

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
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MEMORANDUM

DATE: March 8, 2007

TO: OPERS Retirement Board Members
Christopher DeRose, Executive Director

CC: Karen Carraher, Director-Finance
Jenny Hom, Director-Investments

FROM: Walter Knox, Assistant Director-Investment Accounting
Roger Fox, Investment Administration Manager

RE: **IV. Action Items:**
C. Selection of Fund Accountant and provider of supporting services

Action Requested – The Board is requested to approve the recommendation of JP Morgan Chase as OPERS' Fund Accountant and provider of supporting services. The approval will be pending a satisfactory due diligence visit.

Executive Summary – In March of 2006, the Treasurer of the State of Ohio re-appointed JP Morgan Chase as OPERS' domestic custodian. In December 2006, the Treasurer appointed JP Morgan Chase as OPERS' global custodian replacing State Street. While the Treasurer of State is responsible for appointing the custodian, OPERS is responsible for the selection of vendors for all remaining related services. OPERS staff was scheduled to conduct a re-bid and re-evaluation of the fund accounting and related investment services during 2007. Staff elected to coordinate the re-bid to occur once the Treasurer's appointment was complete, as these functions interact heavily with the custodian. The last selection and bid for these services occurred in 2002. Staff issued a Request for Proposal (RFP) for Fund Accounting and Supporting Services on February 2, 2007. OPERS received responses from three firms, JP Morgan Chase, Mellon, and State Street.

Scoring Process –

- ***The firms were evaluated and scored in the following areas***
 - Organization and Clients
 - Client Service

- Systems, Research and Development and Technology
 - Accounting and Reporting – DB and DC Plans
 - Performance Measurement Capabilities, Compliance, Risk and Attribution
- ***The following areas were not scored but given heavy consideration***
- Fees
 - Operational Complexity and Structure

Rationale for recommendation

A team consisting of staff from Finance, Investments, Defined Contribution and Information Technology evaluated the RFP responses and scored each RFP based on the criteria listed above. Once the scoring was complete, staff met to discuss the findings and recommend the vendor that could most appropriately fill the needs of OPERS. The scoring was based on a scale of 1-5 with 5 being the best. The results of the scoring of the RFPs are as follows:

| | |
|--------------|-----|
| Mellon | 4.0 |
| JP Morgan | 3.9 |
| State Street | 3.5 |

Staff also took into consideration the pricing of such services. Currently OPERS pays approximately \$850,000 annually. The annual quotes provided are as follows:

| | |
|--------------|-------------|
| JP Morgan | \$710,000 |
| Mellon | \$1,275,000 |
| State Street | \$2,000,000 |

Staff also factored operational complexity into the decision process. Staff believes there are considerable benefits and economies of scale from consolidating the functions with one vendor. Additionally, staff believes the consolidation would reduce operational risk in many areas including but not limited to: performance and reporting, net asset value calculations and reducing the number of reconciliations required to ensure accuracy.

Staff recommends the selection of JP Morgan Chase as the fund accountant and provider of supporting services, pending successful completion of a due diligence visit.



Fund Accounting and Supporting Services Update

Walter Knox, Assistant Director – Investment Accounting

Roger Fox, Investment Administration Manager

Presentation to OPERS Board

March 20, 2007

Purpose

- Provides an update of staff's selection process for Fund Accounting and Supporting Services
- Provides rationale for selection and information about next steps



Background

- By statute, the Treasurer of the State of Ohio appoints OPERS' custodians. OPERS contracts directly with vendors for all other services needed to support the the investment program.
- Last selection for Fund Accounting and Supporting services took place in 2002. State Street was selected for these services for OPERS and appointed global custodian by the Treasurer of the State of Ohio.
- The Treasurer of the State of Ohio designated JPMorgan Chase as OPERS domestic and global custodian in December 2006.

Selection Timeline

- RFP Released – February 2, 2007
- Bidders Conference Call – February 13, 2007
- RFP Submission Deadline – February 23, 2007
- Staff RFP Evaluation – March 2, 2007
- Staff Meetings and Discussions – March 3, 2007
- Staff Update to Board – March 20, 2007
- Due Diligence Trips – March 26 – 29, 2007
- Final Selection – March 30, 2007

Interest and Participation

- Three firms participated in bidders call
- Same three firms submitted RFP's
- Candidates:
 - JPMorgan Chase
 - Mellon
 - State Street

Areas of Evaluation

- Organization and Clients
- Client Service
- Systems, Research & Development and Technology
- Accounting and Reporting – DB and DC Plans
- Performance, Compliance, Risk and Attribution
- Operational Complexity and Structure
- Fees

Organization and Clients

- Long-term organizational stability
- Strong support of implementation and transition activity
- Growth in similar clients and asset base in the service areas OPERS is requesting services

Client Service

- Experienced staff assigned to OPERS
- Dedication to public pension markets
- Positive references

Systems, R&D and Technology

- High accessibility to data, systems and tools
- Real-time access and straight-through-processing between systems
- Meaningful and appropriate levels of spending on research and development

Accounting and Reporting

- Strong and demonstrated capability to generate daily Net Asset Values
- Tight controls around auditing processes
- Effective error identification and resolutions processes
- High reporting flexibility



Performance, Compliance, Risk and Attribution

- Timely performance reporting capabilities
- Depth and experience of staff
- Demonstrated benchmark and attribution capabilities
- Automated compliance tools
- Ability to generate detailed risk reports

Fees

- JPMorgan Chase: \$710,000
- Mellon: \$1,275,000
- State Street: \$2,000,000

Operational Structure and Complexity

- Consolidated custody, fund accounting and supporting services platform
- Multiple parties require multiple data feeds, reporting and reconciliations
- Internal staff provides independent reconciliation, oversight and augmentation

Selection Update

- Evaluation of RFP's and other considerations place JPMorgan Chase as staff's recommendation to provide fund accounting and supporting services
- Final selection pending on-site due diligence of JPMorgan Chase and Mellon

Next Steps

- Complete on-site due diligence
- Develop Service Level Agreement
- Complete Contract Negotiations