

# SBCERS

Santa Barbara County Employees' Retirement System

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**DATE:** October 25, 2023

**TO:** SBCERS BOARD OF RETIREMENT

**FROM:** SBCERS Accounting and Investment Staff

**RE:** **Issuance of Custodian Services Request for Proposal (RFP)**

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## **Recommendation**

That the Board of Retirement:

- A. Authorize the issuance of a Request for Proposal (“RFP”) for Custodian Services and engage RVK Inc to assist with the search; and
- B. Establish the Custodian Services RFP Ad-hoc Committee pursuant to SBCERS Bylaw 706; and
- C. That the Chair of the Board of Retirement appointment members to the Custodian Services RFP Ad-hoc Committee pursuant to SBCERS Bylaw 701; or
- D. Take other action as appropriate.

## **Summary**

SBCERS Accounting and Investment Staff recommends the issuance of a Request for Proposal (RFP) for Custodian Services. SBCERS has employed Bank of New York (BNY) Mellon as its custodian of portfolio securities and other assets since April 2004. In 2012, SBCERS and its general investment consultant, Meketa, conducted a thorough RFP search process that resulted in the retention of BNY. The 2012 contract was initially for a five-year period, no renewal was ever negotiated due to the fact that the original fee structure was deemed favorable and the existing contract terms still apply. The contract is effectively month to month at this point.

The Custodian serves as the master custodian of SBCERS assets and is responsible for maintaining the official book of record, calculating investment performance, and serving as an additional layer of risk control in the safekeeping of SBCERS assets. Examples of record keeping services include:

- Maintain on-going investments in electronic systems.
- Work on a direct automated basis with SBCERS’ money managers.
- Provide accurate statements and accounting information in a timely manner every month.

In addition to record keeping, SBCERS has engaged BNY Mellon to allow security lending on the plan’s behalf. Security lending is a common practice among asset holders to increase income.

In determining the frequency and depth of due diligence for each SBCERS service provider, staff assesses the risks to SBCERS. As the safekeepers of assets, custodians represent a substantial risk should it fail to fulfill its obligations. While SBCERS is satisfied with BNY’s custodial services, over a decade has passed since the last comprehensive search of custodial service providers. This risk is weighed against the process to change custodial service providers which is very lengthy and cumbersome requiring a lot of staff time. Given the risk of the service and burden of the potential change in vendors, 10 years is an appropriate length of time to initiate an RFP process on Custodial Services.

In addition to the standard services of a Custodian, SBCERS is considering bundling both the Custodial and Banking relationship. Currently, SBCERS banks with Bank of America. Through the RFP process, SBCERS would like to evaluate a Custodian that could also provide Banking Services that would permit SBCERS to integrate its accounts and benefits payable process with its general ledger. This would streamline internal operations for SBCERS. While this is of keen interest, it would not preclude any Custodial Service Providers that do not have Banking Services from responding.

The RFP project is expected to run from October 2023 through June 2024. This is a reasonable timeline given that Custodial Service Providers offer many services and thorough due diligence is needed given the potential impact to pension assets. The Ad Hoc Committee is responsible for reviewing finalists as recommended by staff and attending in-person on-site due diligence trip accompanied by staff in April 2024 based on proposed timeline.

Lastly, given the importance of the Custodian Service Provider and the multitude of functions that Provider facilitates for SBCERS, the Accounting and Investment Teams would like to engage RVK, Inc. as a project specialist for the RFP on Custodial Services. RVK, Inc. is proposing a team comprised of Lindsey Longwell, Kristina Richter and Jonathan Kowolik. The Investment Team has worked closely with Lindsey Longwell and Kristina Richter as part of the First Eagle transition and finds them both to be thorough and responsive to project needs.

Since the RFP is outside the scope of RVK, Inc.’s General Consultant contract, there would be an additional flat fee cost of \$40,000 to utilize RVK, Inc.’s services as a project specialist. Included with this memo is a reprint of the Request for Proposal timeline for the organizations employed by SBCERS under the Investment Team’s purview.

	<b>RVK</b>	<b>Hamilton Lane</b>			<b>Bank of New York Mellon</b>
Function	General Investment	Private Equity	Private Real Return	Private Real Estate	Custodian
Type	Non-Discretionary	Discretionary	Discretionary	Discretionary	N/A
Start of Relationship	6/1/2016	9/18/2006	8/13/2014	8/10/2010	8/1/2004

Last RFP	2016 ( <i>last contract renewal: 2021</i> )	2021	2014	2017	2012 (in depth review 2016)
Next RFP (proposed)	2026	2025	2024	2027	2023

**Attachments**

- 2023-09-11 SBCERS Custody RFP Proposal