



OFFICE OF THE ILLINOIS STATE TREASURER
MICHAEL W. FRERICHS

**Request for Information
Securities Lending
370-300-19-006**

September 5, 2018

Responses due by 2:00 p.m. CT on October 1, 2018

Mr. Jim Underwood
Chief Procurement Officer
400 West Monroe Street, Suite 401
Springfield, IL 62704

**Office of the Illinois State Treasurer
Request for Information
Securities Lending
370-300-19-006**

TABLE OF CONTENTS

I. Overview	3
II. Background.....	3
III. RFI Process and Schedule	4
IV. Response.....	6

Appendix A.....Illinois Funds Securities Holdings as of July 31, 2018

I. OVERVIEW

The Office of the Illinois State Treasurer (“Treasurer”) is issuing this Request for Information (“RFI”) to explore the use of securities lending programs. Specifically, the Treasurer may have interest in using a securities lending program to enhance the performance of its local government investment pool. Service providers (“Respondents”) must submit their responses to this RFI (“Responses”) by 2:00 p.m. CT on October 1, 2018.

Responses will help the Treasurer identify interest in providing this service, evaluate the primary risks of securities lending programs, and assess the benefit, if any, that a securities lending program would have on the return performance of the investment portfolio.

II. BACKGROUND

A. The Illinois Funds

As authorized by Section 17 of the State Treasurer Act, 15 ILCS 505/0.01 *et. seq.*, the Illinois State Treasurer has established and administers the Illinois Public Treasurer’s Investment Pool, referred to publicly as the “Illinois Funds.” The Illinois Funds is a local government investment pool established in 1976 that provides a convenient investment pool option to state and local governments to invest public funds while enjoying economies of scale. The Treasurer operates the Illinois Funds in accordance with the Illinois Funds Local Government Investment Pool Investment Policy Statement, accessible at www.illinoistreasurer.gov. The Illinois Funds is also operated consistent with Governmental Accounting Standards Board Statement No. 79 and Securities and Exchange Commission Rule 2a-7. The fund has held a ‘AAAm’ rating from Standard & Poor’s (“S&P”) since 1994.

The Treasurer serves as trustee and administrator of the Illinois Funds. The Treasurer manages and administers the Illinois Funds through a combination of internal resources and contractual relationships with outside vendors. All contractors are selected in accordance with the Office of the Treasurer Procurement Rules, 44 Ill. Admin. Code Part 1400.

The total assets of the Illinois Funds’ investment portfolio fluctuate between \$4 billion and \$6 billion throughout the year, and are typically composed of commercial paper (30%), U.S. government agency securities (26%), repurchase agreements (24%), money market funds (8%), corporate bonds (5%), supranational bonds (5%), and U.S. Treasury securities (2%).¹ The two largest issuers of U.S. government agency securities held by the Illinois Funds portfolio are the Federal Farm Credit Bank and the Federal Home Loan Bank. Approximately 50% of the U.S. government agency securities are floating rate notes. For a list of specific securities holdings, as of July 31, 2018, please see Appendix A.

B. Standard & Poor’s (“S&P”) Guidelines for Securities Lending

The Treasurer intends to maintain the ‘AAAm’ rating on the Illinois Funds. Therefore, should the Treasurer implement a securities lending program for the Illinois Funds, the Treasurer must adhere to the following S&P guidelines:

¹ Percentages of portfolio are approximate.

1. The maximum aggregate exposure to all securities lending transactions is 25% of total portfolio assets;
2. Borrowers of the securities and counterparties to any cash collateral reinvestments must be rated either 'A-1' or 'A-1+' by S&P or otherwise be guaranteed or indemnified by an 'A-1' or 'A-1+' entity;
3. The maximum exposure to securities lending transactions with maturities of 5 business days or less is 25% of total portfolio assets;
4. The maximum exposure to securities lending transactions with maturities 6-30 business days is 10% of total portfolio assets. However, these investments are considered illiquid and must, when combined with other illiquid assets, not exceed the 10% limit;
5. The maximum maturity for any securities lending transaction is 30 calendar days; and
6. The maturities of cash collateral reinvestments must match the maturities of the securities loans that provided the cash collateral.

III. RFI PROCESS AND SCHEDULE

This Section outlines the process and schedule associated with this RFI.

A. Schedule

The following is the schedule for this RFI:

Date	Event
September 5, 2018	RFI published on the Treasurer's website
September 10, 2018	Notice of intent to participate in the Optional Respondent Teleconference due by 1:00 p.m. CT.
September 11, 2018	Optional Respondent Teleconference at 1:00 pm CT.
September 12, 2018	All Respondent questions due by 12:00 p.m. CT.
September 14, 2018	Responses to all questions posted on the Treasurer's website.
October 1, 2018	Responses to the RFI due at 2:00 p.m. CT.

These dates are subject to change at the Treasurer's discretion.

B. Contact information

The Treasurer's Chief Procurement Officer ("CPO") is the sole point of contact concerning this RFI.

Respondents should submit questions about the intent or content of this RFI and request clarification of any and all procedures used for this RFI prior to the submission of a Response. Respondents must submit

their questions in writing by e-mail to the CPO, Jim Underwood, at junderwood@illinoistreasurer.gov by 12:00 p.m. CT on September 12, 2018.

C. Optional Respondent Teleconference

Each Respondent must e-mail notice of intent to attend the Respondent Teleconference to Jim Underwood at junderwood@illinoistreasurer.gov prior to 1:00 p.m. CT on September 10, 2018. Attendance at the Respondent Teleconference is optional. The Respondent Teleconference shall be at 1:00 p.m. CT on September 11, 2018. Teleconference details will be emailed after notice of intent to participate has been received.

D. Proposal Submittal

All Responses to the RFI must be submitted by e-mail, mail, or messenger to the following address no later than 2:00 p.m. CT on October 1, 2018:

Mr. Jim Underwood
Chief Procurement Officer
Office of the Illinois State Treasurer
400 West Monroe Street, Suite 401
Springfield, IL 62704
junderwood@illinoistreasurer.gov

E. RFI Process

1. Questions about this RFI

Respondents must submit questions about the intent or content of this RFI and request clarification of any and all procedures used for this RFI prior to the submission of a Response. Respondents must prepare their questions in writing and send them by e-mail to the CPO by the deadline for questions listed above.

2. Internet/E-mail Communications

The Treasurer may also communicate with Respondents via e-mail. Each Respondent should provide an e-mail address with its response for ease of communication throughout this RFI process.

3. Verbal Communications

Any verbal communication from the Treasurer or its contractors concerning this RFI is not binding on the Treasurer and shall in no way alter the terms of this RFI.

4. Amendment

If it is necessary to amend this RFI, the Treasurer will post amendments on the Treasurer's website:

[http://www.illinoistreasurer.gov/Office_of_the_Treasurer/Procurement/Procurement Opportunities](http://www.illinoistreasurer.gov/Office_of_the_Treasurer/Procurement/Procurement_Opportunities)

5. Respondent's Costs

The cost of developing a Response is each Respondent's responsibility and may not be charged to the Treasurer.

6. Withdrawal of Response

A Respondent may withdraw its Response at any time prior to the deadline for receipt of Responses. The Respondent must submit a written withdrawal request, addressed to the CPO and signed by the Respondent's duly authorized representative.

7. Modification of Response

A Respondent may submit an amended Response before the deadline for receipt of Response. Such amended Response must be a complete replacement for the previously submitted Response and must be clearly identified as such in the transmittal letter to the CPO.

8. Response to RFI is State Property

On the response due date, all responses and related material submitted in response to this RFI become the property of the State of Illinois.

9. CPO May Cancel the RFI

If the CPO determines it is in the Treasurer's best interest, he reserves the right to cancel or modify the RFI.

IV. RESPONSE

This Section provides the required elements of Respondent's Response.

A. Response Format

All Responses should focus on clarity and completeness of response. Responses must be submitted in a document or envelope bearing the title "Request for Information Securities Lending 370-300-19-006 for the Office of the Illinois State Treasurer."

B. Questions to be Addressed in the Response

The Respondent must answer the following questions:

1. Regarding the securities lending market, how does Respondent see borrower demand evolving in the coming years? Does Respondent see borrower demand increasing, decreasing, or shifting toward different types of securities? Why?
2. To Respondent's knowledge, how prevalent is the use of securities lending programs among highly rated money market funds or local government investment pools? If possible, can Respondent provide examples of such entities that use securities lending programs?
3. Based on the characteristics of the Illinois Funds and its portfolio holdings as stated above, describe how implementation of a securities lending program would benefit the Illinois Funds.
4. Would a change in the Illinois Funds portfolio holdings (e.g., more agencies, more treasuries, etc.) make the portfolio more ideal for a securities lending program? Describe how any such changes could benefit the Illinois Funds.
5. In general, what are the key characteristics that make an investment portfolio suitable for a securities lending program?
6. How common are double indemnification agreements, whereby the beneficial owner is indemnified against both the borrower and reinvestment? Would such an agreement be possible for the Illinois Funds? Explain why or why not.
7. What type of collateral (cash, securities, etc.) would be optimal in a securities lending program for the Illinois Funds? Why?
8. What type of reinvestment options would be most beneficial for the Illinois Funds? Why?
9. Is it possible to lose money in a securities lending program, such as through a negative spread created by a lower reinvestment yield than the rebate rate? Please provide any examples and explain your response.
10. Please provide any additional information Respondent believes would assist the Treasurer in evaluating whether to use a securities lending program for the Illinois Funds.

Appendix A
Illinois Funds Portfolio Holdings as of July 31, 2018

CUSIP SECURITY DESCRIPTION MATURITY YIELD PAR

US TREASURY NOTES

912828T83	TREASURY NOTE	10/31/2018	1.85%	20,000,000.00
912828WD8	TREASURY NOTE	10/31/2018	1.70%	40,000,000.00
912828RY8	TREASURY NOTE	12/31/2018	2.03%	20,000,000.00

US AGENCIES

313385B21	FHLB DISCO	8/8/2018	1.65%	15,000,000.00
313385D60	FHLB DISCO	8/28/2018	1.62%	15,000,000.00
3130ACDD3	FHLB NOTE	9/5/2018	1.25%	14,400,000.00
3130A9BZ3	FHLB FRN	9/6/2018	2.25%	25,000,000.00
3130ACEC4	FHLB NOTE	9/11/2018	1.25%	19,000,000.00
3130ACFA7	FHLB NOTE	9/17/2018	1.29%	15,000,000.00
3130ACGE8	FHLB NOTE	9/20/2018	1.24%	15,000,000.00
3130ACHM9	FHLB NOTE	9/27/2018	1.33%	15,000,000.00
313385K21	FHLB DISCO	10/11/2018	1.71%	10,000,000.00
313385L20	FHLB DISCO	10/19/2018	2.00%	25,000,000.00
313385L87	FHLB DISCO	10/25/2018	1.42%	10,000,000.00
3130ABAW6	FHLB FRN	10/26/2018	1.98%	25,000,000.00
313385P91	FHLB DISCO	11/19/2018	1.75%	15,000,000.00
313385Q90	FHLB DISCO	11/27/2018	1.93%	15,000,000.00
313385R24	FHLB DISCO	11/28/2018	1.93%	10,000,000.00
313385S31	FHLB DISCO	12/7/2018	2.12%	15,000,000.00
313385S80	FHLB DISCO	12/12/2018	2.12%	15,000,000.00
313385S98	FHLB DISCO	12/13/2018	2.03%	15,000,000.00
313385T22	FHLB DISCO	12/14/2018	2.11%	15,000,000.00
313385U79	FHLB DISCO	12/27/2018	2.12%	25,000,000.00
3130ABZR0	FHLB FRN	2/4/2019	2.07%	12,500,000.00
3130AASG4	FHLB FRN	2/14/2019	2.17%	20,000,000.00
313384DQ9	FHLB DISCO	3/28/2019	2.17%	20,000,000.00
313384DU0	FHLB DISCO	4/1/2019	2.27%	15,000,000.00
3130ADJY9	FHLB FRN	5/28/2019	1.99%	25,000,000.00
3130AEFB1	FHLB NOTE	6/6/2019	2.34%	9,000,000.00
313384GW3	FHLB DISCO	6/14/2019	2.36%	8,100,000.00
3130ABN51	FHLB FRN	6/21/2019	2.03%	10,000,000.00
3130ABS64	FHLB FRN	7/11/2019	2.21%	15,000,000.00
3130ADED0	FHLB FRN	7/12/2019	2.01%	15,000,000.00
3130AC2Z6	FHLB FRN	8/8/2019	2.07%	25,000,000.00

3130AE4W7	FHLB FRN	10/23/2019	2.04%	15,000,000.00
3134GA4D3	FHLMC FRN	8/10/2018	2.12%	50,000,000.00
3134G7G96	FHLMC CALLABLE	9/28/2018	1.11%	29,260,000.00
3137EAED7	FHLMC NOTE	10/12/2018	1.45%	15,000,000.00
3135G0E58	FNMA NOTE	10/19/2018	1.24%	15,000,000.00
3133EGPJ8	FFCB FRN	8/1/2018	2.32%	25,000,000.00
313313A57	FFCB DISCO	8/3/2018	1.41%	10,000,000.00
313313C71	FFCB DISCO	8/21/2018	1.27%	20,000,000.00
3133EHYV9	FFCB NOTE	9/14/2018	1.25%	20,000,000.00
313313N46	FFCB DISCO	11/6/2018	1.56%	25,000,000.00
313313Q92	FFCB DISCO	11/27/2018	2.08%	25,000,000.00
313313S82	FFCB DISCO	12/12/2018	2.12%	20,000,000.00
313313U48	FFCB DISCO	12/24/2018	2.18%	20,000,000.00
3133EHBD4	FFCB FRN	1/9/2019	2.07%	25,000,000.00
313312AS9	FFCB DISCO	1/17/2019	2.19%	10,000,000.00
313312CU2	FFCB DISCO	3/8/2019	2.25%	10,000,000.00
313312DF4	FFCB DISCO	3/19/2019	2.23%	25,000,000.00
3133EHKC6	FFCB FRN	3/25/2019	2.12%	25,000,000.00
313312DM9	FFCB DISCO	3/25/2019	2.18%	10,000,000.00
3133EHDN0	FFCB FRN	3/27/2019	2.00%	25,000,000.00
3133EHQT3	FFCB FRN	4/10/2019	1.92%	25,000,000.00
3133EHUN1	FFCB FRN	4/11/2019	1.92%	15,000,000.00
3133EHMX8	FFCB FRN	4/12/2019	2.00%	25,000,000.00
313312EJ5	FFCB DISCO	4/15/2019	2.20%	25,000,000.00
313312EK2	FFCB DISCO	4/16/2019	2.20%	20,000,000.00
313312ER7	FFCB DISCO	4/22/2019	2.27%	10,000,000.00
313312FA3	FFCB DISCO	5/1/2019	2.29%	15,000,000.00
3133EHTK9	FFCB FRN	6/3/2019	1.93%	15,000,000.00
3133EHLW1	FFCB FRN	6/6/2019	1.93%	10,000,000.00
3133EJRJ0	FFCB DISCO	6/11/2019	2.32%	15,000,000.00
3133EHRB1	FFCB FRN	7/12/2019	2.01%	25,000,000.00
3133EHUA9	FFCB FRN	8/8/2019	2.11%	15,000,000.00
3133EJAQ2	FFCB FRN	9/25/2019	1.99%	15,000,000.00
3133EHE33	FFCB FRN	10/10/2019	1.95%	15,000,000.00
3133EH5K5	FFCB FRN	11/4/2019	1.95%	25,000,000.00
3133EJQB8	FFCB FRN	11/25/2019	2.00%	15,000,000.00
3133EJRK7	FFCB FRN	12/11/2019	2.13%	15,000,000.00
3133EH2Z5	FFCB FRN	12/18/2019	1.97%	25,000,000.00
3133EH4P5	FFCB FRN	12/26/2019	1.97%	25,000,000.00
3133EJMN6	FFCB FRN	12/30/2019	2.04%	10,000,000.00
3133EH5M1	FFCB FRN	1/3/2020	1.97%	25,000,000.00
3133EJMQ9	FFCB FRN	1/30/2020	2.14%	10,000,000.00
3133EJQD4	FFCB FRN	3/23/2020	2.05%	25,000,000.00
3133EJSX8	FFCB FRN	3/27/2020	2.03%	15,000,000.00
3133EJUY3	FFCB FRN	7/20/2020	2.09%	10,000,000.00

CORPORATE

191216BF6	COCA COLA	11/1/2018	1.97%	29,031,000.00
594918BF0	MICROSOFT	11/3/2018	1.59%	41,756,000.00
742718EE5	PROCTER & GAMBLE	11/15/2018	1.71%	14,700,000.00
91159HHE3	US BANK	11/15/2018	2.39%	28,588,000.00
166764BA7	CHEVRON	11/16/2018	2.01%	32,795,000.00
037833CE8	APPLE	2/8/2019	1.92%	5,000,000.00
037833BQ2	APPLE	2/22/2019	2.09%	11,551,000.00
30231GAP7	EXXON MOBIL	3/1/2019	2.37%	31,050,000.00
30231GAD4	EXXON MOBIL	3/15/2019	2.43%	11,589,000.00
91159HHH6	US BANK	4/25/2019	2.60%	28,727,000.00
90331HMY6	US BANK	4/26/2019	2.60%	35,100,000.00
166764BH2	CHEVRON	5/16/2019	2.53%	8,052,000.00

SUPRANATIONAL

45818LB74	IADB DISCO	8/13/2018	1.56%	10,000,000.00
4581X0CQ9	IADB NOTE	8/28/2018	1.95%	10,000,000.00
45905UK86	IBRD FRN	9/7/2018	2.01%	20,000,000.00
45905UYP3	IBRD FRN	9/19/2018	2.27%	25,000,000.00
45905UUN2	IBRD NOTE	10/26/2018	1.37%	15,000,000.00
45905UZP2	IBRD FRN	10/27/2018	2.28%	25,000,000.00
45905UQ72	IBRD NOTE	11/30/2018	1.45%	15,000,000.00
45905UR63	IBRD FRN	1/18/2019	2.07%	25,000,000.00
45905US47	IBRD FRN	2/28/2019	2.00%	25,000,000.00
45950VLM6	IFC FRN	3/1/2019	2.12%	10,000,000.00
45905UT79	IBRD FRN	5/3/2019	2.18%	25,000,000.00
45905UU69	IBRD FRN	5/30/2019	2.10%	25,000,000.00
45905UK60	IBRD FRN	7/19/2019	2.26%	5,500,000.00
459058EV1	IBRD DISCO	7/26/2019	2.32%	10,000,000.00