



OKLAHOMA STATE TREASURER

Request for Proposal

MASTER CUSTODY SERVICES And/or SECURITIES LENDING SERVICES

March 12, 2010

**Scott Meacham
Office of the State Treasurer
2300 N Lincoln Blvd., Room 217
Oklahoma City, OK 73105-4895**

**Contract: Trish Cantrell
405.522.4234
trish.cantrell@treasurer.ok.gov**

(See Section 1.8 – Schedule of Events)

Intent to Bid is due March 19, 2010

**OKLAHOMA STATE TREASURER
REQUEST FOR PROPOSAL**

Master Custody and/or Securities Lending Services

TABLE OF CONTENTS

1.0	GENERAL INFORMATION FOR CONTRACTORS.....	3
2.0	BASIC CONTRACT TERMS.....	9
3.0	ORGANIZATION, BACKGROUND AND PERSONNEL.....	15
4.0	ACCOUNTING/REPORTING.....	17
5.0	MASTER CUSTODY/SAFEKEEPING.....	19
6.0	SECURITIES LENDING OPERATIONS.....	21
7.0	CONVERSION PROCESS.....	28
8.0	PERFORMANCE MEASUREMENT/PORTFOLIO ANALYTICS.....	29
9.0	SYSTEM CAPABILITIES.....	31
10.0	AUDIT CONTROLS/PROCEDURES.....	32
11.0	RELATED INFORMATION AND FEE STRUCTURE.....	33
	APPENDIX A OST ASSET ALLOCATION.....	34
	APPENDIX B AUTHORIZED INVESTMENTS.....	41
	APPENDIX C CASH COLLATERAL INVESTMENT POLICY AND GUIDELINES.....	43
	APPENDIX D SAMPLE PERFORMANCE REPORT.....	46
	APPENDIX E BID SHEET.....	47
	APPENDIX F NON-COLLUSION AFFIDAVIT.....	48
	APPENDIX G INTENT TO BID.....	49
	APPENDIX H OKLAHOMA STATUTE §62-90.....	50
	APPENDIX I OKLAHOMA STATE TREASURER’S INVESTMENT POLICY.....	51

Section One
GENERAL INFORMATION FOR CONTRACTORS

1.1 Background

The Oklahoma State Treasurer, Scott Meacham, is an elected State Official. The Treasurer is charged statutorily with the safekeeping and investment of state funds not immediately required for operations. The statutorily approved investments are primarily of a fixed income type and are delineated in Oklahoma Statute Title 62, § 89.2 and further restricted pursuant to the Treasurer's Investment Policy. The Treasurer also functions as Agent for certain state agencies that possess investment authority but request that the Treasurer execute and settle investment transactions through the Treasurer's Master Custodian. By law, the State Treasurer must competitively select a custodian bank every five (5) years. The Treasurer may select the incumbent custodian bank or a new bank. **Refer to Appendix I for the Oklahoma State Treasurer's Investment Policy. Oklahoma statutes can be reviewed at www.oscn.net.**

As delineated in Oklahoma Statute Title 62, § 90 the Treasurer is authorized to engage in a securities lending program. The Treasurer currently participates in a program and contemplates continued participation in such a program. However, the Treasurer reserves the right to limit or cease participation in securities lending at his discretion. Note that securities lending activity is presently confined to the General and Agency Accounts. Important statutory and investment policy constraints exist on the types of non-cash collateral which are permissible and on allowable investments for cash collateral. Refer to **Appendix C** for Cash Collateral Investment Policy and Guidelines.

The Treasurer performs all investment functions internally and does not use outside Investment Managers. The Office of the State Treasurer (OST) has a Chief Investment Officer who reports to the Treasurer as well as Accounting Department and a Securities Operations Department both of which report to the Deputy Treasurer for Operations. The Securities Operation Manager and supporting staff will coordinate daily interaction with the Master Custodian and Securities Lending Agent.

For securities lending purposes, the OST portfolio is presently comprised of U.S. Treasury Notes and TIPS, and obligations of agencies and instrumentalities of the U.S. government. **Appendix A** provides a recent portfolio position statement. In your responses, please particularly highlight your capabilities in working with this type of domestic, fixed-income portfolio. Please avoid repetition among the different questions, where possible.

The current Master Custodian/Securities Lending agent is the Northern Trust Company of Chicago, Illinois, which has acted in this capacity since August 1, 1999. Securities held by Northern are currently divided into four distinct accounts valued as of February 28, 2010:

- | | |
|---------------------------|--|
| 1. General Account | Investments made at the direction of the Treasurer. Cost basis is approximately \$4,030,431,945.79 . |
| 2. Agency Account | Investments made and held as Agent for other state agencies. Cost basis is approximately \$4,446,087.40 . |
| 3. Linked Deposit Account | Investments made at the direction of the Treasurer funding the Treasurer's Linked Deposit Program. Cost basis is approximately \$350,000.00 . |
| 4. Fiduciary Account | Investments made by the Treasurer at the direction of a Court or other entity in certain circumstances. This account is currently inactive. |

Firms may submit:

- (1) a Master Custody bid, or
- (2) a Securities Lending bid, or
- (3) a combination bid which includes Master Custody and Securities Lending bid.

A firm may have up to three (3) bids.

1.2 Purpose

This Request for Proposal (RFP) is designed to provide interested firms with sufficient information to enable them to prepare and submit proposals to provide Master Custody and/or Securities Lending Services for the Domestic Portfolio of the OST. A copy of this RFP without attachments is available on our website. Go to www.ok.gov/treasurer/Request_for_Proposals_Intentions_to_Bid/index.html.

1.3 Issuing Office

This RFP is issued by the OST and is to be the sole point of contact for this RFP.

1.4 Proposals

To be considered, firms must submit a complete response to this RFP as follows: Each proposal must be submitted in one (1) original clearly marked as such and five (5) copies to the OST, except as noted. In addition, please include one CD with a copy of your proposal in .pdf format or up to Microsoft Word 2002 SP3 format. The proposals must be signed by an official authorized to bind the firm to its provisions. This RFP, together with the contents of the proposal of the successful firm, will contain much of the contract provisions between the parties. Firms must submit a proposed securities lending agreement for review. The final written agreement will be subject to negotiation. However, the agreement may not contain provisions inconsistent with the basic contract

terms set forth in Section Two. All proposals submitted in a timely manner will be retained by OST.

1.5 Format for Required Information

All proposals submitted must conform to the following format. Proposals should be printed on 8.5” x 11” paper (one side only). To achieve a uniform review process and the maximum degree of comparability, proposals should be spiral bound on the left hand side or in a ring binder and organized in the following manner: documents submitted to OST must include eleven (11) tabbed sections. **Section 1 should contain the executive summary, section 2 should include the completed bid sheet and non-collusion affidavit, and sections 3 through 11 should correspond to those sections of this RFP.** The Executive Summary of the Proposal should be no longer than two (2) pages. It is strongly suggested that questions contained in the RFP should be repeated in the Proposal with the answers to the questions following. Any supplemental information thought to be relevant, but not applicable to the specified categories, should be provided as an appendix to the proposal.

EXAMPLE OF FORMAT FOR BID RESPONSE WHEN RESPONDING TO REQUESTS FOR INFORMATION:

“10.0 Questions related to software capability

- a. Please specify any limitations on the number of “Portfolios” or “Accounts” the system will handle.

The ACME Investment Accounting software can accommodate up to ten separate portfolios with five sub-accounts within each portfolio.

- b. How is the system date advanced? Can it be moved back?

The system date can only be advanced or moved back with the manual intervention of the Systems Administrator.

- c. Is the system capable of having certain tasks handled as “batch jobs”? Can these batch jobs be assigned user specified, run times?

The ACME Investment Accounting software can run batch jobs. The Systems Administrator can assign different run times for up to 25 users.”

1.6 Rejection of Proposals

The Treasurer reserves the right to reject any and all proposals received as a result of this RFP process. Any proposal judged to be incomplete will be rejected.

1.7 Amendments to the RFP

If it becomes necessary to revise after the response date, an amendment will be issued to all firms who returned the “Intent to Bid” located in **Appendix G**.

1.8 Schedule of Events (the following dates are subject to change by the State Treasurer)

March 12, 2010 - RFP is Issued

March 19, 2010 - Return “Intent to Bid” located in Appendix G

March 26, 2010 - Questions Regarding the RFP – In an effort to clarify any issues in this RFP, OST will respond to questions that are presented in writing. These questions will be consolidated into a single question and answer (Q&A) document. Questions received by 3:00 p.m. CST. Fax or e-mail will be the only acceptable means of communicating questions. Fax to the attention of Trish Cantrell at 405.522.0130 or e-mail questions to trish.cantrell@treasurer.ok.gov.

April 2, 2010 - Response to Questions – The consolidated Q&A will be distributed to all firms that returned the “Intent to Bid” form (**Appendix G**), via mail, regardless of whether they submitted questions or not.

April 16, 2010 Proposals Due – To be considered, all proposals must be submitted to OST in proper form by 3:30 p.m. CST to the address listed in section 2.4 of this RFP. Any proposal not received by this time will be rejected and returned unopened to the sender.

April 30, 2010 Proposals Reviewed – All proposals will be reviewed and evaluated by a committee of qualified personnel of OST.

May 3 thru May 7, 2010 - Finalist Presentations – Finalists may be required to make presentations in the office of OST before the State Treasurer and the selection committee. The costs associated with this presentation will not be reimbursed by OST.

May 10, 2010 - Announcement of Selection – OST will notify all firms that submitted a proposal of its selection, which will be subject to a successful negotiation of a contract with the selected firm.

May 10 – May 28, 2010 - Finalize Contract

June 1 – June 30, 2010 - Conversion

July 1, 2010 - Contract Start Date

1.9 **Incurring Costs**

All costs of preparation and presentation associated with your response to the RFP will be the responsibility of your firm.

1.10 **Prime Contractor (Firm) Responsibilities**

The selected firm will assume total responsibility for all services offered in the proposal whether they provide such services or utilize the services of a third party. The firm will be required to disclose any relationships it may have with respect to any services the firm proposes to provide as to whether these services are actually provided by the firm or by contractual arrangement with a third party. If such relationships exist, list which services and with whom.

1.11 **No Commissions or Finder's Fees**

The selected firm agrees:

- (a) That absolutely no commissions or finder's fees shall be paid to anyone or any organization resulting from the State of Oklahoma's award of a contract pursuant to this RFP, either arising from an agreement to pay a commission or finders' fee prior to or during the term of this contract; and,
- (b) To provide a statement as part of its response to this RFP, and prior to each contract renewal, that absolutely no commissions or finders fees have been paid to any subcontractor, broker, agent or other individual, organization or entity.

1.12 **News Release**

News releases pertaining to his project shall not be made without the prior written permission of the State Treasurer, and then only in coordination with this Office.

1.13 **Proposal Evaluation and Selection Criteria**

The following areas will be considered in making a selection:

- (a) **Understanding of OST's Needs.** OST will assess each firm's understanding of OST's needs. The firm's grasp of these needs and its approach to satisfying them are critically important to the selection process. A firm's responsiveness to this RFP will be weighed heavily in the decision.
- (b) **Qualifications.** The firm's commitment to the operational services, individual expertise and experience of its personnel are as important as the firm's ability to provide the services. To be eligible for selection, the firm selected must have a **minimum of \$500 million in assets** and shall allow electronic access to all transaction and portfolio reports by OST, the State Treasurer and to each member of the Cash Management and Investment Oversight Commission. The selection

committee will also weigh heavily the firm's quality, both in terms of services and personnel, technological commitment, and comments from the references which must be provided. The committee will carefully consider the experience of other public entities which have utilized the firm's services.

Any out of state firm selected as the master custody and/or securities lending agent must have a service agent in the State of Oklahoma so that service of summons or legal notice may be had on such designated agent as is now or may hereafter be provided by law. Service agents must be designated by the time the contract begins. The firm selected as the master custody and/or securities lending agent must not permit any of the state's funds or any of the documents, instruments, securities, or other evidence of a right to be paid money to be located in any place other than within a jurisdiction or territory under the control or regulatory power of the United States Government.

- (c) **Security.** OST is extremely concerned with the safeguarding of assets and the integrity of data. Therefore, firms should be cognizant of this issue and address security issues throughout the response. The firm should be prepared to present disaster recovery procedures in place or planned, as well as to discuss back-up procedures and/or facilities.
- (d) **Available Facilities.** Emphasis by the committee with respect to the physical facility where processing takes place will include the location, technology and security of the facility. It is possible that OST may wish to visit the facilities at OST's cost prior to awarding the contract.
- (e) **Cost.** While cost is always an important issue for any governmental body, it will not be a deciding factor by itself. The lowest bidder will not necessarily be awarded the business if, in the opinion of the Treasurer, another firm can better meet the overall goals and objectives of OST.

Section Two

BASIC CONTRACT TERMS

2.1 Term of Contract

The anticipated term of this contract is for one (1) year period beginning July 1, 2010 with four (4) additional one (1) year renewal periods under the same terms and conditions. Renewal periods are at the option of OST.

2.2 Termination for Cause

OST may terminate this contract, or any part of this contract, for cause under any one of the following circumstances:

- (a) The firm fails to make delivery of services as specified in this contract; or
- (b) The firm fails to perform any of the provisions of this contract, fails to perform in a professionally acceptable manner, or fails to timely perform, as to endanger the ability of OST to perform its duties.

OST shall provide the firm with written notice of the condition(s) endangering performance. If the firm fails to remedy the condition(s) within ten (10) days from the receipt of the notice (or such longer period as may be authorized in writing), OST shall issue the firm an order to stop work immediately. Receipt of the notice shall be presumed to have occurred within three (3) days of the date of this notice.

In the event the Treasurer believes that the assets of the state are in jeopardy, or there is a bona-fide emergency related to these assets, OST can cancel the contract immediately or upon such notice as is reasonable.

2.3 Termination for Convenience

OST may terminate performance of work under this contract in whole or in part whenever, for any reason, if OST shall determine that the termination is in the best interest of OST or the State of Oklahoma. In the event that OST elects to terminate this contract pursuant to this provision, it shall provide the firm written notice at least thirty (30) days prior to the termination date. The termination shall be effective as of the date specified in the notice. The firm shall continue to perform any part of the work that may not have been terminated by the notice. In the event termination occurs under this provision such shall be without liability to OST, the State of Oklahoma and any officer and employee thereof.

2.4 Notices

All notices, demands, requests, approvals, reports, instructions, consents or other communications (collectively 'notices') which may be required or desired to be given by either party to the other after the effective date of the contract shall be in writing and shall be made by personal delivery or sent by United States certified mail, postage prepaid, return receipt requested or by overnight delivery, prepaid, addressed as follows:

Scott Meacham
Office of State Treasurer
2300 North Lincoln Blvd., Room 217
Oklahoma City, OK 73105-4895

Or to any other persons or addresses as may be designated by notice from one party to the other.

2.5 Rights and Remedies

If this contract is terminated, OST, in addition to any other rights provided for in this contract, may require the firm to transfer title and deliver to OST in the manner and to the extent directed, any material or work product generated under this contract. OST shall be obligated only for those services, materials and work product rendered and accepted prior to the date of termination.

If it is determined, after notice of termination for cause, that the firm's failure was due to causes beyond the control of or negligence of the firm, the termination shall be a termination in the best interest of OST.

In event of termination, the firm shall receive payment pro rated for that portion of the contract period services were provided to and were accepted by OST subject to any offset by OST for actual damages.

The rights and remedies of OST provided for in this contract shall not be exclusive and are in addition to any other rights and remedies provided by law.

2.6 Force Majeure

The firm shall not be liable if the failure to perform this contract arises out of acts of nature, fire, quarantine or strikes other than by the firm's employees.

2.7 Waiver

Waiver by OST of any breach of any provision in this contract shall not be a waiver of any prior or subsequent breach. Any waiver shall be in writing and any forbearance or indulgence in any other form or manner by OST shall not be constitute a waiver.

2.8 Ownership

All data, forms, procedures, software, manuals, system descriptions and work flows developed or accumulated by the firm specifically to perform under this contract shall be owned by OST. The firm may not release any of such materials without the written approval of OST.

2.9 Independent Contractor

Both parties, in the performance of this contract, shall be acting in their individual capacity and not as agents, employees, partners in a joint venture or associates of one another. The employees or agents of one party shall not be construed to be the employees or agents of the other party for any purpose. However, this shall not prevent a joint proposal submitted by more than one financial institution, if the relationship is disclosed in the proposal and accepted by OST.

The firm accepts full responsibility for payment of unemployment insurance, workers compensation and social security as well as all income tax deductions and any other taxes or payroll deductions required by law for its employees engaged in work authorized by this contract.

2.10 Staff Qualifications

The firm shall warrant that all persons assigned by it to the performance of this contract shall be employees of the firm (or specified subcontractor) and shall be fully qualified to perform the work required. The firm shall include a similar provision in any contract with any subcontractor selected to perform work under this contract.

Failure of the firm to provide qualified staffing at the level required by the proposal specifications may result in termination of this contract for cause.

2.11 Conflict of Interest

The firm shall not knowingly employ, during the period of this contract or any extensions to it, any professional personnel who are also in the employ of OST or the State of Oklahoma and who are providing services related to this contract or services similar in nature to the scope of this contract with OST. Furthermore, the firm shall not knowingly employ, during the period of this contract or any extensions to it, any state employee who has participated in the drafting of this request for proposals or evaluation of the proposals, until at least one year after such person's termination of employment with OST or the State of Oklahoma.

The firm shall disclose any apparent or potential conflict of interest or affirm that it has none. The firm shall have no interest, direct or indirect, that could be perceived to conflict in any manner or degree with the performance of services required under this

contract. The firm shall not engage in any conduct that violates or induces others to violate provisions in the Oklahoma Statutes regarding the conduct of public employees.

2.12 Confidentiality

The firm may have access to private or confidential data maintained by OST to the extent necessary to carry out its responsibilities under this contract. The firm must comply with the Oklahoma Open Records Act, as directed by OST.

No private or confidential data collected, maintained or used in the course of performance of this contract shall be disseminated by the firm except as required by statute or order of a court of competent jurisdiction, either during the period of the contract or thereafter. The firm must agree to return any and all data furnished by OST promptly at the request of OST in whatever form it is maintained by the firm. On the termination or expiration of this contract, the firm will not use any such data or any material derived from the data for any purpose and where so instructed by OST, will destroy or render it unreadable.

2.13 Nondiscrimination, Workplace Safety and Environmental Protection

The firm agrees to abide by all state, federal and local laws, rules and regulations prohibiting discrimination in employment, controlling workplace safety, and protection of the environment. The firm shall report any violations to the applicable government agency. Any violation of applicable laws, rules and regulations may result in termination of this contract.

2.14 Hold Harmless

The firm shall hold harmless and indemnify OST against any and all liability and claims for injury to or death of any persons; liability and claims for loss or damage to any property; liability and claims for infringement of any copyright or patent occurring in connection with or in any way incidental to or arising out of the occupancy, use, service, operations or performance of work under this contract; and any other liability and claims made against OST resulting from the operation or performance of work under this contract.

OST shall not be precluded from receiving the benefits of any insurance the firm may carry which provides for indemnification for any loss or damage to property in the firm's custody and control, where such loss or destruction is to state property. The firm shall do nothing to prejudice OST's right to recover against third parties for any loss, destruction or damage to state property.

2.15 Care of State Property

The firm shall be responsible for the proper care and custody of any personal property owned by OST and furnished to the firm in connection with the performance of this

contract, and the firm will reimburse OST for such property loss or damage caused by firm.

2.16 Prohibition of Gratuities

Neither the firm nor any person, firm or corporation employed by the firm in the performance of their contract shall offer or give any gift, money or anything of value or any promise for future reward or compensation to any OST or state employee at any time.

2.17 Retention of Records

Unless OST specifies in writing a shorter period of time, the firm agrees to preserve and make available all of its books, documents, papers, records and other evidence involving transactions related to this contract for a period of at least five (5) years from the date of the expiration or termination of this contract.

Matters involving litigation shall be kept for one (1) year following the termination of litigation, including all appeals.

The selected firm agrees that authorized federal and state representatives, including but not limited to personnel of OST; auditors acting on behalf of the State; and/or federal agencies shall have access to and the right to examine records during the contract period and during the five (5) year post-contract period. Delivery of and access to the records shall be at no cost to the State.

2.18 Federal, State and Local Taxes-Contractor

OST makes no representation as to the exemption from liability of the firm from any tax imposed by any governmental entity.

2.19 Modification

This contract shall be modified only by the written agreement of the parties. No alteration or variation of the terms and conditions of the contract shall be valid unless made in writing and signed by the parties. Every amendment shall specify the date on which its provisions shall be effective.

2.20 Assignment

The firm shall not assign, convey, encumber, or otherwise transfer its rights or duties under this contract without the prior written consent of OST.

This contract may be terminated, at the option of OST in the event of its assignment, conveyance, encumbrance or other transfer by the firm without the prior written consent of OST.

2.21 Third Party Beneficiaries

Except as to OST, this contract shall not be construed as providing an enforceable right to any third party.

2.22 Non-Waiver of Defenses or State Jurisdiction

The State of Oklahoma and its agencies such as the Oklahoma State Treasurer's office, are constitutionally prohibited from entering into agreements which have the effect of waiving any defense in advance of litigation, limiting liability, or agreeing to indemnify a firm.

2.23 Applicable Law

The contract shall be governed by Oklahoma law without regard to principles of conflicts of law. Venue of any action arising from or under the contract shall be in the state or federal courts located in Oklahoma City, Oklahoma.

Section Three

ORGANIZATION, BACKGROUND AND PERSONNEL

- 3.1** Describe the background and ownership of the firm. Describe any material changes that have occurred in the past five (5) years. In your response, please discuss the following:
- (a) Year firm was formed.
 - (b) The ownership structure. Indicate entities that have an ownership stake of greater than 5% in the firm (name and percentage).
 - (c) Affiliated companies or joint ventures.
 - (d) Recent or planned changes to the ownership or organization structure.
 - (e) Importance of master custody and/or securities lending to your (and your parent's, if applicable) overall business strategy.
 - (f) Percentage of the firm's and parent firm's revenues attributable to master custody and/or securities lending activities in each of the last three (3) calendar years.
- 3.2** Provide one organization chart showing the operating interrelationships and authority within the master custodial service unit and within the organization. Provide another organization chart showing the operating interrelationships and authority within the securities lending group and within the organization.
- 3.3** Discuss the financial stability of your firm. Does your firm have in excess of \$500 million in assets? Provide the primary capital to assets and return on assets for the past five (5) years for periods ending December 31. Please list your S&P and/or Moody's rating of your commercial paper (if applicable), and ratings on long term debt. Please list all rating changes for the past five (5) years. Please comment on the firm's credit quality and overall financial strength.
- 3.4** How many accounts does your typical account administration/team manage? How do you determine the number of accounts assigned to each? How many accounts are assigned to the account administrator who would be assigned to OST's account and what are the total assets under administration for this person? Please address both the master custody and securities lending service areas in your response.
- 3.5** List all insurance coverage relevant to the department handling master custody functions and/or securities lending. Include insurance coverage with respect to any acts or omissions of directors, officers and other personnel resulting in loss of funds. Please indicate the type and amount.
- 3.6** Over the past five (5) years, has your firm or any officer or principal been involved in any business litigation, legal proceedings, or regulatory actions or investigations? If so, provide a brief explanation and indicate the current status.

- 3.7** Describe any ongoing educational sessions, user conferences, publications or other means for keeping clients fully educated and for providing a forum for new ideas and needs. Describe your approach to client servicing and product familiarization.
- 3.8** Do you have a plan/arrangements in place for an alternative work site should your facilities become inoperative because of fire, earthquake, terrorist attacks, etc.? Briefly describe your emergency and disaster recovery plans.
- 3.9** Please provide five (5) references that meet the following criteria:
- (a) Public funds customers of one (1) year or more.
 - (b) Please give preference to customers with portfolios similar to OST's.
 - (c) In addition to the five (5) required above, please include contacts from any accounts which were terminated or not renewed in the last two (2) years.
 - (d) Any firm contemplating using a third party subcontracting arrangement should supply references that utilize arrangements and identify the structure of the relationship for each reference.

Please provide the name, title, address and telephone number of reference contacts. If you cannot meet the criteria listed above, please explain why.

Section Four

ACCOUNTING/REPORTING

- 4.1** Provide a complete description of your accounting system including, but not limited to:
- (a) Processing cycles (cut-offs, etc.)
 - (b) Reconciliation reports and processes
 - (c) Interfaces with securities movement
- 4.2** Discuss your standard reporting package for the master custody and/or securities lending program.
- (a) How frequently are reports produced?
 - (b) Please provide your Pricing Policy.
 - (c) Describe any unique features of your standard reporting package.
 - (d) What steps are taken to ensure accuracy of the reports?
 - (e) Are reports audited before being available to clients?
 - (f) How soon after month end are audited reports available?
 - (g) Provide a copy of your standard month end reporting package.
 - (h) Do you offer a free rebate for late or inaccurate reports?
- 4.3** Discuss your online reporting information and information export capabilities for the master custody and/or securities lending program.
- (a) Are custody and/or securities lending data available via the Internet? If so, what standard reports are available? How current is on-line information? Are pending transactions reported?
 - (b) What information is updated for download on a daily basis? (Holdings in cash collateral, investment account, securities on loan, loans outstanding, days out of loan, term or open trades, borrowers for each block of securities lent, collateral portfolio details, collateralization levels, earnings and other weekly and monthly reporting requirements, etc.) How often is the information updated?
 - (c) Discuss training of client personnel in the use of the online system. Is a help line available for the online system?
 - (d) Are customized reports available online? If so, describe custom reporting flexibility and limitations. Can standard and custom reports be exported? If yes, what spreadsheets or other tools can the client use to import these reports? How many clients are currently using your online service?
 - (e) Which reports are not available online?
- 4.4** What reporting is provided to assist in satisfying GASB 28 requirements? Please provide examples.

- 4.5** What reporting is provided to assist in satisfying GASB 40 requirements? Please provide examples.
- 4.6** Is your on-line system web based technology? If client server, which network operating system(s) are used and what are the requirements for the data base, memory, and disk storage?
- 4.7** Are you willing and able to prepare special reports from available data? Is there an extra charge for this service? If so, provide your schedule.
- 4.8** Does your system report or accommodate trade date, contractual settlement date, cash basis accounting or a combination? What other methodologies are available?
- 4.9** Can your system maintain the original face amount purchased and the book value at original cost? Also, does it maintain the current value at amortized/accreted cost, average cost, or some other cost based on an accepted costing method?

Section Five

MASTER CUSTODY/SAFEKEEPING

NOTE: If not bidding Master Custody Services, please disregard this section.

- 5.1 Briefly describe your master custody service capabilities including those items which set you apart from your competition.
- 5.2 Identify and provide biographical information for key professionals in charge of master custody/safekeeping including the account administrator who would be assigned to this account. Include name, title, responsibilities, years experience, years with firm, degrees and/or professional designations.
- 5.3 How many professional staff are devoted exclusively to the delivery of master custody services? What structural approach is used in this area (i.e., account team, account administrator with support group, etc.)? Discuss causes and impacts of personnel turnover (departures, hiring or promotions) of the professional staff in the master custody/safekeeping group during the past three (3) years. Discuss your firm's transition plan for the sudden departure of key professionals in this area.
- 5.4 Do you have legal staff dedicated solely to master custody/safekeeping?
- 5.5 Describe your U.S. depository memberships (i.e., DTC, PTC, Federal Book Entry) and the services you use at these depositories. Describe your system for the registration and custody of assets.
- 5.6 Briefly describe your securities settlement process.
 - (a) Describe your procedures and capabilities for settling and accounting for same day cash trades.
 - (b) Discuss your procedures for tracking failed trades and reporting failed trades to clients.
 - (c) Describe your procedure for ensuring that all interest and dividends are paid.
- 5.7 Are purchases and sale settlements made on an actual or contractual basis? If a contractual settlement approach is used, are there any stipulations or exceptions to this method?
- 5.8 What is the total of all assets held in custody? How many master custody clients does your firm service? What is the total market value of all master custody accounts? How many public fund master custody clients have you gained and lost in each of the past three (3) years? For each account lost, indicate the reason for termination.
- 5.9 How do you monitor legislative and/or regulatory changes affecting master custody administration? How are these changes communicated to clients?

- 5.10** List the firm's custodial relationship involving the State of Oklahoma, or any of its agencies or pension funds.
- 5.11** How much money (dollar amount) was spent on product development for master trust/custody during each of the past three (3) years? What is the targeted amount for this year?
- 5.12** How many people are assigned to product research and development? To whom do they report? Of the money reinvested in R & D, what percent is dedicated to staff, online maintenance and upgrades, and systems?
- 5.13** What percent of total annual revenues and profits does the Master Trust/Master Custody division represent? Show this information for the past five (5) years.
- 5.14** What is the institutional custody department's plan for growth in staff and clients?
- 5.15** What is the institutional custody department's plan for product development?

Section Six

SECURITIES LENDING OPERATIONS

NOTE: If not bidding Securities Lending Services, please disregard this section.

General Information

- 6.1** Briefly describe your firm's securities lending service capabilities including those items which set your firm apart from your competition.
- 6.2** Identify and provide biographical information for key professional in securities lending who would be assigned to this account. Include name, title, responsibilities, years experience, years with firm, degrees and/or professional designations.
- 6.3** How many professional staff are devoted exclusively to securities lending services? Discuss causes and impacts of personnel turnover (departures, hiring or promotions) of the professional staff in the securities lending group during the past three (3) years. Discuss your firm's transition plan for the sudden departure of key professionals in this area.
- 6.4** What are the compensation arrangements for the key professionals dedicated to providing securities lending services? Check all that apply.
- Base Salary
 Performance Bonus (Cash, Stock, Cash+Stock, etc.)
 Commission Only
 Profit Sharing Arrangement
 Other: _____
- 6.5** Do you have legal staff dedicated solely to securities lending?
- 6.6** Does the securities lending group have a dedicated credit analysis team, or is the team part of a larger credit analysis pool within the firm?
- 6.7** List and briefly describe any new securities lending services/product improvements that have been released in the past two (2) years or will be released within the next year. Discuss how the firm plans to make sure future growth does not compromise the integrity of your existing process and products.
- 6.8** Provide an overview of your securities lending operation, highlighting your expertise in lending domestic fixed income portfolios. Please include the following in your discussion:
- (a) How long has your firm offered securities lending?
(b) Is it performed in-house or contracted out?

- 6.9** Describe the structure of the group that manages the securities lending product.
- (a) Describe the role and relationships of lending, investment management, compliance operations, etc.
 - (b) Describe the communication links between the groups within the product area, and across product areas.
 - (c) Who has responsibility for oversight of the securities lending program?
- 6.10** Provide a list, including type (public plan, corporate plan, mutual fund), and total asset size of current securities lending clients for which you serve as:
- (a) Custodial lending agent
 - (b) Third party lending agent
 - (c) Principal lender
- 6.11** For each of the last three (3) years, provide a list of securities lending public fund clients gained and lost, and the respective estimated average annual asset values for each. Indicate length of time relationship and clients lost, state reason for termination. Please separate the information by custodial and third party lending clients.
- 6.12** Please provide a representative client list (at least five (5) public funds with lendable assets of \$1.0B or greater of assets).
- 6.13** Would your firm furnish securities lending client references? If so, please provide names and telephone numbers of five (5) references for securities lending relationships of similar size.
- 6.14** How do you monitor legislative and/or regulatory changes affecting securities lending administration? How are these changes communicated to clients?
- 6.15** List the firm's securities lending relationships involving the State of Oklahoma, or any of its agencies or pension funds within the past two (2) years.
- 6.16** FOR CUSTODIAL LENDING AGENTS ONLY: Describe the coordination that occurs between the custodial and the securities lending area of your firm. How does the lending area receive information on securities available, pending trades, in and out money transfers and failed trade status?
- 6.17** FOR THIRD PARTY LENDING AGENTS ONLY: Describe the roles and responsibilities of OST, our investment/securities operations managers, the custodian and the borrower in each of the following categories:
- (a) Daily transmission of availability files
 - (b) Loans of new securities
 - (c) Returns of securities
 - (d) Recalls

- (e) Corporate Actions B voluntary and mandatory
 - (f) Collateralization requirements and timing
 - (g) Market to market
 - (h) Income collection
 - (i) Reconciliations.
- 6.18** Describe in detail your procedures for recalling loans due to a client sale. Provide the sell/fail history of your lending program by asset type (U.S. Government and Agency securities only) for the past three (3) years.
- 6.19** Describe the allocation/queuing process and relevant entitlement methodology. Show calculations.
- 6.20** When, why and how does the firm intervene in the allocation or queuing process? Please describe.
- 6.21** Are there any asset classes or markets that you typically do not lend? Explain.
- 6.22** How does your firm vary its mismatch between the maturities of loans and investments?
- 6.23** Provide on a monthly basis for the three (3) year period ended 12/31/09 by asset class:
- (a) Average daily balance of outstanding loans
 - (b) Average market value of total lendable securities
 - (c) Average percentage of loans outstanding to lendable securities
 - (d) Total income earned, after payment of rebates, but prior to split with clients
 - (e) Average gross spread provided to your clients
 - (f) Average duration mismatch between securities loans and the cash collateral pool.

Approved Borrowers

- 6.24** Borrower selection and review.
- (a) Describe your process for approving borrowers and establishing credit limits.
 - (b) How and how often is credit worthiness reviewed? Describe the process and personnel devoted to this effort. Do you have special procedures when market volatility is high?
 - (c) How are maximum loan amounts set and monitored?
 - (d) How is a particular client's exposure to any one borrower limited or monitored? Can the client establish a limit for loans to a give borrower?
 - (e) Which area of your firm is responsible for credit analysis and how does it interact with the securities lending division?
 - (f) How will your firm address the provisions of Title 62 § 90 (**Appendix H**) which require OST to pre-approve borrowers?

- (g) With how many borrowers do you conduct business? How many are currently active? Please provide a list and identify those you consider your primary borrowers.
- (h) Describe the process of determining the rebate rate to the borrower. Is this fixed for the life of the loan?

6.25 Have you ever experienced a borrower default? If yes, provide details, such as your firm's dollar exposure and how clients were impacted. If no, please provide examples, if applicable, of instances where your procedures helped avoid a borrower default or led you to cease doing business with a particular counter-party.

6.26 Does your firm have compensation arrangements with borrowers beyond the normal form of negotiating rebates/fees that OST should know about?

6.27 Has the firm ever dismissed or penalized a borrower within its program? Please describe.

Indemnification

At a minimum, the Securities Lending firm must indemnify OST for borrower default.

6.28 How are clients indemnified against losses caused by borrower default? Please highlight indemnification language in your proposed contract, and cite the page number here.

- (a) Are there any dollar limitations on the amount of indemnification?
- (b) Are there any separate fees for indemnification?

6.29 Does your firm indemnify the client against collateral investment losses? Against broker default? Against all losses from participation in your firm's securities lending program?

6.30 Did your firm's program sustain losses (both realized and unrealized) due to the liquidity crunch of 2008/2009? Please describe.

6.31 What are the specific limitations on your firm's indemnification policy?

Process and Limits Thereof

6.32 Does your firm have an internal limit on how much of a client's portfolio of lendable assets can be lent on any given day? Describe the firm's policy.

6.33 Related to the question above, does your firm have an internal limit on how much of a client's lendable assets can be lent to a single borrower on any given day? What is the exposure limit? It is possible that a single client can be exposed to a single borrower at any given time?

Cash Collateral

Please refer to Appendix C for Cash Collateral Investment Policy and Guidelines.

- 6.34** Describe the philosophy and process used in the investment of cash collateral. Discuss the firm's policies and procedures for the valuation and monitoring of collateral market values.
- 6.35** Are client portfolios managed as separate accounts or in a commingled vehicle? Can a client request a separate account?
- 6.36** Please refer to **Appendix C** for authorized investments.
- (a) What measures are taken to assure compliance with the applicable investment guidelines?
 - (b) How do you handle securities that experience a credit rating downgrade, or fall into default?
- 6.37** As delineated in Oklahoma Statute Title 62, § 89.2 and 90, the types of securities which are permissible for investment of cash collateral are limited. Please refer to **Appendix C** for Cash Collateral Investment Policy and Guidelines.
- (a) Do you offer investment products that comply with these constraints? If various pools/products are offered, please provide portfolio characteristics for each for the three (3) years ending in December from 2007 to 2009. Please include, at a minimum, the portfolio's:
 - (1) Weighted average maturity
 - (2) Sector breakdown (U.S. Treasuries versus agencies, instrumentalities, etc.)
 - (3) Weightings in derivatives and mortgage-backs
 - (4) Please summarize portfolio guidelines and limitations, including a summary pertaining to derivatives.
 - (b) How is compliance with client specification assured?
- 6.38** Have clients ever had to share in losses resulting from investment activities, or were losses resolved in some other manner? How were clients impacted? Has your firm ever chosen to absorb investment related losses rather than pass them along to clients? Please describe any instances in which your firm distinguished itself by avoiding notable losses, if applicable.
- 6.39** Please provide investment returns (prior to any fee splits) yearly for the past three (3) years. Note if your returns are gross or net of any investment management fees. Please provide the weighted average maturity for the portfolio(s) for the same periods.
- 6.40** Do you have any suggested changes to **Appendix C** that would enhance earnings without increasing risk? Please describe.

Non Cash Collateral

- 6.41** As delineated in Oklahoma Statute Title 62, § 89.2 and 90 the types of securities which are permissible for non-cash collateral are limited. Please refer to **Appendix B** for a listing of eligible securities.
- (a) Can the client choose between cash versus non-cash collateral, or specify an acceptable mix between cash and non-cash collateral?
 - (b) How is compliance with client specifications assured?
- 6.42** Please list, from most to least common, the types of collateral you accept. Be as specific as possible regarding security breakdowns/descriptions (e.g., mortgage-backs) and note the percentage of total collateral that each type typically comprises.
- 6.43** OST requires an initial 102% collateral level for domestic securities.
- (a) Describe your mark-to-market procedures and frequency.
 - (b) How and how often are collateral calls/adjustments made?

Fees

- 6.44** Do you impose management or transactional fees for the investment of cash collateral?
- 6.45** Are any other charges deducted from earnings remitted to the client before or after the earnings split? If so, specify the amount(s). Are any amounts remitted to third parties before or after the earnings split? If so, specify the amount(s).

Contract

- 6.46** Include a copy of your standard securities lending agreement.

Securities Lending Performance

- 6.47** Please provide lending program annual performance data by security type for 2005, 2006, 2007, 2008, and 2009 for U.S. fixed income only, including both dollar revenues and total spreads. Please provide this information for your overall fixed income lending program, plus that for each of the firm's five (5) largest clients during the time period. Explain how the spread information was calculated.

Revenue and Collateral Reinvestment Management

- 6.48** Explain your firm's methodology for calculating a client's income and splitting methodology. Show calculations.
- 6.49** What is your firm's proposal for the revenue sharing arrangement and/or split of security lending income? Is the split also applicable to negative income if it occurs?

- 6.50** Furnish a revenue estimate of the securities lending income for OST for a one (1) year period ending December 31, 2009, utilizing the holding in the attached excel spreadsheet labeled as “OST Asset Allocation.” (Please note that the estimate is backward looking and not forward looking into the future. Utilize the holdings provided and assume that the holdings are in a buy and hold strategy from January 1, 2009 to December 31, 2009.)
- 6.51** Does the firm provide data to third parties such as Data Explorers, Equilend or Astec? If so, describe fee arrangements including any soft dollar compensation and whether this is shared with the beneficial owner. Also, describe access the beneficial owner would have to these databases.

Section Seven

CONVERSION PROCESS

- 7.1 Please describe your approach to the implementation and conversion process. Include an estimate conversion calendar, including actions required on the part of OST, the custodial bank, custodial lending agent and/or third party lending agent and the time frame to complete each task.
- 7.2 What dedicated resources (personnel, equipment, training of personnel, consultants, etc.), procedures, and controls will you provide or recommend in the conversion period to ensure that the conversion is completed successfully in both a timely and accurate manner?
- 7.3 How do you handle transactions and claims which are in process during the conversion period?
- 7.4 How do you ensure sufficient control during the conversion period to assure that the process is successfully completed in both an accurate and timely manner?
- 7.5 Explain your policy for ensuring that client personnel are properly trained on your policies, procedures, and on-line systems.
- 7.6 Give a detailed description of your last comparable conversion, and include the details of any specific problems that occurred and the solution instituted.
- 7.7 Please provide only one (1) copy of your conversion manual.
- 7.8 What costs for the client, if any, are associated with the conversion?
- 7.9 How do you handle the performance measurement files in the conversion process? How would performance history be converted from the previous custodian?
- 7.10 Provide a summary of the problems that you reasonably expect to occur during a custody service conversion and your approach to resolving these anticipated problems.

Section Eight

PERFORMANCE MEASUREMENT/PORTFOLIO ANALYTICS

Since OST's portfolio is limited by statute to fixed income instruments, please particularly highlight those services that address domestic, fixed income investments. **Appendix B** provides more detail on permissible investments, and **Appendix A** provides a recent portfolio position statement.

Performance Measurement

- 8.1** Describe your performance measurement capabilities.
- 8.2** Describe how performance is computed, including:
- (a) Do you use dollar-weighted or time-weighted (or both) returns?
 - (b) Are market values adjusted for accruals?
- 8.3** Can rates of return be provided:
- (a) For the overall portfolio?
 - (b) By asset class?
 - (c) By security?
 - (d) Over client-specified time periods?
- 8.4** Can different accounts be combined for performance reporting and analysis? Can this be accomplished on-line?

Performance Comparison

- 8.5** List domestic, fixed income indices or benchmarks that are available. What characteristic data on these indices (such as sectors, duration, average coupon, etc.) do you provide?
- 8.6** OST is currently required to compare performance of the General Account and, separately, the Agency Account to the Merrill Lynch U.S. Treasury Note 1 year benchmark.
- (a) Can the benchmarks you offer be blended to create custom indices?
 - (b) Are you able to segment the portfolio in different client-specified ways in calculating performance?
 - (c) Are you able to calculate performance on non-custodied assets if provided with transactional data and accrued interest? OST invests in the following types of instruments that are not custodied by the Master Custodian:
 - (1) Tri-Party Repurchase Agreements
 - (2) Money Market Mutual Funds

- (3) Collateralized Time Deposits placed in State Banks
 - (4) State of Oklahoma Bond Issues
- (d) Can your firm receive this data and provide results electronically?

Reporting

- 8.7** Are your performance measurement and portfolio analytics available on-line?
- 8.8** Can reports be tailored to meet individualized client needs?
- 8.9** How soon after period-end are preliminary and final performance reports available?
- 8.10** Provide examples of relevant performance measurement, comparison, and portfolio analytic reports.
- 8.11** Are you able and willing to backload data? Are there additional costs for this service?

Section Nine

SYSTEM CAPABILITIES

- 9.1** Describe your data processing support in the context of your master custody and/or securities lending and investment areas. At a minimum address the following:
- (a) Does your firm use specific hardware/software? If yes, is the system(s) networked to your firm's mainframe computer? Is your software custom, package, or a blend? How long have you used your current system(s)? Does your firm plan to change to another system(s) in the next three (3) years?
 - (b) Is your firm's hardware outsourced? If yes, where is the hardware located? If yes, do you have any plans to change vendors, locations, or to bring this back-in house in the next three (3) years? If not currently outsourced, does your firm have any plans to outsource your hardware in the next three (3) years?
 - (c) Describe your firm's system security for hardware, software and files, including any upstream system(s) to which you are networked.
 - (d) Describe your firm's back-up/disaster recovery plan. Describe real situations or rehearsals that have taken place in the last two (2) years. What is the frequency and nature of your firm's disaster recovery rehearsals?

Section Ten

AUDIT CONTROLS/PROCEDURES

- 10.1** For your audited fiscal years 2008 and 2009 (if 2009 is unaudited, please submit years 2007 and 2008) provide copies of each report issued as described below. Include management responses, if any, to all the audit reports provided.
- (a) **EXTERNAL AUDIT REPORTS AND MANAGEMENT REPORTS INCLUDING SAS 70 REPORTS COVERING MASTER CUSTODY AND/OR SECURITIES LENDING CONTROL FUNCTIONS**
 - (1) Independent Certified Public Accountants
 - (2) Securities and Exchange Commission
 - (3) Comptroller of the Currency
 - (4) Other Government Agencies
 - (b) **INTERNAL AUDIT REPORTS AND MANAGEMENT RECORD**
 - (1) Contracted Performance and System Reviews, Audits and Evaluations
 - (2) Internal Audit and Review Reports
- 10.2** Describe the audit process associated with the monthly portfolio statements.
- 10.3** Do you routinely obtain and provide to clients SAS 70 reports covering master custody and/or securities lending control functions for continuous operating periods?

Section Eleven

RELATED INFORMATION AND FEE STRUCTURE

11.1 Fee Structure

- (a) Use the enclosed bid sheet located in **Appendix E**. The Non-Collusion Affidavit, located in **Appendix F**, must be signed and notarized.
- (b) List and briefly describe services included and not included in the fee quote. Any service, product, or report mentioned in the firm's response is presumptively included in the fee unless expressly excepted on the bid sheet.
- (c) Settlement frequency will be monthly.
- (d) Provide any finder's fee or finder's commission that has been paid or will be paid to any individual or organization outside your firm as a result of the establishment of a relationship with the Office of the State Treasurer.
- (e) Indicate the frequency your firm intends to submit billings.
- (f) Combination bids. The State Treasurer will also accept and consider a "combination" bid for master custody and securities lending services provided by any firm. The State Treasurer may award contracts to two separate entities. The combination bid may be for a lower cost or for the same cost as the separate bids.

- 11.2 Please refer to the following information in developing your response:
Refer to **Appendix A** for schedules of investments held in each of the three (3) active accounts. Assume these are the portfolios the engage firm will inherit.

Assume the following approximate transaction levels (Buys, Sells) per year:

<u>Account</u>	<u>Transactions</u>	<u>Dollar size in Millions</u>
General	93	\$ 5 to 67
Agency	2	\$ 2
Linked Deposit	0	\$ 0
Fiduciary	18	\$ 1

Assume one wire per day either to or from your firm for master custody.

Virtually all securities are DTC, PTC, or Federal Book Entry.

Plan to provide access to on-line reporting for one additional entity in addition to process for OST. This entity will provide all necessary computer and communications equipment required for their access.

**APPENDIX A
OST ASSET ALLOCATION**

SECURITY TYPE	CUSIP	MATURITY DATE	PAR	COST	RATE	MARKET VALUE
FEDERAL	31331GCF4	9/23/2011	35,000,000.00	34,660,547.95	3.13	36,268,750.00
FARM	31331GCF4	9/23/2011	35,000,000.00	34,486,539.65	3.13	36,268,750.00
CREDIT	31331GJY6	1/12/2011	12,000,000.00	12,014,752.20	1.60	12,124,524.00
	31331GJY6	1/12/2011	12,000,000.00	11,997,839.23	1.60	12,124,524.00
	31331GKY4	1/17/2012	12,000,000.00	12,012,892.44	2.00	12,232,560.00
	31331GKY4	1/17/2012	12,000,000.00	11,958,555.46	2.00	12,232,560.00
	31331GKY4	1/17/2012	15,000,000.00	15,073,050.00	2.00	15,290,700.00
	31331GKY4	1/17/2012	20,000,000.00	20,165,493.50	2.00	20,387,600.00
	31331GNQ8	4/24/2012	20,000,000.00	20,225,368.98	2.25	20,487,600.00
	31331GYP8	6/18/2012	30,000,000.00	30,206,316.63	2.13	30,646,800.00
	31331X6M9	10/4/2010	35,250,000.00	35,527,417.50	4.50	36,120,322.50
	31331XEN8	3/22/2010	14,420,000.00	14,412,964.32	4.88	14,459,453.12
	31331XMQ2	5/26/2010	12,940,000.00	12,886,428.40	5.00	13,089,586.40
	31331XW24	8/16/2010	24,250,000.00	24,382,405.00	5.00	24,788,107.50
	31331YDG2	11/8/2010	25,000,000.00	25,411,000.00	4.30	25,679,750.00
	31331YNJ5	1/18/2011	17,250,000.00	17,572,920.00	3.50	17,719,027.50
	31331YNJ5	1/18/2011	10,000,000.00	10,073,500.00	3.50	10,271,900.00
FEDERAL	3133MBJA6	5/14/2010	15,230,000.00	16,362,063.26	7.63	15,461,313.24
HOME	3133MBJA6	5/14/2010	10,000,000.00	10,764,194.24	7.63	10,151,880.00
LOAN	3133MBJA6	5/14/2010	10,000,000.00	10,765,661.27	7.63	10,151,880.00
BANK	3133MBJA6	5/14/2010	22,410,000.00	24,129,135.06	7.63	22,750,363.08
	3133X06Q7	8/13/2010	10,900,000.00	11,134,043.04	4.13	11,094,129.00
	3133X5RA8	4/15/2010	50,000,000.00	47,532,000.00	3.30	50,190,500.00
	3133X5RA8	4/15/2010	23,400,000.00	22,244,976.00	3.30	23,489,154.00
	3133XBSM8	5/12/2010	2,820,000.00	2,773,864.80	4.50	2,842,244.16
	3133XBZJ7	6/9/2010	30,000,000.00	29,628,830.30	4.50	30,356,400.00
	3133XCA86	6/22/2010	43,400,000.00	42,919,490.37	4.55	43,996,750.00
	3133XCUR2	9/10/2010	15,440,000.00	15,401,554.40	4.50	15,781,347.52
	3133XCVJ9	9/1/2010	25,000,000.00	25,245,500.00	4.96	25,593,750.00
	3133XDTA9	12/10/2010	10,000,000.00	10,422,200.00	4.75	10,336,320.00

3133XDTA9	12/10/2010	12,350,000.00	12,871,417.00	4.75	12,765,355.20
3133XDTA9	12/10/2010	11,375,000.00	11,991,230.96	4.75	11,757,564.00
3133XECU1	2/18/2011	12,000,000.00	12,729,317.28	4.63	12,483,456.00
3133XECU1	2/18/2011	14,000,000.00	14,793,628.24	4.63	14,564,032.00
3133XEMR7	2/4/2011	20,000,000.00	21,069,713.80	4.85	20,806,200.00
3133XEMR7	2/4/2011	16,715,000.00	17,458,650.35	4.85	17,388,781.65
3133XES83	3/12/2010	50,000,000.00	49,971,000.00	4.88	50,072,450.00
3133XES83	3/12/2010	8,980,000.00	8,923,527.11	4.88	8,993,012.02
3133XGDD3	8/19/2011	25,000,000.00	26,319,030.00	5.38	26,653,725.00
3133XGDD3	8/19/2011	20,000,000.00	20,936,372.20	5.38	21,322,980.00
3133XGDD3	8/19/2011	25,000,000.00	26,253,194.26	5.38	26,653,725.00
3133XGLE2	9/10/2010	3,810,000.00	3,867,092.85	5.13	3,912,660.45
3133XH2V3	10/13/2011	35,000,000.00	36,419,445.90	5.00	37,384,550.00
3133XHPH9	11/18/2011	25,000,000.00	25,856,051.50	4.88	26,719,975.00
3133XHPH9	11/18/2011	35,000,000.00	36,808,851.10	4.88	37,407,965.00
3133XHPH9	11/18/2011	13,000,000.00	14,050,660.00	4.88	13,894,387.00
3133XHRK0	12/9/2011	25,000,000.00	26,016,042.00	4.75	26,672,000.00
3133XHRK0	12/9/2011	15,000,000.00	15,664,407.90	4.75	16,003,200.00
3133XJVL9	3/11/2011	14,250,000.00	14,813,369.05	5.00	14,873,437.50
3133XNUP2	12/27/2010	21,900,000.00	22,116,766.20	3.82	22,516,047.00
3133XPWW0	3/11/2011	10,000,000.00	9,961,300.00	3.25	10,287,500.00
3133XPWW0	3/11/2011	20,000,000.00	19,908,920.00	3.25	20,575,000.00
3133XQU34	5/29/2013	18,000,000.00	19,032,903.00	3.63	19,093,932.00
3133XRC65	6/10/2011	44,250,000.00	43,413,675.00	3.38	45,812,467.50
3133XRM49	12/10/2010	10,000,000.00	10,166,238.46	3.88	10,267,110.00
3133XRRU6	7/1/2011	20,000,000.00	19,986,800.00	3.63	20,788,300.00
3133XRRU6	7/1/2011	10,000,000.00	10,049,539.90	3.63	10,394,150.00
3133XRT83	9/10/2010	25,900,000.00	25,874,299.19	3.38	26,326,754.30
3133XSCT3	10/20/2010	25,900,000.00	25,816,231.85	3.38	26,401,890.20
3133XSVR6	1/21/2011	16,000,000.00	16,016,569.12	1.63	16,180,000.00
3133XT4D5	3/16/2011	12,000,000.00	12,006,600.00	1.63	12,144,564.00
3133XTN85	11/7/2011	11,975,000.00	11,969,731.84	1.50	12,117,263.00
3133XUE41	8/22/2012	20,000,000.00	20,195,620.86	1.75	20,242,720.00
3133XUE41	8/22/2012	26,000,000.00	26,278,150.06	1.75	26,315,536.00
3133XUK93	9/14/2012	20,000,000.00	20,313,143.10	2.00	20,353,440.00

	3133XVEM9	11/21/2012	10,000,000.00	10,030,000.00	1.63	10,059,540.00
	3133XVMG3	11/5/2012	36,000,000.00	36,178,560.00	1.76	36,360,000.00
	3133XVNT4	12/14/2012	36,000,000.00	36,078,798.97	1.75	36,303,840.00
	3133XW7L7	1/16/2013	11,000,000.00	10,989,554.40	1.50	11,001,991.00
	3133XW7L7	1/16/2013	15,000,000.00	14,947,650.00	1.50	15,002,715.00
FEDERAL	3128X2HT5	12/16/2010	12,000,000.00	12,640,049.86	4.50	12,378,720.00
HOME	3128X4EL1	7/28/2010	24,675,000.00	25,242,003.86	4.63	25,117,176.00
LOAN	3128X4MP3	10/4/2010	9,000,000.00	9,064,890.00	4.75	9,231,840.00
MORTGAGE	3134A4QD9	7/15/2012	36,000,000.00	39,346,312.75	5.13	39,383,496.00
	3134A4QD9	7/15/2012	8,000,000.00	8,732,969.22	5.13	8,751,888.00
	3134A4VB7	7/12/2010	32,850,000.00	31,951,224.00	4.13	33,332,106.60
	3134A4VJ0	1/18/2011	17,000,000.00	17,901,680.00	4.75	17,649,094.00
	3137EAAB5	4/18/2011	10,000,000.00	10,484,129.87	5.13	10,520,890.00
	3137EAAB5	4/18/2011	34,250,000.00	35,609,831.29	5.13	36,034,048.25
	3137EAAF6	7/18/2011	20,000,000.00	20,846,956.00	5.25	21,287,180.00
	3137EAAF6	7/18/2011	20,000,000.00	20,815,625.00	5.25	21,287,180.00
	3137EAAX7	8/23/2010	20,000,000.00	20,182,200.00	5.13	20,470,880.00
	3137EAAZ2	10/25/2012	36,000,000.00	39,033,337.32	4.63	39,161,160.00
	3137EAAZ2	10/25/2012	10,000,000.00	10,836,579.65	4.63	10,878,100.00
	3137EABF5	2/25/2011	14,000,000.00	14,471,847.06	3.25	14,367,556.00
	3137EABV0	11/23/2010	12,900,000.00	12,917,286.00	2.88	13,146,402.90
	3137EABY4	3/23/2012	12,000,000.00	11,975,250.24	2.13	12,292,668.00
	3137EABY4	3/23/2012	20,000,000.00	20,171,343.36	2.13	20,487,780.00
	3137EACG2	1/9/2013	20,000,000.00	19,841,800.00	1.38	19,984,940.00
FNMA	31359M5H2	2/16/2012	12,000,000.00	13,033,131.36	5.00	12,958,128.00
	31359M5H2	2/16/2012	12,000,000.00	13,015,140.36	5.00	12,958,128.00
	31359M5H2	2/16/2012	20,000,000.00	21,807,800.00	5.00	21,596,880.00
	31359MF81	2/7/2011	7,535,000.00	7,892,030.60	5.05	7,859,984.55
	31359MGJ6	11/15/2010	13,000,000.00	14,250,225.45	6.63	13,582,998.00
	31359MGJ6	11/15/2010	19,250,000.00	20,716,250.09	6.63	20,113,285.50
	31359MJH7	5/15/2011	10,000,000.00	10,749,724.50	6.00	10,664,000.00
	31359MJH7	5/15/2011	14,250,000.00	15,135,067.50	6.00	15,196,200.00
	31359MLS0	11/15/2011	10,000,000.00	10,579,584.95	5.38	10,784,590.00
	31359MLS0	11/15/2011	13,325,000.00	14,585,411.75	5.38	

							14,370,466.18
	31359MYL1	7/28/2010	5,050,000.00	4,961,241.20	4.70	5,141,556.50	
	31359MYL1	7/28/2010	6,350,000.00	6,273,101.50	4.70	6,465,125.50	
	31359MZ30	10/15/2011	35,000,000.00	36,981,230.65	5.00	37,421,545.00	
	31398ARH7	5/19/2011	20,000,000.00	20,063,800.00	3.38	20,702,940.00	
	31398ASU7	8/12/2010	15,000,000.00	15,043,266.45	3.25	15,207,510.00	
	31398AUA4	1/9/2012	11,325,000.00	11,458,364.07	2.00	11,564,874.83	
	31398AVQ2	3/23/2011	16,000,000.00	15,990,880.00	1.75	16,216,768.00	
	31398AVQ2	3/23/2011	12,000,000.00	12,004,328.64	1.75	12,162,576.00	
STATE OF ISRAEL	46513FLK3	6/1/2010	10,000,000.00	10,000,000.00	2.47	10,000,000.00	
BONDS	46513GBD8	11/1/2012	10,000,000.00	10,000,000.00	1.48	10,000,000.00	
MORTGAGE	3128KUJA6	8/1/2037	30,000,000.00	17,400,767.70	6.00	18,644,052.55	
BACKED	3128KV7K5	9/1/2037	45,000,000.00	26,019,641.70	6.00	27,878,745.10	
	3128M4UJ0	6/1/2037	30,000,000.00	19,251,730.20	6.00	20,627,266.32	
	3128M4ZX4	8/1/2037	5,000,000.00	2,581,773.85	6.00	2,766,241.59	
	31371MZU4	10/1/2021	5,000,000.00	1,824,862.55	5.50	1,951,270.78	
	31403DSP5	7/1/2036	15,131,000.00	6,984,028.98	6.00	7,430,664.62	
	36202E2A6	2/20/2039	40,000,000.00	35,238,655.60	5.00	36,730,660.28	
	36202E3E7	3/20/2039	20,000,000.00	19,304,112.60	4.50	19,624,946.95	
	36202E4G1	4/20/2039	40,000,000.00	38,805,602.49	4.50	39,450,551.60	
	36202E5F2	5/20/2039	151,195,392.00	147,486,665.04	4.50	149,937,893.41	
	36202E7G8	7/20/2039	70,865,580.00	69,475,886.13	4.50	70,630,505.88	
	36202EHR3	4/20/2036	31,931,240.00	18,579,251.91	5.00	19,387,133.52	
	36202ELW7	1/20/2037	10,000,000.00	4,566,857.30	6.00	4,891,652.19	
	36202ENA3	5/20/2037	26,137,262.00	14,815,987.09	5.50	15,703,464.72	
	36202EPA1	8/20/2037	22,500,000.00	10,323,476.80	6.00	11,057,682.47	
	36202EPB9	8/20/2037	61,500,000.00	23,517,369.56	6.50	25,345,680.42	
	36202EPN3	9/20/2037	67,648,880.00	24,879,943.23	6.50	26,814,184.66	
	36202EPX1	10/20/2037	31,565,332.00	15,904,790.21	5.50	16,857,487.14	
	36202EQM4	12/20/2037	20,852,990.00	9,361,471.84	6.00	10,027,634.18	
	36202EQZ5	1/20/2038	17,371,299.00	9,813,781.19	5.50	10,392,990.56	
	36202ERD3	2/20/2038	35,855,051.00	20,891,202.20	5.50	22,124,200.95	
	36202ERT8	3/20/2038	48,999,830.00	31,963,013.31	5.50	33,849,470.36	
	36202ES91	5/20/2038	20,000,000.00	13,505,725.00	5.50	14,302,832.89	

36202ESB6	4/20/2038	14,104,000.00	9,392,415.79	5.50	9,946,756.17
36202ESC4	4/20/2038	82,000,000.00	44,765,223.99	6.00	47,902,505.18
36202ETA7	5/20/2038	43,000,000.00	23,443,746.77	6.00	25,086,684.54
36202EUV9	7/20/2038	30,000,000.00	13,995,133.54	6.50	15,074,438.24
36202EW62	10/20/2038	15,000,000.00	7,306,618.80	6.50	7,870,068.71
36202EXU8	11/20/2038	9,000,000.00	5,258,280.87	6.00	5,626,781.19
36202EZE2	1/20/2039	38,763,648.00	36,220,825.56	4.50	36,822,815.68
36202EZF9	1/20/2039	27,170,795.00	22,967,177.12	5.00	23,939,607.40
36202FAU0	8/20/2039	31,660,363.00	31,078,158.37	4.50	31,594,677.36
36202FB39	10/20/2039	100,000,184.00	99,083,453.30	4.50	100,730,121.21
36202FBH8	9/20/2039	150,000,000.00	98,697,723.00	4.50	100,338,079.16
36200MLT8	5/15/2033	21,777,740.00	7,196,214.27	5.00	7,557,104.42
36202EWW7	10/20/2038	10,000,000.00	3,332,094.30	6.00	3,516,772.29
36202FDW3	1/20/2040	116,000,000.00	115,821,300.84	4.50	117,747,640.72
36210BYF6	3/15/2039	31,000,000.00	30,037,640.96	4.50	30,621,572.70
36241KD54	5/15/2035	35,780,000.00	18,067,027.46	5.00	18,934,967.46
36241KGU6	12/15/2035	9,148,041.00	5,535,143.97	5.00	5,793,878.74
36241KMX3	8/15/2021	99,689,482.00	29,777,768.42	5.50	31,895,861.09
36241KQA9	12/15/2034	44,530,361.00	32,849,471.86	5.00	34,449,898.13
36241KQE1	1/15/2038	13,205,671.00	6,057,265.40	6.00	6,475,095.57
36290SGC9	8/15/2033	14,428,165.00	5,268,386.58	5.00	5,532,596.17
36290TSH3	6/15/2036	55,563,070.00	21,496,048.82	6.00	23,003,136.80
36291XYK9	4/15/2035	6,468,965.00	3,662,973.98	5.00	3,836,342.54
36292CHY3	5/15/2035	27,799,578.00	13,628,928.62	5.00	14,273,985.81
36294SCV7	9/15/2036	4,453,000.00	1,592,080.31	6.00	1,703,701.06
36295B5E9	3/15/2038	23,778,102.00	15,128,707.01	6.00	16,156,309.30
36295P5C2	5/15/2038	20,000,000.00	7,689,906.36	6.00	8,212,204.80
36295QCC2	5/15/2038	20,000,000.00	12,475,986.58	5.50	13,224,296.26
36296QHR3	2/15/2039	20,000,000.00	18,938,396.80	4.50	19,306,559.23
36296QRM3	4/15/2039	20,000,000.00	19,024,790.20	4.50	19,394,632.12
36296QVQ9	6/15/2039	25,000,000.00	24,588,882.50	4.00	24,346,288.59
36296R2F3	9/15/2038	20,025,000.00	8,160,441.99	6.50	8,772,148.72
36296XHK3	12/15/2023	10,000,000.00	5,517,563.50	5.50	5,907,213.83
36296XR89	3/15/2039	31,000,000.00	29,725,034.17	4.50	30,302,888.83

MUNICIPAL	235036FK1	11/1/2017	7,500,000.00	7,742,550.00	5.50	7,890,450.00
BONDS	45188FAQ8	11/1/2038	7,500,000.00	7,336,350.00	4.88	7,637,025.00
	57586C6V2	10/1/2018	6,485,000.00	6,703,998.45	5.26	7,064,369.90
	57586C6V2	10/1/2018	6,000,000.00	6,072,360.00	5.26	6,536,040.00
	592646YX5	10/1/2017	10,790,000.00	11,108,520.80	5.00	11,763,473.80
	592646YZ0	10/1/2019	5,000,000.00	5,041,450.00	5.00	5,250,050.00
	64971MDD1	8/1/2017	15,000,000.00	15,319,050.00	5.21	16,161,300.00
	64971MDD1	8/1/2017	5,600,000.00	5,712,280.00	5.21	6,033,552.00
	677520P93	11/1/2018	5,025,000.00	5,718,048.00	5.00	5,865,180.00
	679087EZ5	7/1/2020	2,520,000.00	2,520,000.00	5.14	2,618,254.80
	679087EZ5	7/1/2020	1,350,000.00	1,350,000.00	5.14	1,402,636.50
	679087FA9	7/1/2021	3,000,000.00	3,000,000.00	5.19	3,046,110.00
	679087FB7	7/1/2022	3,000,000.00	3,000,000.00	5.24	3,130,230.00
	679087FG6	7/1/2019	3,000,000.00	3,000,000.00	5.04	3,123,480.00
	73358TR86	9/15/2016	5,325,000.00	5,298,854.25	4.75	5,530,704.75
	875128HL7	10/1/2018	3,000,000.00	3,421,860.00	5.50	3,519,870.00
	977100AB2	5/1/2018	5,000,000.00	4,950,000.00	5.20	5,246,800.00
OKLA		8/1/2019	10,000,000.00	10,000,000.00	5.15	10,000,000.00
INDUSTRIAL		8/1/2018	10,000,000.00	10,000,000.00	5.15	10,000,000.00
FINANCE		11/1/2019	10,000,000.00	10,000,000.00	5.15	10,000,000.00
AUTHORITY		11/1/2021	10,000,000.00	10,000,000.00	5.15	10,000,000.00
OK STUDENT	679110CS3X	12/1/2011	50,000,000.00	50,000,000.00	5.22	50,000,000.00
LOAN AUTHORITY						
US TIPS	912828FL9	7/15/2016	25,000,000.00	26,985,119.67	2.50	29,388,557.25
	912828GD6	1/15/2017	25,000,000.00	27,667,667.34	2.38	29,102,165.00
	912828JE1	7/15/2018	25,000,000.00	24,074,264.06	1.38	25,249,813.50
US TREASURY	912828DP2	3/15/2010	20,600,000.00	20,165,467.72	4.00	20,629,767.00
BONDS	912828DP2	3/15/2010	20,600,000.00	20,130,052.20	4.00	20,629,767.00
	912828DR8	4/15/2010	20,600,000.00	20,157,421.77	4.00	20,698,983.00
	912828DX5	6/15/2010	21,400,000.00	20,793,109.27	3.63	21,615,669.20
	912828DZ0	7/15/2010	21,900,000.00	21,916,253.74	3.88	22,207,103.70
	912828ED8A	8/15/2010	21,900,000.00	21,639,937.50	4.13	22,296,937.50
	912828EG1	9/15/2010	21,900,000.00	21,753,714.84	3.88	

							22,332,875.40
	912828EJ5	10/15/2010	21,900,000.00	22,024,898.33	4.25		22,450,916.40
	912828EM8	11/15/2010	21,900,000.00	22,180,582.80	4.50		22,556,145.90
	912828EQ9	12/15/2010	21,900,000.00	22,577,958.98	4.38		22,608,333.60
	912828ES5	1/15/2011	21,900,000.00	23,238,808.54	4.25		22,655,374.80
	912828GR5	5/15/2010	20,600,000.00	20,412,507.04	4.50		20,785,070.40
TOTAL			4,547,320,021.00	4,030,431,945.79			4,121,345,273.21

PORTFOLIO COMPOSITION							
AGENCY ACCOUNT							
28-Feb-09							
MUTUAL FUNDS	360802102		369,639.84	369,639.84			530,372.09
	939330106		369,627.62	369,627.62			423,008.12
	461308108		369,626.20	369,626.20			429,583.07
US T-BILL	912795UR0	5/20/2010	143,000.00	142,962.51	0.08		142,965.11
US TREASURY	912828EG1	9/15/2010	500,000.00	516,484.35	3.88		509,883.00
BONDS	912828KA7	12/15/2011	2,500,000.00	2,499,804.69	1.13		2,519,530.00
TNTB	912810DW5	5/15/2016	170,000.00	177,942.19	7.25		213,575.76
TOTAL			4,421,893.66	4,446,087.40			4,768,917.15

PORTFOLIO COMPOSITION							
LINKED ACCOUNT							
28-Feb-09							
FEDERAL	31331YWC0	3/3/2010	350,000.00	350,000.00	2.00		350,000.00
FARM CREDIT							
TOTAL			350,000.00	350,000.00			350,000.00

GRAND TOTAL			4,552,091,914.66	4,035,228,033.19			4,126,464,190.36
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APPENDIX B

Authorized Investments

As delineated in Okla. Stat. tit. 62, ' 89.2 (2001) the Treasurer is permitted to invest in the following classes of securities:

1. Obligations of the United States Government, its agencies and instrumentalities, or other obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities;
2. Collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations and credit unions located in this state;
3. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed ten percent (10%) of the cash available for investment which may be invested pursuant to this section. Not more than one-half (1/2) of the ten percent (10%) limit shall be invested in any one financial institution specified in this paragraph;
4. Prime banker's acceptances which are eligible for purchase by the Federal Reserve System and which do not exceed two hundred seventy (270) days' maturity. Purchases of prime banker's acceptances shall not exceed ten percent (10%) of the cash available for investment which may be invested pursuant to this section. Not more than three-fourths (3/4) of the ten percent (10%) limit shall be invested in any one commercial bank pursuant to this paragraph;
5. Prime commercial paper which shall not have a maturity that exceeds one hundred eighty (180) days nor represent more than ten percent (10%) of the outstanding paper of an issuing corporation. Purchases of prime commercial paper shall not exceed seven and one-half percent (7 1/2%) of the cash available for investment which may be invested pursuant to this section;
6. Investment grade obligations of state and local governments, including obligations of Oklahoma state public trusts which possess the highest rating from at least one nationally recognized rating agency acceptable to the State Treasurer. Purchases of investment grade obligations of state and local governments shall not exceed ten percent (10%) of the cash available for investment which may be invested pursuant to this section;
7. Repurchase agreements, provided that such agreements are included within the written investment policy required by subsection D of this section that have underlying collateral consisting of those items and those restrictions specified in paragraphs 1 through 6 of this subsection; and

8. Money market funds regulated by the Securities and Exchange Commission and which investments consist of those items and those restrictions specified in paragraphs 1 through 7 of this subsection.

9. Bonds, notes, debentures or other similar obligations of a foreign government which the International Monetary Fund lists as an industrialized country and for which the full faith and credit of such nation has been pledged for the payment of principal and interest; provided, that any such security shall be rated at least A- or better by Standard & Poor's Corporation or A3 or better by Moody's Investors Service, or an equivalent investment grade by a securities ratings organization accepted by the National Association of Insurance Commissioners; and provided further, that the total investment in such foreign securities at any one time shall not exceed five percent (5%) of the cash available for investment which may be invested pursuant to this section. In no circumstance shall investments be made in bonds, notes, debentures or any similar obligations of a foreign government that:

- a. is identified as a state sponsor of terrorism by the United States Department of State, or
- b. any authoritarian or totalitarian government the sovereign powers of which are exercised through a single person or group of persons who are not elected by any form of legitimate popular voting.



**SCOTT MEACHAM
OKLAHOMA STATE TREASURER**

APPENDIX C

CASH COLLATERAL INVESTMENT POLICY AND GUIDELINES

December 2008

I. Objectives:

The key objectives of the management of cash collateral supporting securities loans are:

- Safety Safety of principal is the foremost objective of the cash collateral investment program.
- Liquidity The cash investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements which might be reasonably anticipated.
- Return on Investment Consistent with the objectives noted above, optimize the spread between the collateral earnings and the rebate paid to the borrower of securities.

II. Eligible Investments:

The Agent is authorized to invest cash collateral supporting securities loans, as summarized and restricted below:

A. United States Treasury Bills, Notes and Bonds.

B. United States Government Agency Securities

1. Federal National Mortgage Association
2. Federal Home Loan Bank
3. Federal Farm Credit Bank
4. Federal Home Loan Mortgage Corporation
5. Government National Mortgage Corporation
6. Not more than twenty-five percent (25%) of the cash collateral available for investment shall be invested in any one issuer.

C. Negotiable certificates of deposit

1. Issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank.
2. Rating must be "A-1", "P-1", or the equivalent.
3. Purchases shall not exceed ten percent (10%) of the cash collateral available for investment.
4. Not more than five percent (5%) of the cash collateral available for investment shall be invested in any one financial institution as specified in this paragraph.
5. Maximum maturity of 270 days.

D. Bankers' acceptances

1. Eligible for purchase by the Federal Reserve System
2. Rating must be "A-1", "P-1", or the equivalent.
3. Maximum maturity of 270 days.
4. Purchases shall not exceed ten percent (10%) of the cash collateral available for investment.
5. Not more than five percent (5%) of the cash collateral available for investment shall be invested in any one commercial bank.

E. Time Deposits

1. Issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank.
2. Rating must be "A-1", "P-1", or the equivalent.
3. Maximum maturity of next business day.
4. Purchases shall not exceed seven percent (7%) of the cash collateral available for investment.
5. Not more than five percent (5%) of the cash collateral available for investment shall be invested in any one commercial bank.

F. Commercial paper

1. Rating must be "A-1", "P-1", or the equivalent.
2. Maximum maturity of 180 days.
3. Purchases shall not exceed seven and a half percent (7.5%) of the cash collateral available for investment.
4. Purchases shall not exceed five percent (5%) of the outstanding paper of an issuing corporation.
5. Not more than five percent (5%) of the cash collateral available for investment shall be invested in the commercial paper of any one issuing corporation.
6. Asset Backed Commercial Paper is not eligible.

G. Obligations of state and local governments, including obligations of Oklahoma state public trusts

1. Must possess the highest rating from at least one nationally recognized rating agency.
2. Purchases shall not exceed ten percent (10%) of the cash collateral available for investment.
3. Not more than five percent (5%) of the cash collateral available for investment shall be invested in the obligations of any one issuing government.

H. Repurchase agreements

1. With counterparties that have a minimum short-term debt rating of 'A-1' or equivalent by both Moody's Investor Service and Standard & Poor's and are either:
 - a. diversified securities broker-dealers who are members of the National Association of Securities Dealers having \$5 billion in assets and \$350 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; or
 - b. a bank, savings bank or savings and loan association having \$5 billion in assets and \$500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.
2. Subject to a minimum of 102% collateralization with daily updated valuation and have underlying collateral consisting of those items and those restrictions specified in paragraphs A through G.
3. Pursuant to a signed Master Repurchase Agreement with counterparties that governs each transaction requiring that:
 - a. each transaction be conducted on a delivery versus payment basis
 - b. the securities are held free and clear of any lien and by an independent third party custodian or OST's custodian acting solely as agent for the State and is a Federal Reserve Bank, or a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million
 - c. a perfected first security interest under the Uniform Commercial Code in such securities is created for the benefit of the State.
4. Maximum maturity of 90 days.
5. Purchases shall not exceed eighty-five percent (85%) of the cash collateral available for investment.
6. Not more than ten percent (10%) of the cash collateral available for investment shall be invested with any one counterparty.

I. Money market mutual funds and short term bond funds

1. Only SEC registered 2(A)7 funds are eligible.

2. Investments consist of those items and those restrictions specified in paragraphs A through G.
3. Rating must be “AAA”, or the equivalent.
4. Purchases shall not exceed twenty percent (20%) of the cash collateral available for investment.
5. Not more than five percent (5%) of the cash collateral available for investment shall be invested in any one fund.

J. Bonds, notes, debentures or other similar obligations of a foreign government

1. Must be listed as an industrialized country by the International Monetary Fund and for which the full faith and credit of such nation has been pledged for the payment of principal and interest.
2. Shall be rated at least A- or better by Standard & Poor’s Corporation or A3 or better by Moody’s Investors Service, or an equivalent investment grade by a securities rating organization accepted by the National Association of Insurance Commissioners.
3. Maximum maturity of 5 years.
4. Purchases shall not exceed 2.5% of the total funds available for investment. In no circumstances shall investments be made in bonds, notes, debentures or any similar obligations of a foreign government that:
 - a. is identified as a state sponsor of terrorism by the United States Department of State, or
 - b. any authoritarian or totalitarian government the sovereign powers of which are exercised through a single person or group of persons who are not elected by any form of legitimate popular voting.

K. The interest rate on variable rate securities must be tied to one of the following indices: LIBOR, Fed Funds, Treasury Bills, or Commercial Paper, and must reset no less frequently than quarterly.

The lending agent shall follow these guidelines explicitly. If, at any time, the collateral portfolio violates these guidelines (e.g., a credit rating downgrade), the lending agent shall immediately notify OST in writing. The lending agent shall also notify the OST’s Chief Investment Officer by telephone who shall determine if immediate action is necessary to bring the portfolio into compliance.

III. Ineligible Investments:

- A. Obligations issued by or guaranteed by the lending agent or any related party.
- B. Asset Backed Commercial Paper
- C. 144a Securities

IV. Portfolio Maturity:

The dollar-weighted average maturity of cash collateral investment shall not exceed (forty-five) 45 days. The average maturity of variable rate instruments will be calculated to the next interest rate reset date. The portfolio’s minimum overnight (next business day) liquidity level will be targeted at not less than 20%.

**APPENDIX D
Sample Performance Report**

OKLAHOMA STATE TREASURER
MANAGER PERFORMANCE SUMMARY
Periods Ending January 31, 2010

		<u>MKT \$(M)</u>	<u>MONTH</u>	<u>FYTD</u>	<u>1 YEAR</u>	<u>2 YEAR</u>	<u>3 YEAR</u>	<u>4 YEAR</u>	<u>5 YEAR</u>
<u>U.S. FIXED INCOME</u>									
<u>AGENCY CONSOLIDATION</u>									
Agency/Fiduciary	5119615.45 \$	5,120	-0.82	4.21	6.66	3.54	4.35	4.45	4.09
TOTAL	5119615.45 \$	5,120	-0.82	4.21	6.66	3.54	4.35	4.45	4.09
TOTAL AGENCY	5119615.45 \$	5,120	-0.82	4.21	6.66	3.54	4.35	4.45	4.20
<u>GENERAL CONSOLIDATION</u>									
Surplus Account	4028610298 \$	4,028,610	0.80	2.29	3.73	4.42	5.62	5.37	4.83
Money Market Mutual Fund - Surplus	1153106956 \$	1,153,107	0.00	0.06	0.18	-0.08	1.59	2.44	2.60
TOTAL	5181717254 \$	5,181,717	0.62	1.85	3.07	3.59	4.90	4.85	4.17
CD - Surplus	316354320.4 \$	316,354	0.03	0.24	0.50	1.49	2.66	3.28	3.32
CD - Ag/Bus Link	3605200.29 \$	3,605	-0.19	-2.86	-3.75	-0.94	0.25	0.98	1.51
TOTAL	319959520.7 \$	319,960	0.02	0.18	0.39	1.41	2.53	3.16	3.21
Linked Deposit Account	1190190.2 \$	1,190	0.17	0.79	1.78	2.25	2.78	1.93	1.74
TOTAL GENERAL	5502866965 \$	5,502,867	0.58	1.74	2.89	3.43	4.70	4.71	4.35
<u>BENCHMARK INDICES</u>									
Merrill Lynch US Treas, 1-Year			0.23	0.71	1.13	2.22	3.75	3.93	3.65

APPENDIX E

**OKLAHOMA STATE TREASURER
 MASTER CUSTODY AND/OR SECURITIES LENDING SERVICES
 BID SHEET**

MASTER CUSTODY SERVICES ONLY	YEAR ONE TOTAL	YEAR TWO TOTAL	YEAR THREE TOTAL	GRAND TOTAL
FLAT FEE (TOTAL DOLLARS):				

SECURITIES LENDING SERVICES ONLY	YEAR ONE TOTAL	YEAR TWO TOTAL	YEAR THREE TOTAL	GRAND TOTAL
Proposed Fee Split Ratio				
Projected Income OST				

COMBINATION BID	YEAR ONE TOTAL	YEAR TWO TOTAL	YEAR THREE TOTAL	GRAND TOTAL
Master Custody Services				
Flat Fee (Total Dollars):				
Securities Lending Services				
Proposed Fee Split Ratio				
Projected Income OST				

APPENDIX F
COMPETITIVE PROPOSAL
NON-COLLUSION
AFFIDAVIT

In accordance with 74 O.S. § 85.22, _____, of lawful age, being first duly sworn, on oath, says:

1. (S)he is the duly authorized agent of _____, the offeror submitting the competitive proposal which is attached to this statement, for the purpose of certifying the facts pertaining to the existence of collusion among offerors and between offerors and state officials or employees, as well as facts pertaining to the giving or offering of things of value to government personnel in return for special consideration in the letting of any contract pursuant to the proposal to which this statement is attached;
2. (S)he is fully aware of the facts and circumstances surrounding the making of the proposal to which this statement is attached and has been personally and directly involved in the proceedings leading to the submission of such proposal; and
3. Neither the offeror nor anyone subject to the offeror's direction or control has been a party:
 - a. to any collusion among offerors in restraint of freedom of competition by agreement to propose at a fixed price or to refrain from offering,
 - b. to any collusion with any state official or employee as to quantity, quality or price in the prospective contract, or as to any other terms of such prospective contract, nor
 - c. in any discussions between offerors and any state official concerning exchange of money or other thing of value for special consideration in the letting of a contract.

In accordance with 74 O.S. § 85.42.B., the offeror further certifies that no person who has been involved in any manner in the development of that contract while employed by the State of Oklahoma shall be employed to fulfill any of the services provided under said contract.

Signature

Date

Printed Name

Title

State of _____

County of _____

Subscribed and sworn to before me this _____ day of _____, 20 _____.

My Commission Expires: _____

Notary Public

My Commission Number: _____

APPENDIX G
OKLAHOMA STATE TREASURER
REQUEST FOR PROPOSAL
Master Custody and/or Securities Lending Services

INTENT TO BID

Name of Firm: _____

Contact: _____

Title: _____

Address: _____

Telephone #: _____

Facsimile #: _____

E-mail address: _____

**PLEASE FAX COMPLETED FORM TO TRISH CANTRELL AT 405.521.4994 PRIOR
TO _____.**

APPENDIX H

§62-90. Securities lending program - Securities Lending and Custodial Fee Revolving Fund.

A. The State Treasurer may implement and engage in a securities lending program. As used in this section, "securities lending program" means any program, arrangement or agreement whereby the state deposits securities with a federally or state-chartered savings and loan association, a trust company, a state or national bank, or a broker-dealer registered with the National Association of Securities Dealers, Inc. and insured by the Securities Investors Protection Corporation, for the purpose of permitting the financial institution or broker-dealer to lend securities to a borrower approved by the State Treasurer in return for a fee or charge paid by the borrower for the use of such securities. All income from securities lending, less fees, shall be deposited into the Securities Lending and Custodial Fee Revolving Fund created in this section; provided, securities lending income in excess of amounts necessary to pay custodial or other banking fees, shall be deposited into the General Revenue Fund. Securities loaned under this program shall be subject to the collateral requirements specified by the State Treasurer. The State Treasurer must receive collateral equal to at least one hundred percent (100%) of the market value of the securities loaned, consisting of securities or instruments which the State Treasurer can purchase pursuant to Section 89.2 of this title. Nothing herein shall be deemed to prohibit the implementation of securities lending programs by the state retirement systems which are designed and managed by the boards of trustees of such systems.

B. There is hereby created in the State Treasury a revolving fund for the Office of the State Treasurer, to be designated the "Securities Lending and Custodial Fee Revolving Fund". The fund shall be a continuing fund, not subject to fiscal year limitations, and shall consist of any monies transferred thereto by act of the Legislature and any monies which may be deposited thereto by the State Treasurer's Office as provided by this section. All monies accruing to the credit of the fund are hereby appropriated and may be budgeted and expended by the Office of the State Treasurer for the purposes of paying custodial or other banking fees. Expenditures from the fund shall be made upon warrants issued by the State Treasurer against claims filed as prescribed by law with the Director of State Finance for approval and payment.



SCOTT MEACHAM
OKLAHOMA STATE TREASURER

INVESTMENT POLICY

JANUARY 26, 2010



SCOTT MEACHAM
OKLAHOMA STATE TREASURER

Investment Policy

January 26, 2010

1. **Mission Statement:**

It is the policy of the State Treasurer of Oklahoma to invest public funds in a manner which will provide the maximum security with the best investment return, while meeting the daily cash flow demands of the State and conforming to all state statutes governing the investment of public funds. The investment process will be carried out through competition, proper oversight and financial safeguards.

2. **Scope:**

This investment policy applies to all funds of the State entrusted to the Treasurer by specific statutory authority. This policy also applies to the investments of state agencies when they request that the Treasurer act as their agent. Only investment transactions included in the list of Authorized Investments (Section 9) are covered by this policy. These funds are accounted for in the Audited Annual Financial Report and include:

2.1 Funds Included:

- 2.1.1 General Fund
- 2.1.2 Trust and Agency Funds
- 2.1.3 Capital Projects
- 2.1.4 Permanent Funds

Investments on behalf of Permanent funds are included in this policy to the extent that the investing entity has requested that the Treasurer act as their agent and the investment is included in the list of Authorized Investments (Section 9).

2.2 Funds Excluded from this Policy:

As noted above, certain State agencies have specific statutory investment authority and their own investment objectives. These agencies have adopted their own investment policies; accordingly, these funds are excluded from this policy:

2.2.1 Permanent Funds

2.2.2 Pension Trust Funds

Investments on behalf of Permanent funds are excluded from this policy to the extent that the investing entity has requested that the Treasurer act as their agent and the investment is not included in the list of Authorized Investments (Section 9).

3. **Prudence:**

Investments shall be made with judgment 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. The standard of prudence to be used by an investment officer shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. An Investment Officer acting in accordance with written policies and procedures approved by the Treasurer and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. **Objectives:**

Given the Authorized Investments (Section 9) permitted under law, the primary objectives, in priority order, of the State's active investment program shall be:

4.1 Safety:

Safety of principal is the foremost objective of the investment program. Investments of the State shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the State will diversify its investments by investing funds among a variety of securities offering independent returns and among various financial institutions.

4.2 Liquidity:

The Treasurer's investment portfolio will remain sufficiently liquid to enable the State to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investment:

The Treasurer's investment policy shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the State's investment risk constraints and the cash flow characteristics of the portfolio.

Securities shall generally be held until maturity. Securities may be sold due to liquidity needs of the portfolio; to minimize loss of principal; or to improve the quality, yield, or target duration in the portfolio.

5. Delegation of Authority:

Authority to manage the State's investment program is derived from 62 O.S. § 89.1a et seq. Management responsibility for the investment program is vested with the Treasurer. The Treasurer is directed to invest the maximum amount of funds under his control consistent with good business practice.

The authority to perform duties related to the investment of State funds may be delegated by the Treasurer to an Investment Officer. The Investment Officer shall engage in investment transactions only in accordance with statutes, administrative rules, this policy, and procedures approved by the Treasurer. The Investment Officer shall not perform or supervise any accounting functions, data processing functions or duties related to the documentation or settlement of investment transactions. In the absence of the Investment Officer, a staff person designated by the State Treasurer as a backup investment officer shall assume responsibility for daily investment of funds. Written authorization to invest by the Investment Officers is forwarded to all authorized dealers and financial institutions. The Treasurer may, at his discretion, appoint an investment advisory committee.

5.1 Investment Procedures:

The Treasurer shall establish a separate written investment procedures manual for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and cash flow forecasting and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

6. **Ethics and Conflict of Interest:**

All employees involved in the investment process shall refrain from personal business activity or other activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. In accordance with the law and internal policies, employees shall disclose any conflict of interest or potential conflict of interest and shall sign a non-collusion affidavit relating to the performance of functions of the Office of State Treasurer. See OST Policies and Procedure Manual Chapter 3, Section C. The Office of the State Treasurer has adopted, and employees shall abide by, the rules of conduct dictated by the Constitutional Ethics Rules (74 O.S., Ch.62, App. § 257:1-1-1 et seq.)

7. **Authorized Dealers and Financial Institutions:**

The Treasurer shall maintain a current list of approved financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers, selected by credit worthiness to provide investment services in the State of Oklahoma. These may include primary dealers, or regional dealers that have a minimum net capital as detailed in Procedures for Authorized Dealers and Financial Institutions. All financial institutions and broker/dealers approved for investment transactions must supply the Treasurer with audited financial statements, proof of Financial Industry Regulatory Authority certification, proof of Oklahoma registration, a completed broker/dealer questionnaire, certificate of having read the State's investment policy and anti-collusion affidavits. Anti-collusion affidavits shall be maintained on file as required by 62 O.S. § 89.9. An annual review of the financial condition and registrations of qualified financial institutions and broker/dealers will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the State invests.

8. **Competitive Bidding:**

Investment activities shall be conducted with approved financial institutions and security broker/dealers utilizing a system of competitive bidding to the extent practicable taking into account the need to use sound investment judgment. Obtaining, documenting, and retaining quotations shall be made in accordance with approved procedures.

9. **Authorized and Suitable Investments:**

The Treasurer is permitted under 62 O.S. § 89.2 to invest in the following classes of securities:

9.1 United States Treasury Bills, Notes and Bonds and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities

9.1.1 Maximum maturity of 10 years.

9.2 United States Government Agency Securities

- 9.2.1 Issued by one of the following agencies:
 - 9.2.1.1 Federal National Mortgage Association
 - 9.2.1.2 Federal Home Loan Bank
 - 9.2.1.3 Federal Farm Credit Bank
 - 9.2.1.4 Federal Home Loan Mortgage Corporation
 - 9.2.1.5 Government National Mortgage Corporation
 - 9.2.1.6 Student Loan Marketing Association
- 9.2.2 Senior debt and mortgage-backed pass-through securities (MBS) only.
- 9.2.3 Rating must be Aaa, AAA, or the equivalent
- 9.2.4 Maximum maturity of 10 years for senior debt.
- 9.2.5 Purchases may not exceed fifty percent (50%) of the total funds available for investment, with the exception of obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government.
- 9.2.6 Not more than thirty-five percent (35 %) of the total funds available for investment shall be invested in any one issuer, with the exception of obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government.
- 9.2.7 Not more than forty percent (40%) of the total funds available for investment shall be invested in mortgage-backed pass-through securities. Permissible investments include securities issued by the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC) or Federal National Mortgage Association (FNMA) with an average life not to exceed seven (7) years based on Bloomberg Prepayment Speed using street consensus at the time of purchase. In the event that street consensus is unavailable from Bloomberg, a publicly available model shall be used and documented to determine the prepayment speed and average life of a security.

9.3 Collateralized or insured certificates of deposit and other evidences of deposit.

- 9.3.1 Issued by a bank, savings bank, savings and loan association, or credit union located in this state.
 - 9.3.1.1 Amounts uninsured by the FDIC must be collateralized (see Collateralization Section 10.0).
 - 9.3.1.2 Issued for up to 365 days, excluding weekends and holidays.
 - 9.3.1.3 Not more than \$35,000,000 may be invested in certificates of deposit in any one financial institution as specified in this paragraph, subject to the discretion of the State Treasurer to approve a greater amount.

9.4 Negotiable certificates of deposit.

- 9.4.1 Issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank.
- 9.4.2 Short-term debt rating must be at least “A-1” by S&P or, “P-1” by Moody’s, or the equivalent.
- 9.4.3 Maximum maturity of 180 days.
- 9.4.4 Purchases shall not exceed seven and one-half percent (7.5%) of the total funds available for investment.
- 9.4.5 Not more than two and one-half percent (2.5%) of the total funds available for investment shall be invested in any one financial institution as specified in this paragraph.

9.5 Bankers' acceptances.

- 9.5.1 Eligible for purchase by the Federal Reserve System
- 9.5.2 Short-term debt rating must be at least “A-1” by S&P and, “P-1” by Moody’s, or the equivalent.
- 9.5.3 Maximum maturity of 270 days.
- 9.5.4 Purchases shall not exceed seven and one-half percent (7.5%) of the total funds available for investment.
- 9.5.5 Not more than two and one-half percent (2.5%) of the total funds available for investment shall be invested in any one commercial bank.

9.6 Commercial paper

- 9.6.1 Short-term debt rating must be no lower than “A-1” by S&P and “P-1” by Moody’s, or the equivalent.
- 9.6.2 Maximum maturity of 180 days.
- 9.6.3 Purchases shall not exceed seven and one-half percent (7.5%) of the total funds available for investment.
- 9.6.4 Purchases shall not exceed five percent (5%) of the outstanding paper of an issuing corporation.
- 9.6.5 Not more than two and one-half percent (2.5%) of the total funds available for investment shall be invested in the commercial paper of any one issuing corporation.

9.7 Obligations of state and local governments, including obligations of Oklahoma state public trusts.

- 9.7.1 With respect to obligations of Oklahoma State Trusts, must possess the highest rating from at least one nationally recognized statistical rating organization.
- 9.7.2 Maximum maturity of 30 years.
- 9.7.3 Purchases shall not exceed ten percent (10%) of the total funds available for

investment.

- 9.7.4 Not more than five percent (5%) of the total funds available for investment shall be invested in the obligations of any one issuing government.
- 9.7.5 The interest rate on variable rate securities must be tied to one of the following indices: LIBOR, Fed Funds, Treasury Bills or Commercial Paper, and must reset no less frequently than quarterly.
- 9.7.6 The above restrictions are subject to the discretion of the Treasurer. Securities must not be less than investment grade at purchase.

9.8 Repurchase agreements and tri-party repurchase agreements.

- 9.8.1 Counterparties must have a minimum short-term debt rating of 'A-1', 'A-1+', or the equivalent by both Moody's Investor Service and Standard & Poor's and are either:
 - 9.8.1.1 diversified securities broker-dealers who are members of the National Association of Securities Dealers having \$5 billion in assets and \$350 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; or
 - 9.8.1.2 a bank, savings bank or savings and loan association having \$5 billion in assets and \$500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.
- 9.8.2 Must be collateralized (see Collateralization Section 10).
- 9.8.3 Counterparties must have a signed Master Repurchase Agreement
- 9.8.4 Maximum maturity of fourteen (14) days excluding weekends and holidays.
- 9.8.5 Purchases shall not exceed thirty percent (30%) of the total funds available for investment.
- 9.8.6 Not more than ten percent (10 %) of the total funds available for investment shall be invested with any counterparty.

9.9 Money market mutual funds and short term bond funds

- 9.9.1 Only SEC registered 2(A) 7 funds are eligible.
- 9.9.2 Rating must be "AAA", or the equivalent.
- 9.9.3 Investments consist of
 - 9.9.3.1 obligations of the United States government and U.S. government sponsored enterprises and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities.
 - 9.9.3.2 repurchase agreements collateralized by obligations of the United States government and U.S. government sponsored enterprises.
 - 9.9.3.4 purchases shall not exceed thirty percent (30%) of the total

funds available for investment.
9.9.3.5 not more than ten percent (10%) of the total funds available for investment shall be invested in any one fund.

9.10 Bonds, notes, debentures or other similar obligations of a foreign government.

9.10.1 Must be listed as an industrialized country by the International Monetary Fund and for which the full faith and credit of such nation has been pledged for the payment of principal and interest.

9.10.2 Shall be rated at least A- or better by Standard & Poor's Corporation or A3 or better by Moody's Investors Service, or an equivalent investment grade by a securities rating organization accepted by the National Association of Insurance Commissioners.

9.10.3 Maximum maturity of 5 years.

9.10.4 Purchases shall not exceed 2.5% of the total funds available for investment. In no circumstances shall investments be made in bonds, notes, debentures or any similar obligations of a foreign government that:

9.10.4.1 is identified as a state sponsor of terrorism by the United States Department of State, or

9.10.4.2 any authoritarian or totalitarian government the sovereign powers of which are exercised through a single person or group of persons who are not elected by any form of legitimate popular voting.

10. Collateralization for Certificates of Deposit and Repurchase Agreements:

10.1 Certificates of Deposit

10.1.1 Securities eligible for pledging under 62 O.S. § 72.5 include:

10.1.1.1 obligations of the United States government and U.S. government sponsored enterprises;

10.1.1.2 obligations of this State or of an Oklahoma county, municipality, or school district; an instrumentality of this State or of an Oklahoma county, municipality or school district;

10.1.1.3 general obligation bonds of other states

10.1.2 The initial collateralization level for collateral securities is 110% of the amount deposited with the financial institution plus the interest due at maturity, in excess of the FDIC-insured limit.

10.1.3 Collateral instruments eligible for pledging under 62 O.S. § 72.5 include:

10.1.3.1 letters of credit issued by U.S. government sponsored enterprises acceptable to the State Treasurer.

10.1.3.2 surety bonds issued by certain qualified insurance companies acceptable to the State Treasurer.

10.1.4 The initial collateralization level for collateral instruments is 100% of

the amount deposited with the financial institution plus the interest due at maturity, in excess of the FDIC-insured limit.

10.1.5 Additional limitations are subject to the discretion of the Treasurer.

10.1.6 A collateralization level of 100% must be maintained.

10.1.7 Collateral securities must be held at a Federal Reserve Bank which serves Oklahoma, a Federal Home Loan Bank which serves Oklahoma or an approved safekeeping bank.

10.2 Repurchase Agreements and Tri-party Repurchase Agreements

10.2.1 Transactions for repurchase agreements must be conducted on a delivery versus payment basis.

10.2.2 Collateral for repurchase agreements must be delivered to the Treasurer's master custody institution.

10.2.3 For a tri-party repurchase agreement collateral must be delivered to an approved custodian bank and held in an account for the benefit of the Treasurer.

10.2.4 Securities held as collateral may include obligations of the United States government and U.S. government sponsored enterprises and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities;

10.2.5 The initial collateralization level for securities is 102% of the repurchase price to be paid by the counterparty and the securities must be marked to the market daily.

10.2.6 Securities must be held free and clear of any lien and by an approved independent third party custodian or OST's custodian acting solely as agent for the State and is a Federal Reserve Bank, or a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$500 million.

10.2.7 A perfected first security interest under the Uniform Commercial Code must be created in such securities for the benefit of the State.

10.2.8 A collateralization level of 100% must be maintained.

10.2.9 In the case of tri-party repurchase agreements, the custodian bank may price and verify collateral but is required to provide a report of pricing and adequacy of collateral to the Chief Investment Officer or Comptroller within 24 hours of settlement.

11. **Safekeeping and Custody:**

All investment transactions shall be conducted on a delivery-versus-payment (DVP) basis, unless specifically otherwise designated by the Treasurer. All securities will be held by a third party custodian designated by the Treasurer and will be evidenced by safekeeping receipts or other forms of confirmation. Additional limitations are subject to the discretion of the Treasurer.

12. **Diversification:**

Diversification is desirable in order to reduce overall portfolio risk resulting from an over-concentration of assets. The Treasurer will diversify investments by security type, institution and maturity. With the exception of U.S. Treasury securities and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities, no more than 50% of the State's total funds available for investment will be invested in a single security type or with a single financial institution. The following diversification limitations shall be imposed on the portfolio:

- 12.1. Securities of United States government sponsored enterprises, with the exception of obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government, may not exceed 50% of the total funds available for investment nor may more than 35% of the total funds available for investment be invested in any one issuer. Mortgage-backed pass-through securities may not exceed 40% of the total funds available for investment.
- 12.2 Collateralized or insured certificates of deposit and other evidences of deposit may not exceed \$35,000,000 in any one financial institution, subject to the discretion of the State Treasurer to approve a greater amount.
- 12.3 Negotiable certificates of deposit shall not exceed 7.5% of the total funds available for investment, nor may more than 2.5% be invested in any one financial institution.
- 12.4 Bankers' acceptances shall not exceed 7.5% of the total funds available for investment, nor may more than 2.5% be invested in any one commercial bank.
- 12.5 Commercial paper shall not exceed 7.5% of the total funds available for investment, nor 5% of the outstanding paper of an issuing corporation; and not more than 2.5% of the total funds available for investment shall be invested in the commercial paper of any one issuing corporation.
- 12.6 Obligations of state and local governments, including obligations of Oklahoma state public trusts shall not exceed 10% of the total funds available for investment; nor may more than 5% of the total funds available for investment be invested in the obligations of any one issuing government. Above restrictions are subject to the discretion of the Treasurer.
- 12.7 Repurchase agreements and tri-party repurchase agreements shall not exceed 30% of the total funds available for investment; and not more 10 % of the total funds available for investment shall be invested with any counterparty.
- 12.8 Money Market Mutual funds shall not 30% of the total funds available for

investment; nor shall more 10% of the total funds available for investment be invested in any one fund.

12.9 Foreign bonds shall not exceed 2.5% of the total funds available for investment.

13. Maximum Maturities:

The investment portfolio shall maintain sufficient liquidity to enable the State to meet all operating requirements which might be reasonably anticipated. The balance of the portfolio may be actively managed to meet return on investment objectives of the Treasurer, respecting safety as a first priority. The portfolio shall have an average maturity of not more than four (4) years, unless specifically otherwise designated by the Treasurer. Individual securities shall be limited as follows:

- 13.1 United States Treasury Securities and obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the United States government or any of its agencies and instrumentalities shall not exceed ten (10) years to maturity.
- 13.2 Securities of U.S. government sponsored enterprises shall not exceed ten (10) years to maturity. The average life of mortgage-backed pass-through securities shall not exceed seven (7) years based on Bloomberg Prepayment Speed using street consensus at the time of purchase. In the event that street consensus is unavailable from Bloomberg, a publicly available model shall be used and documented to determine the prepayment speed and average life of a security.
- 13.3 Collateralized or insured certificates of deposit and other evidences of deposit shall not exceed three hundred sixty-five (365) days to maturity, excluding weekends and holidays.
- 13.4 Negotiable certificates of deposit shall not exceed one hundred eighty (180) days to maturity.
- 13.5 Bankers' acceptances shall not exceed two hundred seventy (270) days to maturity.
- 13.6 Commercial paper shall not exceed one hundred eighty (180) days to maturity.
- 13.7 Obligations of state and local governments including obligations of Oklahoma state public trusts shall not exceed thirty (30) years.
- 13.8 Repurchase agreements shall not exceed fourteen (14) business days, excluding weekends and holidays.
- 13.9 Foreign bonds shall not exceed five (5) years to maturity.

14. Internal Control:

The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Such control system shall include procedures allowing for a proper segregation of duties, approval of investment transactions, and authorizations for any deviations from policy. The control system shall include policies and procedures designed to reasonably safeguard against the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees.

As promulgated by the Treasurer, procedures for recording investments and auditing investment transactions are specified in the Oklahoma Administrative Code, Title 735:15-1-1 et seq. As required therein, the internal auditor shall determine that the Treasurer's investment policies and procedures adhere to state statutes, relevant administrative rules, and other applicable policies of the Treasurer. In addition, the Treasurer shall submit to independent external audits conducted by the State Auditor and Inspector.

15. Performance Standards:

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.

15.1 Market Yield (Benchmark):

Per (62 O.S. § 89.2(A)), all investments by the Treasurer shall earn not less than the rate for comparable maturities on United States Treasury obligations, unless other provisions of law permit or require a lower yielding investment. The performance goal is to exceed this statutory performance objective. The Cash Management and Investment Oversight Commission, per 62 O.S. § 71.1, has adopted the Merrill Lynch 1 Year U.S. Treasury Note Index as the benchmark for the Treasurer's securities portfolio.

16. Accounting and Reporting:

To ensure that each transaction is authorized and executed in accordance with this investment policy, sufficient accounting and electronic records of investment transactions shall be retained in accordance per 62 O.S. § 89.11. Such records shall be available for inspection by the State Auditor and Inspector, the Attorney General and other authorized law enforcement officers.

The Treasurer shall issue periodic investment transaction and performance reports pursuant to 62 O.S. §§ 89.2 and 89.7. Monthly and annual investment performance reports shall describe the portfolio and strategies employed in the most recent reporting period, and holdings shall be marked to market. Such documents shall also summarize

recent market conditions, economic developments, and anticipated investment conditions, as well as investment plan performance, among other items specified by statute. In addition, the Treasurer or his designee shall discuss investment reports and describe investment activities before both the Cash Management and Investment Oversight Commission and the Executive Review Committee established under 62 O.S. § 71.1.

17. Distribution and Revisions:

Copies of this written investment policy and any modifications shall be distributed to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Attorney General, the State Auditor and Inspector, the Bank Commissioner, the Director of State Finance, and each member of the Cash Management and Investment Oversight Commission. A copy shall be maintained in the Treasurer's office for public inspection during regular business hours.

18. Adoption and Effective Date:

This policy is formally adopted and takes effect January 26, 2010.