

Board Summary

May 22, 2024

Custodial Banking RFP Final Recommendation

Santa Barbara County Employees' Retirement
System



Updated Process Summary



Timeline Summary

RFP Action	Date
RFPs Issued	January 8, 2024
Q&A	January 12-22, 2024
Responses Received	February 2, 2024
Initial Evaluation Discussion	March 5, 2024
Initial Scoring Discussion and Selection of Finalists	March 8, 2024
Board Meeting to Provide Update on Selected Finalists	March 20, 2024
Notification to Finalists, Questions on Proposals to Respondents and Solicitation of Updated Pricing, as applicable	April 1, 2024
Finalist(s) On-Site Visit(s)	April 16, 2024 – Northern Trust April 17, 2024 – BNY Mellon
Final Selection	May 22, 2024



Custody & Related Services RFP Process Update

- A Request for Proposal (“RFP”) for Directed Trustee/Custodian and Related Services was issued on January 8, 2024.
 - RVK provided a short-list recommendation of four candidates representing the leading providers of requested services for US Asset Owners such as SBCERS.
 - Consistent with this recommendation, the RFP was posted publicly on the SBCERS website, and courtesy notifications were sent to the recommended candidate slate:
 - BNY Mellon (incumbent), JP Morgan, Northern Trust, and State Street
- Responses to the RFP were due on February 2, 2024, and were received from three firms:
 - BNY Mellon
 - Northern Trust
 - State Street
- Details on declinations:
 - J.P. Morgan was sent a courtesy notification, but they declined to bid, indicating that SBCERS did not reach its minimum asset level.
- Based on the initial evaluation, BNY Mellon and Northern Trust were identified as finalists. Further due diligence followed, including in-person presentations in Pittsburgh and Chicago, respectively, follow-up information requests, reference checks, and additional negotiation.

Final Scoring and RVK Recommendation



RFP Final Evaluation Factor Review – Consensus Scoring

	Weighting	BNY Mellon			Northern Trust		
		Adjectival	Assessed	Extended Score	Adjectival	Assessed	Extended Score
Scope Affirmation, Servicing Approach, and Institutional Credentials	30%	Excellent	97%	29.1%	Excellent	95%	28.5%
		Slight increase in score, due to their evidence of a commitment to the industry and increased confidence in the safekeeping of assets. Increased from 95% to 97%.			Northern Trust's servicing approach demonstrated a potential for a higher level of service, evidenced by their smaller workload and high concentration on hands-on servicing approach. Increased in score from 93% to 95%.		
Core and Value Added Services and Technology Platforms	40%	Excellent	92%	36.8%	Excellent	90%	36.0%
		Slight increase in score, due to their cybersecurity programs, policies, and controls. Increased from 90% to 92%.			No change recommended for Northern Trust.		
Quality of Responses and Additional Evidence of Capability	5%	Excellent	80%	4.0%	Good	78%	3.9%
		BNY Mellon demonstrated organizational capability during the onsite interview. Increased from 76% to 80%.			No change recommended for Northern Trust.		
Competitiveness and Reasonableness of Economics	25%	Excellent	80%	20.0%	Excellent	80%	20.0%
		Although a slight increase in fees was proposed by BNY Mellon during BAFO, fees appear to remain competitive overall. Therefore, no change recommended for BNY Mellon.			Slight increase in score for Northern Trust, due to a further proposed reduction of fees during BAFO. Increased from 78% to 80%.		
Total Score	100.0%			89.9%			88.4%

Adjectival Rating Scale:

- **Fail – 0%-29%** – The Bidder failed to respond to the inquiry presented in this section/subsection or provided no evidence of quality or capability in the items reviewed.
- **Poor – 30%-49%** – The Bidder minimally responded to the inquiry presented in this section/subsection or provided minimal evidence of quality or capability in the items reviewed.
- **Average – 50%-69%** – The Bidder responded without distinction to the inquiry presented in this section/subsection or provided only moderate evidence of quality or capability in the items reviewed.
- **Good – 70%-79%** – The Bidder provided good responses to the inquiry presented in this section/subsection or provided greater than average evidence of quality or capability in the items reviewed.
- **Excellent – 80%-99%** – The Bidder provided excellent responses nearly equal to the expectations of the Evaluation Team relative to the inquiry presented in this section/subsection or provided significantly greater than average evidence of quality or capability in the items reviewed.
- **Outstanding – 100%** – The Bidder's response equaled or surpassed the expectations of the Evaluation Team relative to the inquiry or provided outstanding evidence of quality or capability in the items reviewed.

RVK Final Recommendation

After initial and finalist evaluation and scoring of RFP responses, finalist due diligence and other due diligence processes, RVK recommends that SBCERS designate BNY Mellon as its apparently selected custodian, pending final contract negotiations.

Key Points of Rationale:

- Large and stable organization, strong financial position, reasonably insured, deep commitment to asset servicing business and constructive business focus relative to asset owners like SBCERS.
- Capable and experienced professionals who provide direct access to subject matter experts to support SBCERS Staff.
- Demonstrated cybersecurity program, policies, and controls that provide a reasonable assurance to safety and security of assets.
- Competitive and reasonable fees were proposed and are observed to present best value to SBCERS.
- As incumbent provider, no transition would be required to continue a relationship with BNY Mellon.

Additional Due Diligence Process Summary



Additional Due Diligence Process and Interviews

The SBCERS Ad-Hoc Committee (which consisted of 3 Trustees and 4 Staff Personnel) and RVK conducted an in-person due diligence interview with both finalists as follows:

- Northern Trust: Tuesday, April 16, 2024 – Chicago, IL
- BNY Mellon: Wednesday, April 17, 2024 – Pittsburgh, PA

The sessions included an in-depth discussion of the following agenda topics:

- Organizational Overview and Scope Review
- Team Introductions and Staffing Resources
- Asset Servicing, Accounting, and Performance
- Site Visit
- Alternative Investment Support
- Cash/STIF, Foreign Exchange, and Securities Lending
- Optional Benefit Payment Services
- Transition Discussion (Northern Trust only) or Relationship Evolution (BNY Mellon only)
- Fee Proposal Review

Additional due diligence also consisted of performing reference calls for both vendors, receiving written clarification responses, and a detailed discussion on vendor IT security.

RVK observations and summary comments: both firms presented detailed information related to their respective organizations and generally adhered to the proscribed list of agenda topics. Following the in-person interviews, SBCERS Staff performed reference checks on both firm's clients.

RFP Finalist IT Security Review Summary

As part of the additional due diligence activities, SBCERS Staff and RVK conducted virtual interviews with the RFP Finalists to specifically review the security posture of both vendors’ technology infrastructure. The interviews were conducted as follows:

- **BNY Mellon:** Tuesday, April 9, 2024 at 10:00am PT.
- **Northern Trust:** Monday, April 8, 2024 at 11:00am PT.

For both candidates, there were key distinctions worth consideration:

BNY Mellon	Northern Trust
<p>Certifications:</p> <ul style="list-style-type: none"> - ISO 27001 certification - SOC 2 Type 2 report <ul style="list-style-type: none"> - SOC 2 Trust Criteria Certified: <ol style="list-style-type: none"> 1. Security 2. Availability 3. Processing Integrity <p>SOC 2 Security Exceptions:</p> <ol style="list-style-type: none"> 1. 4 of 14 new hires in new UK office had no background check evidence, and no pre-approval was done. 2. 1 of 358 applications no approval was obtained before releasing code to production by developer. 	<p>Certifications:</p> <ul style="list-style-type: none"> - SOC 2 Type 2 report <ul style="list-style-type: none"> - SOC 2 Trust Criteria Certified: <ol style="list-style-type: none"> 1. Security 2. Availability <p>SOC 2 Security Exceptions:</p> <ol style="list-style-type: none"> 1. 1 of 38 logical access reviews not completed. 2. 1 of 10 privileged account reviews did not occur. 3. 1 of 6 internal apps do not adhere to password complexity policy.

Summary: Upon review of the SOC 2 reports, it is evident that both candidates possess commercially reasonable Information Security Programs, with appropriate management responses to noted exceptions. However, BNYM stands out with its ISO 27001 certification, an internationally recognized standard signifying effective Information Security Management Systems. This certification, more challenging to attain than a SOC 2 report, underscores BNYM’s commitment to robust security practices. Furthermore, BNYM is certified across three SOC 2 trust criteria, indicating a more advanced level of maturity in its information security program.



Appendix
RFP Clarification Response Summaries



RFP Clarification Request Summary – BNY Mellon

RVK requested written clarifications to finalists and received responses from BNY Mellon on April 15, 2024. Below is RVK's observed summary of material changes to original RFP response:

- **Total Assets Under Custody:** BNY Mellon confirmed their total assets under custody as of 9/30/2023 was \$45.7 trillion.
- **Standard Custody Agreement:** BNY Mellon provided a copy of its standard custody agreement.
- **Client Workload for Primary Point of Contact:** BNY Mellon indicated that Emily Pascale is currently responsible for twenty-five clients, including SBCERS.
- **Additional Personnel Growth Trajectory:** BNY Mellon provided additional information on where it anticipates adding additional personnel over the next five years, which includes a focus on all of its international locations and adapting to the needs of its clients. Additionally, during the finalist interview, BNY Mellon indicated a desire to hire approx. 2,000 interns throughout 2024.
- **Team Updates:** BNY Mellon provided additional biographical information on individuals on the accounting team who have been assigned to provide additional support to the SBCERS relationship.
- **Fee Proposal Clarifications:** BNY Mellon provided clarifications on its fee proposal, which were incorporated into the evaluation factors above.

RFP Clarification Request Summary – Northern Trust

RVK requested written clarifications to finalists and received responses from Northern Trust on April 12, 2024. Below is RVK's observed summary of material changes to original RFP response:

- **Sample SLD:** Northern Trust provided a sample Service Level Description (SLD) document.
- **Client Workload for Primary Point of Contact:** Northern Trust indicated that Colleen Brennan and Matt Pfaff are currently responsible for eight clients.
- **Team Updates:** Northern Trust provided additional biographical information on individuals assigned to support to the SBCERS relationship.
- **Fee Proposal Clarifications:** Northern Trust provided clarifications on its fee proposal, which were incorporated into evaluation factors above.

PORTLAND

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