

# Memorandum

**TO:** Police and Fire Department Retirement Plan and  
Federated City Employees' Retirement System  
Boards of Administration

**FROM:** Ron Kumar

**SUBJECT:** Custodian Bank RFP

**DATE:** May 27, 2020

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**Approved**

**Date**

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## Recommendation

Discussion and action to authorize the Secretary to negotiate and enter into an agreement for custodian banking services, commencing October 1, 2020

## Background

State Street Bank & Trust has provided custodian services for the Federated plan since 2011. The Police and Fire plan originally contracted with Bankers Trust in the early 1990's which was subsequently acquired by State Street. Staff, through Meketa Investment Group, issued a Request for Proposals ("RFP") for qualified custodian banks during the first quarter of 2019. The RFP yielded responses from four custodian banks and two fund administrators. Staff from Investment and Accounting groups and representatives from Meketa conducted interviews of the four custodian banks during the fourth quarter 2019 and an on-site due diligence was conducted on BNY Mellon and Northern Trust in February 2020. Staff did not visit State Street since they are familiar with their services.

## Analysis

The following chart ranks the three firms based on the key factors.

	BNY Mellon	Nothern Trust	State Street
<b>Client Service</b>	1	1	1
<b>Online System</b>	1	2	3
<b>Accounting</b>	1	2	3
<b>Performance</b>	1	1	2
<b>Fees</b>	1	2	3
<b>Innovation</b>	1	1	3
<b>Rank</b>	1	2	3

The ranking is based on staff review of the RFP responses, interviews, and on-site due diligence. It was critical to staff that the client service teams are responsive in providing staff accurate information in a timely manner. Other key factors include timely transfer of funds including wire transfers, accurately accounting of the plans' assets, and online system that allows customization and transaction input. Fees, illustrated below, was another key factor in the decision.

	<b>BNY Mellon</b>	<b>Nothern Trust</b>	<b>State Street</b>
<b>Federated Pension</b>	\$ 172,246	\$ 164,646	\$ 302,651
<b>Federated Healthcare Trust</b>	34,502	22,620	124,781
<b>P&amp;F Pension</b>	218,465	277,423	330,686
<b>P&amp;F Healthcare Trust</b>	24,769	10,932	81,732
<b>Total</b>	<b>\$ 449,982</b>	<b>\$ 475,621</b>	<b>\$ 839,850</b>

Based on the above ranking, staff recommends hiring BNY Mellon as the plans' custodian bank. Meketa Investment Group also concurs with staff recommendation as indicated in their report. BNY Mellon is headquartered in New York, NY with its custody operations in Pittsburgh, PA and performance team in Tacoma, WA. BNY serves as the custodian for 160 public fund clients with \$1.6 trillion in total assets. The bank currently serves 296 clients with assets between \$1-10 billion with a net gain of 37 in the past five years. Three quarters of the bank's revenue derives from custody services. BNY has proposed a client service team of two individuals with average experience of 19 years. Each team member services an average of eight clients and San Jose will be considered two separate clients. The two individuals are also supported by other operations team members.

## Conclusion

On March 26, 2020, the Investment Committees of both Boards discussed and approved staff recommendation. Due to the annual financial audit during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters, staff anticipates the transition to commence on October 1, 2020. This will provide sufficient time for contracting, foreign market opening, and setup of all the accounts.

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