

TO: Federated City Employees' Retirement System
Investment Committee

FROM: Ron Kumar

SUBJECT: Bank of New York Contract Renewal

DATE: August 28, 2025

Approved



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Recommendation

Discussion and approval for the Secretary to negotiate and execute a five-year extension to the custodian banking services agreement with the Bank of New York for:

- Federated City Employees' Retirement System not-to-exceed \$2,350,000.
- Federated Retiree Health Care Trust Fund not-to-exceed \$333,000.

Background

In October 2020, following a formal Request for Proposal ("RFP") process, The Bank of New York ("BNY") was appointed custodian bank for the Federated City Employees' Retirement System and the Federated Retiree Health Care Trust Fund ("Plan"), as well as for the Police and Fire Pension and Health Care plans. BNY succeeded State Street Bank & Trust, which had served in that capacity since 2011. This change was driven by the need to enhance technology, broaden service offerings, and achieve cost efficiencies—key priorities outlined in the RFP.

Custodian banks play a critical role in safeguarding the Plan's assets, facilitating transactional settlement, maintaining accurate records, and ensuring regulatory compliance. Transitions between custodians can be complex and risk-prone—ranging from data-transfer errors and processing delays to participant confusion and regulatory challenges—making continuity essential for operational stability.

The engagement with BNY commenced in October 2020 under a five-year service contract, set to expire on October 1, 2025. This term mirrors industry norms, allowing ample time to assess the custodian's performance, technological compatibility, service effectiveness, and cost efficiency, while planning for renewal or strategic alternatives. Notably, clients tend to maintain relationships with their custodians—on average—for 10 years or more when there are no significant issues, underscoring the value of continuity and trust in these partnerships.

Analysis

The following chart provides the fees associated with custody services over the past five years.

Current Period	FED Pension	FED HCT
2021	\$ 436,023	\$ 69,262
2022	428,364	73,739
2023	432,235	50,840
2024	435,688	57,160
2025	501,042	65,734
Five Year Total	\$ 2,233,353	\$ 316,736
Renewal Period	FED Pension	FED HCT
Est. Annual	\$ 470,000	\$ 66,600
Est. 5-year NTE	\$ 2,350,000	\$ 333,000

Over the past five years, the combined Pension and Health Care Trust portfolio value has increased by 41% and the account base has expanded by 70%, rising from 91 to 155 accounts. This growth is projected to increase custody service fees by approximately 5% in the next contract period. Managing a larger number of accounts increases operational costs, including those for recordkeeping, monitoring, and reporting systems. In addition, more accounts generate higher transaction volume—trades, distributions, and rebalancing—for which custodians charge per transaction. Together, these operational demands and per-transaction fees elevate total costs.

Conclusion

Meketa Investment Group and Verus Investments also support staff recommendation of renewing the custody agreement with BNY for an additional five years, which includes a 90-day termination clause for either party. The consultants noted that, in the absence of significant service issues, maintaining the relationship with BNY is a prudent course of action.



Ron Kumar
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