pursuant to this paragraph, all documents, data, reports, supplies, and accomplishments prepared, furnished or completed by the Contractor pursuant to the terms of the contract shall, at the option of the STO, become property of the State of Missouri. The Contractor shall be entitled to receive just and equitable compensation for the work completed pursuant to the contract prior to the effective date of termination.
5. The Contractor may terminate the contract by giving written notice to the STO at least 120 days prior to the effective date of such termination. In the event of termination pursuant to this paragraph, all documents, data, reports, supplies, and accomplishments prepared, furnished or completed by the Contractor pursuant to the terms of the contract shall, at the

option of the STO, become property of the State of Missouri. The Contractor shall be entitled to receive just and equitable compensation for the work completed pursuant to the contract prior to the effective date of termination.

6. The Contractor further agrees and understands that any payment due under the terms of the contract shall be made by the STO only (a) after the successful completion of all requirements set forth in the contract; and (b) after approval and acceptance by the STO of the Contractor's performance, services and/or supplies required by the terms of the contract.
7. No provision in this document or in the Contractor's proposal shall be construed, expressly or impliedly, as a waiver by the STO of any existing or future right and/or remedy available by law in the event of any claim of default or breach of contract.
8. Any written notice to the Contractor shall be deemed sufficient when presented to an authorized employee of the Contractor at its address as listed on the signature page of the contract, or deposited in the United States mail, postage prepaid, and addressed to the Contractor at its address as listed on the signature page of the contract, or at such address as the Contractor may have requested in writing.

C. LIABILITY AND RESPONSIBILITY

1. The Contractor shall be liable to the STO for any loss of funds as a result of the Contractor's failure to properly execute a contract obligation when such error is within the Contractor's control. This includes system and/or processing downtime that is not restored in a timely manner.
2. The Contractor shall compensate the STO for the loss of interest due the STO as a result of the Contractor's error or of the Contractor's failure to execute a proper transfer request on the date requested, unless due to an error not within the Contractor's control. The compensation shall be for a period not exceeding sixty-one (61) days or the date of actual transfer or error correction, whichever comes first. The compensation must be in the form of a reimbursement not exceeding the average Federal Funds interest rate (as reported on Bloomberg) plus five (5) basis points for the period and amount in question computed on a daily basis.
3. The contractor shall agree that it will hold the STO harmless from any third party claims for damage resulting from any act or omission on the Contractor's part.

4. The contractor shall be deemed to have exercised ordinary care if the Contractor has followed established procedures agreed to by contract in executing a transfer. The contractor agrees that it shall be deemed not to have exercised ordinary care if it has deviated from these procedures without prior written authorization from the STO.

D. RECORDS, ACCESS AND CONFIDENTIALITY

1. The Contractor shall maintain financial and accounting records and supporting evidence pertaining to the contract in accordance with generally accepted accounting principles and other procedures specified by the STO.
2. All such reports, records, tapes, files or other materials developed or acquired by the Contractor as a specified requirement of the contract shall become property of the STO.
3. The Contractor shall permit reasonable access by the STO during the contract period and any extension periods, and for an eighteen (18) month period beyond the end of the contract, for purposes of performing audit procedures relating to any aspect of the services provided by the Contractor to the STO in connection with the contract.
4. Any and all information supporting the contract and any and all tapes, files and data files maintained by the Contractor for such purpose shall be provided to the STO, or a designated STO representative, at no cost to the STO or designated representative, upon request by the STO, at the end of the contract.
5. In addition to the reports specifically required by the contract, the Contractor must provide, for an agreed price, additional financial and analytical reports as the STO may request.
6. The STO reserves the right to reject or request changes in all reports, systems, on-line inquiry features, and all other procedures.
7. If the STO requests a service be performed on a specific day, and that day is not a banking day, the Contractor must provide the service on the next banking day, unless otherwise indicated by the STO or by mutual agreement between the Contractor and the STO.

8. The Contractor shall maintain complete confidentiality of all records relating to services performed under the contract in accordance with state and federal laws, rules and regulations. No list, report or other materials generated from data covered under the contract may be disclosed or transferred by Contractor to any other person or entity.

E. COMPLIANCE WITH APPLICABLE LAWS

1. The contract shall be construed according to the laws of the State of Missouri.
2. The Contractor shall comply with all local, state and federal laws and regulations related to the performance of the contract, to the extent that the same may be applicable, and must be registered with and maintain good standing with the Missouri Secretary of State and Department of Economic Development, Division of Finance, and/or any other Missouri State office or agency, as may be required by law or regulation.
3. The Contractor represents itself to be an independent Contractor offering such services to the general public and shall not represent itself or its employees to be an employee of the State of Missouri. The Contractor shall assume all legal and financial responsibility for taxes, FICA, employee fringe benefits, workers compensation, employee insurance, minimum wage requirements, overtime, etc., and agrees to indemnify, save, and hold the State of Missouri, its officers, agents, and employees harmless from and against, any and all loss, cost (including attorney fees), and damage of any kind related to such matters.
4. In connection with the furnishing of supplies or performance of work under the contract, the Contractor agrees to comply with the Fair Labor Standard Act, Fair Employment Practices, Equal Employment Opportunity Act, the Americans With Disabilities Act (ADA), and all other applicable federal and state laws, regulations, and executive orders to the extent that the same may be applicable and further agrees to insert the foregoing provision in all subcontracts awarded hereunder.
5. Contractors with the State of Missouri must comply with Article XIII of Executive Order #87-6 pertaining to discrimination and affirmative action. (The executive order may be viewed at http://www.sos.mo.gov/library/reference/orders/1987/eo1987_006.asp). Failure to comply may result in appropriate action including cancellation of the contract resulting from this RFP.
6. Contractors with the State of Missouri must comply with Executive Order #07-13 dealing with individuals who are not eligible for employment. (The executive order may be viewed at http://www.sos.mo.gov/library/reference/orders/2007/eo07_013.pdf). Failure to comply

may result in appropriate action including cancellation of the contract resulting from this RFP.

7. Contractors with the State of Missouri must comply with Executive Order #04-09 pertaining to outsourcing of employment. (The executive order may be viewed at www.sos.mo.gov/library/reference/orders/2004/eo04_009.asp. Failure to comply may result in appropriate action including cancellation of the contract resulting from this RFP.

F. ASSUMPTION OF LIABILITY, INSURANCE AND INDEMNIFICATION

1. The Contractor shall be responsible for any and all injury or damage as a result of any service rendered under the terms and conditions of the contract. In addition to the liability imposed upon the Contractor for personal injury, bodily injury (including death) or property damage suffered as a result of the Contractor's performance under the contract, the Contractor assumes the obligation to save the State of Missouri, including its agencies, employees, and assigns, from every expense, liability or payment arising out of such negligent act. The Contractor also agrees to hold the State of Missouri, including its agencies, employees, and assigns, harmless for any negligent act or omission committed by any subcontractor or other person employed by or under the supervision of the Contractor under the terms of the contract.
2. The Contractor shall maintain adequate liability insurance to protect the State of Missouri, its agencies, its employees, its assigns, its clients, and the general public against any loss, damage, and/or expense related to its performance under the contract. The insurance coverage shall include, but shall not necessarily be limited to, general liability, errors and omissions, professional liability, etc. Written evidence of the insurance coverage shall be provided by the Contractor to the STO. The evidence of insurance shall include, but shall not necessarily be limited to: effective dates of coverage; limits of liability; insurers' names; policy numbers; endorsement by representatives of the insurance company; etc. Evidence of self-insurance coverage or of another alternate risk financing mechanism may be utilized, provided that such coverage is verifiable and irrevocably reliable. The evidence of insurance coverage must be submitted before or upon award of the contract. In the event the insurance coverage is in any way changed, the STO shall be notified immediately.

G. PROPOSAL ACCEPTANCE OR REJECTION

The STO reserves the right, in its sole discretion, to accept or reject any proposals, in whole or part, received in response to this RFP, to waive or permit cure of minor irregularities, and to conduct discussions with any or all qualified bidders in any manner necessary to serve the best interests of the State of Missouri. The STO also reserves the right, in its sole discretion, to

award a contract based on the written proposals received without prior discussions or negotiations.

H. PROPOSAL PREPARATION COSTS

The STO will not reimburse any bidder responding to this RFP for costs incurred in preparing documentation, making presentations, or any other costs incurred as a result of this RFP.

I. INSTALLATION AND CONVERSION COSTS

Any equipment installation, software or data file conversions, or any other costs associated with start-up and implementation shall be the responsibility of the Contractor.

J. REPLACEMENT EQUIPMENT AND TRAINING

1. If requested by the STO, the Contractor shall upgrade any software provided under the contract. In addition, the Contractor shall provide the training and user manuals necessary to effectuate the replacement or conversion of software.
2. As requested by the STO, the Contractor shall provide periodic training or retraining of STO personnel, or, when appropriate, personnel of other state agencies, in the use and operation of the equipment, software, or systems provided under the contract at no cost to the STO.
3. In the event that the Contractor's systems or any of its components are rendered permanently inoperative, the Contractor must have the capability to reconstruct necessary data files and operate on replacement equipment within one (1) business day of any disaster.

K. SUBSTITUTION OF PERSONNEL

The STO's agreement to the contract is predicated, in part and among other considerations, on the utilization of the specific individual(s) and/or personnel qualification(s) as identified and/or described in the Contractor's proposal. Therefore, the Contractor agrees that no substitution of such specific individuals shall be made without the prior written notification to and approval by the STO. The Contractor further agrees that any substitution made pursuant to this paragraph must be equal or better than originally proposed and that the notification of a substitution shall not be construed as an acceptance by the STO of the substitution's performance potential.

L. REVIEW OF SERVICES

The STO will conduct quarterly service reviews with the Contractor. Such reviews will include a review of the quality of services and discussion of any specific concerns of the STO or the Contractor, and will be documented in a mutually agreed upon format.

M. ASSIGNMENT

The Contractor shall not assign any interest in the contract nor transfer any interest, whatsoever, in the same (whether by assignment or notation) without prior written consent of the STO.

N. CONFLICT OF INTEREST

The Contractor covenants that it presently has no interest and shall not acquire any interest, directly or indirectly, which would conflict in any manner or degree with the performance of the services hereunder. The Contractor further covenants that no person having any such known interest shall be employed by the Contractor or conveyed an interest, directly or indirectly, in the contract.

O. ESTIMATED VOLUMES

Any statistics or estimates of workload provided in this RFP are for informational purposes only and do not imply that they accurately represent expected future activity.

P. COLLATERAL

Collateral acceptable to the STO (see Appendix F) will be required on the total of any compensating balances and any other funds (collected and uncollected) in all state accounts including funds in sweep repurchase agreements. The acceptable collateral list is subject to change.

VIII. COMPENSATION

A. METHOD OF COMPENSATION

1. The State Treasurer's Office (STO) may required the Contractor to maintain an average daily collected balance with the Contractor throughout the service period sufficient to compensate the Contractor for services provided. The level of compensating balance shall be based upon the volume of services provided, agreed-upon prices, ECR, and required reserves. Balances will be reviewed twice monthly and adjusted as needed to approximate the level of service activity. Mid-month adjustments will reflect excess or deficit positions from the previous period
2. The ECR on balances maintained in all accounts shall be quoted at a spread from the average of the yields from the regular 3-month Treasury Bill auctions of the preceding month. The ECR shall be verified with the STO before preparation of an account analysis.
3. All end of day balances in the account(s) with the Contractor shall be swept on a daily basis into a separate zero interest repurchase agreement account(s). The repurchase agreement account(s) shall not be assessed charges for reserve requirements or FDIC insurance premiums. Balances in the repurchase agreement account(s) shall be included in determining the compensating balance on deposit with the Contractor. The Contractor will enter into a BMA Master Repurchase Agreement with the STO.

B. PRICE ADJUSTMENTS

1. All prices included in the proposal are effective for the entire term of the contract, unless otherwise specified below.
2. If included in the proposal, the Contractor may adjust for changes in pass-through charges. The Contractor shall submit documentation verifying such rates when requesting adjustment.
3. Prices for any changes or additional services during the contract period shall be negotiated between the STO and the Contractor, documented in writing, and signed by both parties.

C. CHANGE IN METHOD OF COMPENSATION

The STO currently compensates Contractors on direct fee-for-service basis, in which fees are offset (or “netted”) from securities lending income. The STO specifically reserves the right to switch from this format to a compensating balance format described in Section A above.

There shall be no change to the prices indicated in this proposal should this contract be awarded to the bidder and should there be a subsequent change to a direct fee-for-service method.

IX. PROPOSAL CONTENTS AND SELECTION

A. GENERAL CONSIDERATIONS

1. Each of the mandatory requirements contained in Sections III and/or V of this RFP must be initialed by an authorized officer signing the transmittal letter to indicate the bidder's acceptance to perform the requirement as stated.
2. Bidders must prepare concise and complete written responses to each of the specific questions for bidders. Responses should be numbered in the same manner as the questions and will be used in evaluating each bidder's proposed method of performance. The responses to the questions shall also be submitted in Microsoft Word format to facilitate the evaluation process.
3. Bidders are free to recommend any changes to approach or systems which they believe would be beneficial or cost-effective to the state. This can include recommendations for enhancing, streamlining or eliminating redundant or superfluous processing or reporting, and opportunities for integrating services or systems. Bidders should note, however, that proposals will be evaluated and the Contractor will be chosen on the basis of the Contractor's commitment to meet and deliver the mandatory service requirements at the most competitive price. Thus, recommendations which increase the cost of a proposal beyond that necessary to meet and deliver the mandatory service requirements may place the bidder at a competitive price disadvantage relative to bidders who price their proposals strictly in terms of the mandatory service requirements. The State shall be the final and sole arbiter of whether such alternative solution proposals meet the State's requirements and are cost effective.
4. Bidders may submit more than one proposal. Additional proposals may be prepared in an abbreviated form following the same format as the primary proposal (which shall be labeled as such), but containing only that information that differs in a substantive way from that contained in the primary proposal. Each proposal must be bound separately and prepared in accordance with Part B of this section.
5. Bidders may submit a proposal that does not satisfy all of the specific mandatory requirements of the RFP by offering an alternative solution to the approach depicted in the RFP. Such proposals must be clearly identified by the vendor as "Alternative Solution Proposals." In all cases to be considered for evaluation, alternative solution proposals must clearly meet the intent of the mandatory requirements of the RFP, be cost effective, as well as meeting the overall objectives of the procurement and the state's needs as stated in Section II, the Scope of Services. Alternative solution proposals must be prepared in accordance with Part B of this section.

6. Eligibility Requirements for Bidders for Custodial Services

- a. In addition to the requirements detailed elsewhere in this RFP for custodial banking services, all bidders must include in their proposals a certified statement attesting to the following:
 - (1) The bidder is a federal or State of Missouri chartered banking institution.
 - (2) The bidder has a trust office or banking facility in the State of Missouri.
 - (3) The bidder is a federally insured banking institution.
 - (4) The bidder has a Community Reinvestment Act (CRA) rating of "satisfactory" or better for the most recent examination conducted. (Please include the date of this examination in the statement.)
- b. If the bidder intends to utilize the services of a related financial institution or third party provider (i.e., a bank within the same holding company as the bidder) in the bidder's proposed method of performance, the bidder must also include a certified statement attesting to the information described in (1)-(4) immediately above, for the related institution, and must provide copies of the latest annual report, call report, CRA Statement, and CRA Public Disclosure for such related institution.
- c. All bidders must be prepared to schedule and deliver a presentation to the STO. The presentation, if scheduled, will encompass a review of the bidder's systems, the process to be used in handling the state's accounts and ACH transactions, and an introduction to the staff who will be involved in servicing the STO's contract and relationship with the bidder. Presentations may be scheduled with the top two (2) to three (3) successful bidders at the STO's discretion. The STO is in no way obligated to schedule bidder presentations, and the STO can select a proposal without viewing a presentation from the bidder. All costs involved with the presentations are the bidder's sole responsibility.

7. **Bidders should be aware that proposals become public record under state law.**

B. FORMAT AND SUBMISSION OF PROPOSAL

- 1. The selection procedure for this procurement requires that evaluation of the proposed method of performance be completed before consideration of a bidder's pricing proposal. Consequently, each proposal must be submitted in two (2) volumes as indicated below.
 - a. Volume I – Proposed Method of Performance

- (1.) This volume must contain sufficient information to enable the evaluators to evaluate the proposal in accordance with the mandatory requirements and the evaluation criteria listed in section VII., part D. The volume should be prepared in a clear and concise manner and should address all appropriate aspects of this RFP except pricing.
- (2) This volume should be organized into distinctive sections as outlined below.
 - I. Transmittal Letter
 - II. Acceptance of Mandatory Requirements (Section III).
 - III. Responses to Specific Questions (Section IV).
 - IV. Proposed Method of Performance and Other Supplementary Information (see VII.F.)
 - V. Community Investment (see VII.G., and Appendix G)

b. Volume II – Pricing Proposal

- (1) This volume must contain the completed pricing tables (Appendices D and E) as well as any other charges or pricing applicable to the STO with volume assumptions included. *(If volume assumptions are not included and documented, the Contractor will not be able to charge more than the extended cost on the pricing table for any single year during the contract period.)*
- (2) This volume should be organized into distinctive sections as outlined below.
 - I. Completed Pricing Table for Custodial Services (Appendix D)
 - II. Completed Earnings Estimate for Securities Lending (Appendix E)
 - III. Other Supplemental Pricing Information – this should include the answers to the questions related to Securities Lending Compensation in Section VI, D.
- (3) This volume must be submitted in a separate, sealed envelope, clearly labeled “Pricing Proposal” on the outside of the envelope.

2. Proposals must be priced, signed by a company officer with authority to bind the Contractor to the state by contract, sealed in a separate envelope, and returned (in the volumes indicated and with all necessary attachments) to the STO by the deadline indicated in this RFP.

- a. In addition to the original proposal, the bidder should include five (5) copies of each volume of the proposal.

- b. Volume I of the proposal shall be submitted in a three- (3) ring loose-leaf binder. Volume II shall be submitted in a separate folio or folder folder, sealed, and clearly labeled as "Pricing Proposal" on the outside of the sealed envelope or folio. Proposals shall be prepared on 8 1/2 x 11 inch paper, double-space delimited, with text on only one (1) side.
 - c. In addition to the above, one diskette or CD-ROM containing the answers to the Specific Questions for Bidders must be enclosed with the original Volume I, and, one diskette or CD-ROM containing the completed pricing tables must be enclosed with the original Volume II. (If any discrepancies between the paper copy and the electronic copy are discovered, the paper copy will prevail.)
3. The bidder must respond to this RFP by submitting all data required. Failure to submit such data may be deemed sufficient cause for disqualification of a proposal from further consideration for award.

C. CLARIFICATION OF REQUIREMENTS

- 1. Any and all questions regarding specifications, requirements, competitive procurement process, etc., must be directed in writing to Mark Mathers, Director of Investments. E-mail questions to CUSTRFP@treasurer.mo.gov . This is the only method of communication that will be accepted.
- 2. **Bidders are cautioned not to contact employees of the STO, employees of other state agencies, members of the General Assembly, or any members of the evaluation committee concerning this procurement during the competitive procurement and evaluation process. Such contact may cause the bidder's proposal to be rejected.**
- 3. The bidder is advised that the only official position of the STO is that position which is stated in writing and issued by the STO as a RFP and any amendments thereto. No other means of communication, whether oral or written, shall be construed as a formal or official response or statement.

D. EVALUATION PROCESS

1. After determining that a proposal satisfies the mandatory requirements stated in this RFP, the comparative assessment of the relative benefits and deficiencies of the proposal in relationship to the published evaluation criteria shall be made by using subjective judgment. The award of a contract resulting from this RFP shall be based on the evaluation criteria stated below:

Custodial Banking

Price	50%
Proposed Method of Performance	25%
Experience, Quality and Reliability	20%
Community Investment	5%

Securities Lending

Price	50%
Proposed Method of Performance	25%
Experience, Quality and Reliability	25%

Based upon the individual scores for Custodial Banking and Securities Lending, the State Treasurer's Office will then determine the most cost-effective and appropriate method for a Custodial Banking and Securities Lending Program (i.e., bundled versus unbundled).

Any cost-effective suggestions to improve current systems may be used to select one bidder over another if scoring is tied.

2. After an initial screening process, if deemed necessary, the STO and the evaluation committee may ask a bidder to clarify or verify the bidder's proposal to develop a more comprehensive assessment of the proposal. Such a request will be delivered via e-mail to the officer signing the proposal, and will generally require a **48-hour turnaround** of the bidder's response.
3. The STO reserves the right to consider historic information and facts, whether gained from the bidder's proposal, question and answer conferences, references, or any other source, in the evaluation process.
4. It is the bidder's sole responsibility to submit information related to the evaluation categories and the STO is under no obligation to solicit such information if it is not included with the bidder's proposal. Failure of the bidder to submit such information may cause an adverse impact on the evaluation of the bidder's proposal including rejection of the bidders' proposal.

5. In the event that only one (1) proposal is received in response to this RFP, the STO reserves the right to cancel the bidder process or to negotiate the terms and conditions, including the price, as proposed in the sole bidder's proposal. In addition, as part of such negotiations, the STO reserves the right to require supporting cost, pricing and other data from the bidder in order to determine the reasonableness and acceptability of the proposal.

E. PRICING

1. The bidder must complete Appendices D and E of this RFP and submit it with the proposal in a separate sealed envelope or folio. Any pricing involved in providing required services must be reflected on the pricing tables. All costs must be portrayed.
 - a. The bidder must quote a firm, fixed price for each identified transaction, multiply it by the indicated volume, and state an estimated annual cost for each transaction. For any service listed that has no charge or does not apply, insert zero for the unit price and estimated annual cost.
 - b. Where appropriate, the bidder must quote a firm, fixed price for providing a system.
 - c. The bidder must include a proposed ECR as defined in section VI, part A., Method of Compensation.
2. Any cost and/or pricing data submitted or related to the bidder's proposal including any cost and/or pricing data related to contractual extension options, whether required or voluntary, shall be subject to evaluation if deemed by the STO to be in the best interests of the State of Missouri.

F. PROPOSED METHOD OF PERFORMANCE

1. Proposals will be evaluated based on the bidder's distinctive plan for performing the requirements of the RFP.
2. The bidder must initial mandatory items in Sections III and/or V and must present written responses to the questions posed in Section IV and VI.
3. The format for presenting the proposed method of performance shall be as follows:

On one (1) side of plain white paper, identify each question in Sections IV and/or VI, by number, as an item for discussion. Immediately below these numbers, write a response to each question.

4. In addition to responding to the mandatory requirements and questions posed, the bidder should specifically describe and provide examples (when applicable) of the following:
 - a. Describe the systems, including flow charts where helpful, that support proposed data processing systems.
 - b. If appropriate, discuss any potential improvements in approach, integration of services, or elimination of data or report duplications.
 - c. Describe the training, user manuals and documentation to be provided with applications.
 - d. If applicable, provide the daylight overdraft limit applicable to the STO.

G. COMMUNITY INVESTMENT

1. Proposals for Custodial Banking services should include the bidder's most recent Community Reinvestment Act (CRA) Summary Statement and CRA Public Disclosure received from the bidder's rating regulatory agency as a separate appendix.

X. GLOSSARY OF TERMS

Term	Definition
ACH	Automated Clearing House.
Alternative Solution	A proposed method or procedure to meet the needs or intent of the mandatory requirements of a request for proposal (RFP).
BAI	Bank Administration Institute.
Bankers Acceptances	Money market instrument created from transactions involving foreign trade. In its simplest and most traditional form, a bankers acceptance is merely a check, drawn on a bank by an importer or exporter of goods.
Banking Day	The standard day of operation of the federal reserve system.
Bidder	The business entity or organization responding to the request for proposal submitted by the STO. (If awarded the contract, the bidder may also be known as the “Contractor”.)
Broker	A firm acting as an intermediary between a buyer and seller of securities.
Check	Any written document instructing a bank to pay money from the payor's account.
Commercial Paper	Money market instrument representing an unsecured short-term promissory note of a corporation at a specified rate of return for a specified period of time.
Community Investment	The contribution a financial institution makes to the community it serves.
Contractor	The business entity or organization that is awarded the contract to perform the service specified within the request for proposal. (The Contractor may also be referred to as the “bidder” prior to contract award.)
Daylight Overdraft Limit	An intra-day overdraft limit approved by the financial institution.

Term	Definition
Direct Deposit Accounts	An account with no checking privileges.
Division of Finance	The state agency responsible for oversight of financial institutions within the State of Missouri.
Disbursement	The act of paying out funds.
DK	The return of a security back to a broker by the custodial bank.
DOR	The Department of Revenue of the State of Missouri, located in Jefferson City.
DSS	The Department of Social Services of the State of Missouri, located in Jefferson City.
DTC	Depository Trust Company. Owned mostly by the New York Stock Exchange, this firm arranges for securities to be delivered to agencies without physical delivery of securities or certificates.
DVP	Delivery versus Payment. Under the DVP method, a custodial bank only pays a broker/dealer for the price of the security upon the successful delivery of that security to the agency's safekeeping account.
ECR	Earnings Credit Rate
Experience and Reliability	The terms applied to the knowledge, practice and dependability of a proposed bidder to perform those specific requirements identified within the request for proposal (RFP).
Failed Trade	A trade in which the broker/dealer selling the security to an agency fails to deliver that security by the agreed upon time or date.
FASB	Financial Accounting Standards Board, a self-governing panel of CPA's that standardize accounting practices and establish guidelines for companies to use when preparing financial statements in the United States.

Term	Definition
Federal Agency Securities	Securities issued either by certain federal agencies or from private, shareholder-owned companies with a relationship with government agencies. These companies, known as government-sponsored enterprises, generally are viewed to have an implied guarantee of the U.S. government. These include: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC) and Student Loan Marketing Association (SLMA).
Form 10-Q	A quarterly report required by the Securities and Exchange Commission for companies with listed securities.
Form 10-K	An annual report required by the Securities and Exchange Commission for all issuers of registered securities, exchange-listed companies or any company with \$1 million gross profit.
FTP	File Transfer Protocol
GAAP	Generally Accepted Accounting Principles, the procedures and rules that govern accepted accounting practices as defined and supervised by FASB in the private sector.
GASB	Government Accounting Standards Board. The equivalent to FASB for governmental agencies.
Hot Site	Alternative processing location in the event of an event that interrupts processing and/or service at the primary processing location.
IP	Internet Protocol
JPEG	Joint Photographic Experts Group. A standard format for image storage created by this group. It is a popular image storage format on the web.
Mandatory Requirements	Those specific methods or procedures required by the State Treasurer's Office (STO) and defined in Section II B of the request for proposal (RFP) to ensure that the State of Missouri's needs are met by the disbursement services Contractor .
MBS	Mortgage-backed Securities. A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of these assets are used to pay principal and interest on the bonds.

Term	Definition
MoDOT	The Department of Transportation of the State of Missouri
NACHA	National Automated Clearing House Association. The governing body responsible for oversight and rulemaking surrounding ACH processing.
OA	The Office of Administration of the State of Missouri located in Jefferson City.
Outstanding Checks	Those checks issued on a checking account that have not been presented to the financial institution on which they are drawn for payment.
Paid Checks	Those checks presented for payment and honored by the financial institution on which they are drawn.
Positive Pay	A service used for fraud control. A list of checks including the serial number and dollar amount issued by a company is transmitted to a financial institution. Only those checks that match information on the list are paid.
Pricing	The dollar amount affixed by the bidder to a prescribed service or requirement of the State Treasurer's Office included in the request for proposal.
Proposed Method of Performance	The distinctive plan for performing the requirements of the request for proposal (RFP) as defined by the proposed bidder.
Reasonable Fee	The reasonable cost or limitation placed upon a service to be performed in execution of a duty.
Repurchase Agreement (Repo)	The sale of a security by a dealer to an investor with an agreement to buy the security back from the investor at a specific time and at a price that will result in a pre-determined yield to the investor.
RFP	Request for Proposal. The official request document submitted for use by bidders to acknowledge their interest in performing services for the STO.
SDC	The State Data Center of the State of Missouri, a section within the Office of Administration (OA) located in Jefferson City.

Term	Definition
SNA	Systems Network Architecture
STO	The Office of the Missouri State Treasurer located in Jefferson City, Missouri.
Time Deposits	An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with acceptable securities.
Timely Manner	A reasonable period of time for a desired outcome to occur or to be accomplished.
US Treasury Securities	US Treasury bills, notes or bonds issued by the government of the United States of America
ZBA	Zero balance account. An account that may have deposit and/or disbursement activity, in which the balance in the account is maintained at zero by daily transfers of funds to and from a master account at the same financial institution.

XI. APPENDICES

- A. State Investment Policy
- B. Current State Treasury Portfolio
- C. Significant Activity Indicators – Custodial Services
- D. Pricing Sheet for Custodial Services
- E. Securities Lending Earnings Estimate Form
- F. Acceptable Collateral
- G. Securities Lending Cash Collateral Investment Guidelines

Appendix A

State Investment Policy

(See Adobe Acrobat file provided.)



OFFICE OF THE MISSOURI STATE TREASURER
SARAH STEELMAN, Treasurer

I. AUTHORITY

The Constitution and laws of the State of Missouri authorize the Missouri State Treasurer to have custody of all state monies and to invest said monies not needed for the daily operations of the State. The Treasurer has assigned responsibility for the day-to-day administration of this policy to the Director of Investments.

II. INVESTMENT COMMITTEE

The State Treasurer's Office Investment Committee shall be responsible for developing and reviewing the investment process of the State Treasurer's Office within the framework provided by the Constitution and Statutes of the State of Missouri. The State Treasurer's Office Investment Committee shall set and monitor policies, set general strategies and implement necessary monitoring mechanisms.

The Committee will meet regularly to review performance, policy, procedures and legislation.

Members of the Committee shall include:

- State Treasurer
- Director of Investments – Chair
- Assistant State Treasurer
- Director of Banking

III. INVESTMENT ADVISORY COMMITTEE

The State Treasurer will appoint an Investment Advisory Committee made up of investment professionals from around the state. The purpose of the Advisory Committee is to allow investment professionals in the state to lend expertise to this investment process.

IV. PRUDENCE

All participants in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be applied by the personnel of the Investment Division shall be the “prudent investor” rule, which states, “Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

V. ETHICS AND CONFLICT OF INTEREST

Personnel involved in the investment process shall refrain from personal business activity that could create an appearance of impropriety or could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within Missouri, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the State of Missouri.

VI. DELEGATION OF AUTHORITY

Authority and responsibility for the management and operation of the investment program is hereby delegated to the Director of Investments, who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Only the Director of Investments, Investment Analyst, Investment Coordinator and Time Deposit Coordinator positions are authorized to make investments and to order the receipt and delivery of investment securities among custodial security clearance accounts. The Director of Investments shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff.

VII. OBJECTIVES

The primary objective of investment activities shall be legality, safety, liquidity, yield and the provision of a capital base for statewide economic development.

➤ Legality

The State Treasurer’s Office will invest the state’s excess funds only within the legal guidelines set forth by the Constitution and Statutes of the State of Missouri. Any investment alternative outside these guidelines is not permissible. Furthermore, the State Treasurer’s Office seeks to promote and support the objectives of US foreign policy regarding terrorism. Accordingly, investments in companies or their subsidiaries or affiliated entities that are

known to sponsor terrorism or aid the government in countries that are known to sponsor terrorism are prohibited.

➤ Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The State Treasurer's Office will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Establishing a pre-approved list of financial institutions and companies that the State Treasurer's Office will be restricted to when purchasing commercial paper
- Conducting regular credit monitoring and due diligence of these issuers.
- Pre-qualifying the financial institutions and broker/dealers with which the State Treasurer's Office will do business with for broker services and repurchase agreements
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk

The State Treasurer's Office will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Maintaining an effective duration of less than 1.5
- Holding at least 40% of the portfolio's total market value in securities with a maturity of 12 months or less

➤ Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demand. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

➤ Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above.

➤ Provision of a Capital Base for Statewide Economic Development

The State Treasurer's Office will seek to promote Missouri's economic growth by placing funds on deposit with Missouri financial institutions and in eligible commercial paper and bankers' acceptances issued by Missouri-based companies and/or major employers within the State. As such, the State Treasurer's Office shall consider the overall benefits to the economy and welfare of the State and its citizens through the direct and secondary economic benefits of investments in Missouri. However, such investments shall be subject to the same credit risk guidelines as all other investments, and investment staff shall not be directed to purchase in-state commercial paper or other securities at lower yields than other securities within the same asset class.

The State Treasurer's Office will seek to enhance total portfolio return by means of active portfolio management. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk. However, trading in response to changes in market value or market direction is warranted under active portfolio management.

VIII. PERFORMANCE

Active management should produce, over a period of time, book yields in excess of a low risk passive benchmark. For management purposes, and for the Investment Committee review, both the book yield and total rate of return will be calculated for the portfolio and compared to the appropriate security market indexes as established by the Committee.

IX. BROKER/DEALER REQUIREMENTS

Investments will be made through banks or securities dealers who have been approved by the Investment Committee. Such securities dealers and banks shall have been subjected to an appropriate investigation by the staff of the State Treasurer's Office, which shall include, among other things, a review of the firm's financial statements and the background of the sales representative. All approved dealers must be fully licensed and registered NASD Broker/Dealers or exempt banks. Criteria used to select securities dealers will include:

- Financial strength and capital adequacy of firm;
- Services provided by firm;
- Research services available;
- Resume, reputation and qualifications of sales representative;
- Due diligence and firm references; and,
- State government expertise.

X. REPORTING

The Investment Division shall report monthly to the Investment Committee on the present status of the investment portfolio. The report will, at a minimum, include the following:

- The market value of the portfolio including realized and unrealized gains or losses resulting from appreciation or depreciation.
- Average weighted yield to maturity and duration of all portfolios as compared to applicable benchmarks.
- Percentage of the total portfolio that each type of investment represents.
- The rating levels for commercial paper and bankers' acceptances. The investment division should also recommend to the committee if the commercial paper or bankers' acceptances should be held or sold in the event of a rating downgrade below the minimum acceptable rating levels.
- Listing of individual securities held at the end of the reporting period.
- At least annually, the realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration in accordance with Government Accounting Standards Board (GASB) 31 requirements.

XI. PERMISSIBLE INVESTMENTS AND GUIDELINES

A. Investment Types

In accordance with and subject to restrictions imposed by the Constitution and the laws of the State of Missouri, the following list represents the entire range of investments that the Missouri State Treasurer will consider and which shall be authorized for the investments of funds.

1. Time Deposits

- a. Financial institutions with a physical location in the State of Missouri will be selected as depositories based on but not limited to the following: financial stability, funds availability, loan-to-deposit ratio, community involvement and other relevant economic criteria.
- b. The maximum maturity of a deposit will be five years as set forth in the statutes.
- c. The rate of interest to be earned on monies placed in time deposits with Missouri financial institutions will be the same as what is paid on U. S. Treasury securities maturing closest to the time of termination of the deposit as set forth in the statutes.
- d. A financial institution will be eligible to receive total deposits in an amount not to exceed their equity capital. The State Treasurer's Office may, from time to time, limit the dollar amount of deposits a financial institution may receive due to lack of availability. At no time shall the State Treasurer's Office deposit more than 7.5% of total general time deposits into any single financial institution.

- e. A financial institution's loan to deposit ratio must be in excess of 50% at the time of deposit unless a specific need can be shown by the financial institution for the funds.
- f. Time deposits (principal and interest) must be collateralized at least 100% with approved securities. The market value of all time deposit collateral will be reviewed on an ongoing, periodic basis to determine collateral adequacy.

2. Linked Deposits

- a. Financial institutions with a physical location in the State of Missouri will be selected based upon financial stability and funds availability.
- b. Maturity of the deposits will be based upon the statutes' language for maximum maturities of deposit, the borrower's needs, the liquidity requirements and interest rate risk considerations of the State Treasurer's Office and any other relevant economic considerations. This can vary by category of linked deposits.
- c. The rate of interest to be charged follows the statute language regarding the loan rate to the borrower that is below the normal borrowing rate. However, the minimum rate may not be less than 1%.
- d. The minimum and maximum amounts of the linked deposit to be placed in each category will be determined by the Investment Committee when these amounts are not specifically stated in the statutes.
- e. Linked deposits (principal and interest) must be collateralized at least 100% with approved securities. The market value of all linked deposit collateral will be reviewed on an ongoing, periodic basis to determine collateral adequacy.

3. U. S. Treasury and Federal Agency Securities

- a. Treasury and Agency securities with final maturities of five years or less as stated in the statutes may be purchased.
- b. Treasury and Agency securities must be purchased through approved broker/dealers.
- c. Agency securities include those specific obligations referenced in (X. B.) that are issued or guaranteed by any agency or instrumentality of the United States Government.

4. Commercial Paper

- a. Commercial paper which has received the highest letter and numeral ranking (i.e., A1 / P1) by at least two nationally recognized statistical rating organizations (NRSRO's).
- b. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of \$250,000,000 and have long term debt ratings, if any, of "A" or better from at least one NRSRO.

- c. Purchases of commercial paper may not exceed 180 days to maturity.
- d. Approved commercial paper programs should provide some diversification by industry. Additionally, purchases of commercial paper in industry sectors that may from time to time be subject to undue risk and potential illiquidity should be avoided.
- e. The only asset-backed commercial paper programs that are eligible for purchase are fully supported programs that provide adequate diversification by asset type (trade receivables, credit card receivables, auto loans, etc.) No securities arbitrage programs or commercial paper issued by Structured Investment Vehicles (SIV's) shall be considered.
- f. No more than 5% of the total market value of the portfolio may be invested in the commercial paper of any one issuer.

5. Bankers' Acceptances

- a. Bills of exchange or time drafts on and accepted by a commercial bank, otherwise known as bankers' acceptances.
- b. An issuing bank shall have received the highest letter and numeral ranking (i.e., A1 / P1) by at least two nationally recognized statistical rating organizations (NRSRO's).
- c. Eligible bankers' acceptances are further limited to issuing banks that are organized and operating in the United States.
- d. Purchases of bankers' acceptances may not exceed 180 days to maturity.
- e. No more than 5% of the total market value of the portfolio may be invested in the bankers' acceptances of any one issuer.

6. Repurchase Agreements

- a. Repurchase agreements may be entered into for periods of 90 days or less.
- b. Repurchase agreements must be purchased through approved broker/dealers. All approved broker/dealers must have a signed Bond Market Association Master Repurchase Agreement on file with the State Treasurer's Office and in the case of tri-party repurchase agreements, a tri-party agreement as well.
- c. All collateral will be delivered to the Treasurer's Account at the Federal Reserve Bank or to an approved third party custodian.
- d. Repurchase agreements must be collateralized 102% with approved securities.
- e. No more than 15% of the total market value of the portfolio may be invested in repurchase agreements with any one issuer.

7. Reverse Repurchase Agreements

- a. Reverse repurchase agreements may be entered into for periods of 90 days or less.
- b. Reverse repurchase agreements must be executed through approved broker/dealers. The State Treasurer's Office will assign reverse repurchase agreement trading limits for each broker/dealer.
- c. All collateral will be delivered to dealers versus payment.
- d. Collateral will be priced at market plus accrued interest. All term trades will be reviewed weekly to determine pricing adequacy.
- e. The State Treasurer's Office will enter into reverse repurchase agreements only to cover unexpected shortcomings in the Treasurer's demand account.

B. Security Selection

The following list represents the entire range of United States Agency Securities that the Missouri State Treasurer will consider and which shall be authorized for the investment of funds. Additionally, the following definitions and guidelines will be used in purchasing the instruments:

1. U.S. Govt. Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options and with final maturities of five (5) years or less.
2. U.S. Govt. Agency Discount Notes. Purchased at a discount with a maximum maturity of one (1) year.
3. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par or above with a final maturity of five (5) years or less.
4. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date(s), the coupon rate rises to a new, higher fixed term. Restricted to securities with a final maturity of five (5) years or less.
5. U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index and resets at least quarterly with a final maturity of five (5) years or less.
6. U.S. Govt. Mortgage Backed Securities. Restricted to securities with stated final maturities of five (5) years or less.

C. Additional Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the Missouri State Treasurer's funds, the investment portfolio will be subject to the following restrictions in addition to those listed elsewhere in this policy:

1. Borrowing for investment purposes ("Leverage") is prohibited.

2. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a “derivative” instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited. Floating rate securities without leverage or the features listed above are acceptable.
3. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

D. Collateralization

The State Treasurer's Office shall maintain an Acceptable Collateral Policy, which shall be consistent with State law and approved by the Governor, State Treasurer, and the State Auditor. All deposits placed in financial institutions must be at least 100% collateralized with securities listed in this policy. The Investment Committee shall periodically review and may make changes to the collateralization margins for collateral asset classes based on changes in market conditions or other events.

All securities, which serve as collateral against the deposits of a depository institution, must be safekept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts.

The Missouri State Treasurer shall have a *depository contract and pledge agreement* with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the Missouri State Treasurer's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

E. Securities Lending

- a. The Treasurer may temporarily exchange securities held in the portfolio for cash or other authorized securities of at least equal value with no maturity more than one year beyond the maturity of any of the traded obligations.
- b. Securities lending may be transacted through the State Treasurer's Office custodial bank, through a third party lender, or directly with approved broker/dealers. Direct broker/dealers must have a signed Bond Market Association Securities Lending Agreement on file with the State Treasurer's Office.
- c. All securities being transferred must be delivered versus payment.
- d. Securities lending transactions may be entered into for periods of 90 days or less.
- e. The Director of Investments shall develop cash collateral investment guidelines for the reinvestment of any collateral made by the State Treasurer's Office

securities lending agent and is responsible for periodic monitoring of these investments for compliance.

XII. ASSET ALLOCATION

The investment portfolio shall be diversified to minimize the risk of loss resulting from excess concentration into a specific maturity, issuer or class of securities. Diversification strategies shall be implemented through the implementation of a written asset allocation policy, which, at a minimum, outlines the minimum, maximum and target asset allocation by investment type. Target allocations indicate general objectives under steady market conditions, however targets may fluctuate throughout the year based on cash flows and market conditions. The asset allocation policy shall be established and periodically reviewed by the State Treasurer's Office Investment Committee.

XIII. SAFEKEEPING AND CUSTODY

All securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts. All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All non-Fed eligible securities will be held at the Depository Trust Corporation through the State Treasurer's Office custodial account.

XIV. INTERNAL CONTROLS

The Treasurer has established a system of internal controls designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees of the State Treasurer's Office. Controls deemed most important include: separation of duties, separation of transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transaction strategies and a code of ethics.

XV. ADOPTION OF POLICY

The Missouri State Treasurer adopted the initial investment policy in 1993. The policy was revised in accordance with Section 30.260 R.S. Mo., (Senate Bill No. 449) in January 1998 and adopted by the State Treasurer's Office Investment Committee on January 5, 1998. The policy was last revised in accordance with section 15, article IV of the Missouri Constitution (Amendment 5) and adopted by the State Treasurer's Office Investment Committee effective November 27, 2007.

In accordance with Section 30.260 R.S. Mo., the Missouri State Treasurer shall present a copy of this policy to the governor, commissioner of administration, state auditor and general assembly at the commencement of each regular session of the general assembly or at any time the written investment policy is amended.

Appendix B

State Treasury Portfolio

(See Adobe Acrobat file provided.)



**MO St Treas FY08
Portfolio Management
Portfolio Summary
March 31, 2008**

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 360 Equiv.	YTM 365 Equiv.
U.S. Treasury Securities - Coupon	64,500,000.00	65,136,250.00	64,709,225.42	1.55	300	139	3.819	3.873
U.S. Agency Discount Notes	92,727,000.00	92,398,092.74	92,037,313.91	2.21	182	64	4.339	4.399
U.S. Agency Issues - Coupon	536,083,000.00	541,188,620.75	536,213,897.66	12.85	549	174	4.354	4.415
Amortizing Commercial Paper Disc.	481,508,000.00	480,016,145.83	479,900,658.82	11.50	74	41	2.824	2.863
U.S. Agency Issues - Callable	1,139,394,000.00	1,155,541,828.10	1,143,897,693.19	27.41	1,581	1,452	4.878	4.946
U.S. Agency Zero Coupon Bonds	16,745,000.00	16,709,229.60	16,637,138.21	0.40	478	47	5.263	5.336
Overnight Repos	552,615,000.00	552,615,000.00	552,615,000.00	13.24	1	0	2.517	2.552
Time Deposits - General	673,076,300.00	673,076,300.00	673,076,300.00	16.13	218	86	3.359	3.405
Linked Deposits	129,439,745.00	129,439,745.00	129,439,745.00	3.10	362	183	1.730	1.754
Linked Deposits - FFCB	82,436,000.00	82,436,000.00	82,436,000.00	1.98	364	178	1.845	1.870
Time Deposits - Linked (interest)	0.16	0.16	0.16	0.00	1	0	0.000	0.000
U.S. Agency Mortgage Backed Sec	356,595,888.23	360,817,429.68	350,251,840.77	8.39	1,263	929	4.985	5.054
U.S. Agency Issues - Floating Rate	52,555,000.00	53,047,967.73	51,921,639.09	1.24	734	322	5.879	5.960
	4,177,674,933.39	4,202,422,609.59	4,173,136,452.23	100.00%	692	534	3.854	3.908
Investments								
Cash and Accrued Interest								
Accrued Interest at Purchase		5,394,720.15	5,394,720.15					
Subtotal		5,394,720.15	5,394,720.15					
Total Cash and Investments	4,177,674,933.39	4,207,817,329.74	4,178,531,172.38		692	534	3.854	3.908
Total Earnings								
	March 31	Month Ending	Fiscal Year To Date					
Current Year	15,303,894.96		154,069,756.90					
Average Daily Balance	4,253,977,363.27		4,305,434,261.52					
Effective Rate of Return	4.24%		4.75%					

Mark Mathers, Director of Investments

Reporting period 03/01/2008-03/31/2008

Portfolio FY08

Run Date: 04/03/2008 - 09:39

AP
PM (PRF_PM1) SymRept 6.42
Report Ver. 5.00

Appendix C

Significant Activity Indicators Custodial Services

(See Adobe Acrobat file provided.)

Appendix C
Significant Activity Indicators - Custodial Services

Fund Transfers

<u>Transaction Type</u>	<u>Total</u>	<u>Avg/Mo</u>
ACH Debits Processed	167	13.9
ACH Credits Processed	27	2.3
Automated Funds Transfer Payment (Wires in/out)	104	8.7
Grand Total	298	24.8

Security Transactions

Security Purchases - Fiscal Year 2007

<u>Asset Class</u>	<u>Total Par</u>	<u># of Trades</u>	<u>Avg Par</u>	<u>Avg Trades/Mo.</u>
Commercial Paper	14,090,068,000	501	28,123,888	42
Repo's	109,106,291,000	1,124	97,069,654	94
Term Repos	<u>1,923,829,000</u>	<u>15</u>	<u>128,255,267</u>	<u>1</u>
Subtotal	111,030,120,000	1,139	97,480,351	95
US Agency Securities	16,745,000	2	8,372,500	0
US Agency Discount Notes	786,621,000	53	14,841,906	4
US Tsy Bills	868,000,000	40	21,700,000	3
US Agency Securities - Noncallable	341,675,000	32	10,677,344	3
US Agency MBS	211,691,272	33	6,414,887	3
Callable US Agency Securities	530,375,000	52	10,199,519	4
Floating Rate US Agency Securities	45,150,000	6	7,525,000	1
US Tsy Bonds/Notes	<u>65,000,000</u>	<u>6</u>	<u>10,833,333</u>	<u>1</u>
Subtotal	2,865,257,272	224	12,791,327	19
Grand Total	127,985,445,272	1,864	68,661,720	155

Security Maturities - Fiscal Year 2007*

<u>Asset Class</u>	<u>Total Par</u>	<u># of Trades</u>	<u>Avg Par</u>	<u>Avg Trades/Mo.</u>
Commercial Paper	\$13,911,106,000	493	\$28,217,254	41
US Agency Discount Notes	\$381,873,000	27	\$14,143,444	2
US Tsy Bills	\$850,000,000	38	\$22,368,421	3
US Agency Securities - Noncallable	\$730,945,000	62	\$11,789,435	5
US Tsy Bonds/Notes	<u>\$55,000,000</u>	<u>3</u>	<u>\$18,333,333</u>	<u>0</u>
Subtotal	\$2,017,818,000	130	\$15,521,677	11
Term Repos	\$1,923,829,000	15	\$128,255,267	1
Repo's	<u>\$109,248,066,000</u>	<u>1,123</u>	<u>\$97,282,338</u>	<u>94</u>
Subtotal	\$111,171,895,000	1,138	\$97,690,593	95
Grand Total	\$127,100,819,000	1,761	\$72,175,366	147

* Does not include securities that were called or sold prior to maturity

Appendix D

Pricing Table for Custodial Service

(See Microsoft Excel spreadsheet provided.)

Appendix D

Pricing Tables

Instructions to Bidders

1. Bidders must complete and return the pricing tables in this Appendix in Volume II of their proposal.
2. Each service listed shall be priced, and the cost extended by the bidder to complete the Estimated Annual Cost for the service.
3. For any service listed that has no charge or does not apply, insert zero (0) for the unit price and the estimated annual cost.
4. Please indicate, in the cells provided in the pricing tables, your financial institution's name or category for the charge being quoted if it differs from the name applied by the STO.
5. Additional service costs that apply to the services requested in this RFP may be included in the applicable section of the pricing page. The bidder shall adequately identify the service, the volume shall be estimated, and the fixed price extended to the Estimated Annual Cost. The volume estimate shall be documented in an addendum to the pricing page. Additional pricing items added by the bidder, which do not include adequate documentation of the service or the volume estimate may be disallowed by the STO as a chargeable item, or may be capped at the extended Estimated Annual Cost each year.
6. Modifications to the Pricing Tables should not be made without the prior approval of the STO.
7. The prices quoted are firm, fixed prices applicable for the term of the contract. They will not be renegotiated. The **Contractor** may request pricing adjustments for changes in pass-through charges. Documentation verifying the rate changes must be submitted when requesting a pricing adjustment.

Appendix D
Pricing Sheet for Custodial Services

Note	Activity	Fee per Unit	Unit	Estimated Annual Volume	Estimated Annual Cost
A	ACH Debit Processed		per item	168	
A	ACH Credit Processed		per item	96	
A	Wire Transfer Incoming		per item	54	
A	Wire Transfer Outgoing		per item	54	
B1	Fed Securities Transferred In/Out		per item	400	
B2	Fed Securities Transferred In/out (Deliverable Collateral for Non-Tri-Party Repos)		per item	9,120	
C	Commercial Paper Transferred In/out		per item	1,000	
D	Monthly Account Service Fee		monthly	12	
	Implementation Cost		one-time	1	
E	Bloomberg Access		pass through	N/A	N/A
F	Bloomberg Access surcharge		monthly	12	
E	Bloomberg Phone Line		pass through	N/A	N/A
F	Bloomberg Phone Line surcharge		monthly	12	
G	<u>OTHER FEES</u>				
TOTAL COST					

EARNINGS CREDIT RATE	Indicate spread from 90-day T-bill rate (in basis points)	
-----------------------------	---	--

NOTES:

- A Assumes one incoming ACH credit and wire per day. Outgoing wires are estimated at 2-3 per week.
- B1 These fee code pertains to the STO's purchases of Fed securities (US Treasury and US Agency securities). Based on activity last fiscal year. There were approximately 250 separate purchases in FY 2007 and roughly 150 maturities.
- B2 These fee code pertains to repurchase agreements executed by the STO. Complete this section if your institution does not provide a tri-party repo facility and would charge a fee for the delivery and transfer out of deliverable collateral. Estimated Annual Volume is based on activity last fiscal year and assumes four (4) blocks of collateral per repurchase agreement.
- C Based on activity last fiscal year. There were approximately 500 separate purchases in FY 2007 and roughly the same number of maturities.
- D This is the fee for the establishment and maintenance of 4-5 accounts for the STO.
- E It is assumed the contractor will pass on the actual cost to the STO. If the contractor also charges an administrative surcharge to these costs, these should be indicated in the line below (see Note F).
- F Indicate any surcharge or administrative fee the contractor proposes to charge for the relevant pass-through cost or service.
- G Please specify any additional fees in the space provided

Appendix E

Earnings Estimate Form for Securities Lending

(See Microsoft Excel spreadsheet provided.)

STATE OF MISSOURI
Portfolio as of : 3/31/2008

Asset Class (A)	Total Portfolio (Face Value) (B)	# of Securities (C)	Average Par (D)	Lendable Portfolio (E)	Estimated % on Loan (F)	Est. Lendable Securities on Loan (G) = E x F	Estimated Spread (bp) (H)	Estimated Gross Investment Earnings (I) = G x H	Commission (J)	Estimated Net Earnings to Client (K) = I - (J x I)
Non-US Governments										
Repurchase Agreements	\$552,615,000	7	\$78,945,000	\$0	0%	\$0	N/A	\$0	N/A	\$0
Commercial Paper	\$481,508,000	23	\$20,935,130							
Time Deposits	\$884,952,045	1,031	\$858,343	\$0	0%	\$0	N/A	\$0	N/A	\$0
SubTotal	\$1,919,075,045	1,061	\$1,808,742							
US Governments										
Treasuries	\$64,500,000	7	\$9,214,286							
Agency Debt										
Discount Notes	\$92,727,000	8	\$11,590,875							
Non-callable Bonds	\$552,828,000	50	\$11,056,560							
Callable Bonds	\$1,139,394,000	100	\$11,393,940							
Mortgage Backed Sec	\$356,595,888	60	\$5,943,265							
Floating Rate Notes	\$52,555,000	7	\$7,507,857							
SubTotal	\$2,258,599,888	232	\$9,735,344							
TOTALS	\$4,177,674,933	1,293	\$3,230,994							

Appendix F

Acceptable Collateral

STATE OF MISSOURI
OFFICE OF THE STATE TREASURER

**SECURITIES ACCEPTABLE AS COLLATERAL
TO SECURE STATE DEPOSITS**

The securities described below are hereby designated as acceptable collateral for state funds on deposit, as required by Section 30.270 RSMo (as amended). The State Treasurer reserves the right to refuse to accept as collateral any security or securities on this list, or to request the submission of an alternate acceptable security or securities, if, in the sole discretion of the State Treasurer, the State Treasurer determines that such action will provide greater security for the deposit of state funds.

The securities described below are designated as acceptable collateral for the deposit of state funds. The listing is not intended to serve as, and should not be considered as a listing of legally authorized investment instruments.

1. Marketable Treasury securities of the United States.
2. Bonds or certificates of participation issued by the State of Missouri with an investment grade long-term rating from one of the Nationally Recognized Statistical Ratings Organizations (NRSRO's) or are secured by a federal agency guarantee (directly or through guaranteed loans), to include the following:
 - a. General obligation debt securities issued by the State of Missouri.
 - b. Revenue bonds issued by the Missouri Board of Public Buildings or Department of Natural Resources.
 - c. Revenue bonds of the Missouri Housing Development Commission, Missouri Health and Education Facilities Authority, Missouri Higher Education Loan Authority, Missouri Environmental Improvement and Energy Resources Authority, Missouri Agricultural and Small Business Development Authority, Missouri Industrial Development Board, or State-owned educational institutions.
 - d. Certificates of Participation (COP's) issued by the Missouri Board of Public Buildings or Public Fund Commissioners.
3. General obligation or revenue bonds with an investment grade long-term rating from one of the NRSRO's issued by of any of the following agencies:
 - a. Any city in this state having a population of not less than two thousand
 - b. Any county of this state

- c. Any school district situated in this state
 - d. Any special road district in this state
 - e. Bonds of any political subdivision established under the provision of Article VI, Section 30 of the Constitution of Missouri (City and County of St. Louis)
 - f. Any of the fifty states within the United States of America
4. Debt securities guaranteed by the United States or its agencies or instrumentalities, as follows:
- a. Debt securities of the Federal Farm Credit System
 - b. Debt securities of the Federal Home Loan Banks
 - c. Debt securities of the Federal National Mortgage Association (“Fannie Mae”)
 - d. Debt securities of the Student Loan Marketing Association
 - e. Debt securities of the Tennessee Valley Authority (TVA)
 - f. Debt securities of the Federal Agricultural Mortgage Corporation (“Farmer Mac”)
 - g. Debt securities of the Government National Mortgage Association (“Ginnie Mae”).
 - h. Debt securities of the Federal Home Loan Mortgage Corporation (“Freddie Mac”)
 - i. Guaranteed Loan Pool Certificates of the Small Business Administration (SBA)
 - j. Federal Home Administration insured notes (CBOs).
 - k. Public housing notes and bonds (“project notes and bonds”) issued by public housing agencies, guaranteed as to the payment of principal and interest by the government of the United States or any agency or instrumentality thereof.
 - l. Debt securities of the Resolution Funding Corporation (REFCORP).

Collateralization margins for pass-through mortgage-backed securities, SBA pool certificates and collateralized mortgage obligations shall differ from debentures

issued by such agencies. The only type of Collateralized Mortgage Obligations (CMO) that the Treasurer's Office will accept are Planned Amortization Classes (PAC's), Targeted Amortization Classes (TAC's) and sequential pay classes. Furthermore, Collateralized Mortgage Obligations must have a weighted average life not to exceed five years and pass the FFIEC High Risk Stress Test. No Strips, Z bonds, Mortgage Derivatives or Zeros are acceptable.

5. Tax anticipation notes issued by any county of class one in Missouri with an investment grade short-term rating from one of the Nationally Recognized Statistical Ratings Organizations (NRSRO's)
6. Surety bonds issued by an insurance company licensed under the laws of the State of Missouri whose claims-paying ability is rated in the highest category by Duff & Phelps, A.M. Best, Standard & Poors, or Moody's. The face amount of such surety bond shall be at least equal to the portion of the deposit to be secured by the surety bond.
7. Irrevocable standby Letter of Credit issued by a Federal Home Loan Bank possessing the highest rating issued by at least one NRSRO.
8. General obligation or revenue bonds issued by state or local government agencies within the fifty states, provided such bonds are rated in the highest category by at least one NRSRO.

The State Treasurer shall determine the collateralization margin (or "haircut") for each security type listed above, which may change from time to time subject to market conditions and other factors, but in no event shall be greater than the maximum limits allowed by law. The current collateralization requirements by security type are provided on Attachment "A".

The total market value of collateral must be equal to or greater than the collateralization margin set by the State Treasurer of the total amount of state time deposits (including accrued interest to maturity) plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund. All securities pledged as collateral by the depository will be held by the Missouri State Treasurer, in a segregated account. All collateral pledged must be delivered in bearer form, book-entry form, or in the case of fully registered certificates, placed into the nominee name of the custodian.



Sarah Steelman, State Treasurer



Claire McCaskill, State Auditor

Matt Blunt

Matt Blunt, Governor

Effective Date: 9-15, 2005

ATTACHMENT “A”
STATE OF MISSOURI
OFFICE OF THE STATE TREASURER

**COLLATERALIZATION REQUIREMENTS
FOR STATE DEPOSITS**

No.	Security	Collateralization Margin (“Haircut”)
1.	United States Treasuries	102%
2.	State of Missouri Bonds/Debt	102%
3.	Local/State Debt	
	a. Any city in this state having a population of not less than two thousand	102%
	b. Any county of this state	102%
	c. Any school district situated in this state	102%
	d. Any special road district in this state	102%
	e. Bonds of any political subdivision established under the provision of Article VI, Section 30 of the Constitution of Missouri (City and County of St. Louis)	102%
	f. Any of the fifty states within the United States of America	102%
4.	U.S. Agency Securities	
	Agency Debentures	102%
	SBA Loan Pools	105%
	Agency Mortgage-Backed Securities	105%
	Agency CMO’s (PACs, TACs and Seq. Bonds only)	105%
5.	Tax anticipation notes issued by any county of class one in Missouri	102%
6.	Surety bonds	100%
7.	FHLB Letter of Credit	100%
8.	Out-of-state Municipal Bonds	102%

See the State of Missouri’s Acceptable Collateral Policy for a more complete description of the above securities. The above collateralization requirements may change from time to time based on market conditions and other factors, but in no event shall be greater than the maximum limits allowed by law.

Appendix H

Securities Lending Cash Collateral Investment Guidelines

State of Missouri
Office of the State Treasurer
Securities Lending Cash Collateral Investment Policy

Objective

The investment strategy is to follow an investment program that ensures in priority order the following: safety of cash collateral, liquidity of securities lending portfolio, and return on cash collateral.

Authorized Investments

The following criteria for investment of Securities Lending cash collateral has been approved by the State Treasurer's Office (STO).

1. US Government Securities
There shall be no restrictions on the purchase of United States Treasury Bills, Notes, Bonds, or those instruments for which the full faith and credit of the United States are pledged for the payment of principal and interest. The final maturity on any purchases shall not exceed 397 days.
2. Federal Agency and Government Sponsored Enterprise Obligations
Commonly referred to as "Agencies", there are no restrictions to obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLNA), and the Federal Home Loan Mortgage Association (FHLMC): or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise. The final maturity on any purchases shall not exceed 397 days.
3. Repurchase Agreements
Those broker/dealers approved for repurchase agreement transactions shall be limited to broker/dealers for which a securities lending line has been approved by the State's securities lending agent. Repurchase agreements may also be executed with any approved bank. The maturity of repurchase agreements shall not exceed 90 days. There shall be no limitations as to the percentage of the securities lending portfolio that may be invested in overnight repurchase agreements. At the time of purchase, agreements extending longer than overnight with one particular counterparty shall not exceed 15% of the total cost value of the securities lending portfolio.

The following requirements shall apply to all repurchase agreement transactions:

- a. The lending agent on behalf of the State of Missouri will use a standard form of repurchase agreement such as the Bond Market Association (“BMA”) model repurchase agreement, or another form of agreement that contains comparable provisions, when entering into repurchase agreements.
- b. The lending agent shall perfect the security interest of the State of Missouri in the collateral underlying the repurchase agreement, so that to the maximum extent permitted by law, the State’s interest will be protected if there is a default by the other party to the repurchase agreement.
- c. Repurchase agreements entered into by the lending agent on behalf of the State of Missouri shall be adequately collateralized, i.e., the amount of collateral required at inception of a repurchase agreement transaction shall be equal to at least 102% of the principal amount of the transaction. In addition, the market value of the securities held as collateral shall be marked to the market daily during the entire term on the transaction and the repurchase agreement shall provide that additional collateral will be required from the broker/dealer or bank if the market value of the securities falls below the principal amount of the transaction plus accrued interest thereon.
- d. Any broker/dealer with whom a repurchase agreement is entered into must be a primary dealer in United States Government Securities reporting to the Federal Reserve Bank of New York.
- e. Acceptable collateral and margin percentages for repurchase agreements are as follows:

	Margin
U.S. Treasuries	102%
U.S. Government Agencies or sponsored Agencies	102%
U.S. Government Agency Mortgage Securities	102%
Conventional Pass Throughs (AA and AAA)	105%
Bankers’ Acceptances (A-1/P-1)	102%
Commercial Paper (A-1/P-1)	102%

- f. There is no maturity limitation for U.S. Treasuries, U.S. Government Agencies or sponsored Agencies, or U.S. Government Agency Mortgage Securities received as repurchase agreement collateral. Commercial Paper and Bankers’ Acceptances received as collateral must not exceed 180 days in maturity.

Investments detailed in items 4 and 5 below are further restricted to the percentage of the cost value of the securities lending portfolio in any issuer name to a maximum of 5% at the time of purchase. The aggregate amount of investments made in categories 4 and 5 below may not exceed 40% of the cost value of the securities lending portfolio at the time of purchase.

4. Bankers Acceptances

Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as bankers acceptances which are eligible for purchase by the Federal Reserve system, shall not exceed 180 days maturity which has been designated by Moody's Investor Services, Inc., as P1 and Standard and Poor's Corporation as A1 at the time of purchase. Only Bankers Acceptances of the highest credit rating (A1/P1), as provided by Standard & Poor's and Moody's may be purchased. Eligible bankers' acceptances are further limited to issuing banks that are organized and operating in the United States.

5. Commercial Paper

Commercial paper must be ranked P1 by Moody's Investor Service, Inc. and at least A1 by Standard & Poor's Corporation. It must be issued by corporations that are organized and operating within the United States, having assets in excess of \$500,000,000, and having an "A" or better rating on its long term debentures as provided by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 180 days maturity.

Maturity

1. A minimum of 25% of the securities lending portfolio must mature or be redeemable on any business day.
2. An instrument that is issued or guaranteed by the United States Government, any agency thereof, or by a corporation which has a variable rate of interest, set off a money market index (i.e. Fed Funds, Bills, LIBOR, CP, Prime), readjusted no less frequently than every 95 days shall have a final maturity not to exceed the limitations set in the State's investment policy.

Matched vs. Mismatched Loans/Investments

1. For a bonds borrowed program, at least 75% of the securities lending portfolio shall have matched maturities between securities lent and securities invested. Matched maturities include those investments associated with a term loan and overnight investments associated with open loans.
2. The maximum duration gap between loans and investments shall be 15 days.
3. The maximum life of term loans shall be 90 days.

Prohibited Investments

No investment shall be made that has the possibility of returning a zero or negative yield if held to maturity. These shall include, but are not limited to, inverse floaters, interest only strips derived from a pool of mortgages, and any derivative type investment instrument.

Derivative securities are:

1. Securities with underlying leverage risk (e.g., Interest Only/Principal Only Mortgage backed securities).
2. Securities with any structural principal reimbursement risk (e.g., Principal Exchange Rate Linked securities also known as PERLS).
3. Securities whose interest rate reset provisions are:
 - a. Based on a formula that magnifies changes in interest rates (e.g., floaters, inverse floaters, leverage floaters).
 - b. Tied to more than one index so that a change in the relationship between those indexes may result in the value of the investment instrument falling below par (e.g., dual index floaters)

No investment shall be permitted in securities issued the bidder, its holding company, affiliates or subsidiaries unless the State of Missouri authorizes such in writing.

Note: Any instrument not specifically identified in this policy, as an authorized investment must have prior approval by the State Treasurer's Investment Committee before purchasing.