

**AGENDA ITEM DETAILS**

**Subject:** Review, Discussion and Consideration of Contract Award Recommendation for Global Custody Services - (ACTION - Board Only Vote)

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**RECOMMENDED ACTION:**

**(Board Only Vote):**

Move that the Board of Trustees of the Employees Retirement System of Texas authorizes the Executive Director to negotiate and execute a contract with [RESPONDENT NAME] with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties. In the event that ERS is not able to timely negotiate a satisfactory contract with [RESPONDENT NAME], or if [RESPONDENT NAME] will not be capable of providing the required global custody services to ERS' satisfaction during the contract term, then the Board authorizes the Executive Director to resume any necessary due diligence processes and contract negotiations with the next top-ranked qualified Respondent, and to negotiate and execute contract terms that are fully acceptable to ERS and thereafter administer the contract.

**Background**

The Employees Retirement System of Texas (ERS) contracts for global custody services to assist ERS in maintaining and monitoring settlement, safekeeping, delivery, investment accounting (including acting as ERS' book of record), income collection, daily securities valuation, daily investment performance reporting, compliance monitoring and reporting, and other services in connection with the assets of the trust.

**Current Contract**

On June 15, 2011, ERS contracted with The Bank of New York Mellon (BNY Mellon) for an original contract term of five (5) years, ending August 31, 2016. With contract extensions, the current contract terminates on August 31, 2020.

**Issuance of Solicitation**

ERS competitively resolicits this contract periodically to ensure the agency continues to receive global custody services at the best value. On July 8, 2019, ERS issued a request for proposals (RFP) seeking qualified vendors to provide global custody services for a six-year term, in accordance with additional contract terms as may be applicable.

**Responses to Solicitation**

ERS received proposals from four entities (the Respondents):

1. BNY Mellon (current custodian);
2. JPMorgan Chase Bank, N.A.;
3. The Northern Trust Company (Northern Trust); and
4. State Street Bank and Trust Company.

**Evaluation**

As described in Article III of the RFP, ERS evaluated Respondent proposals in four phases: (1) Minimum Requirements Phase; (2) Preliminary Review Phase; (3) Proposal Review Phase and (4) Finalists Review Phase. The RFP set the following minimum requirements:

1. Location. Respondent must have an office(s) in the United States performing each of the core business functions which include the accounting, performance and relationship management functions included in the scope of services requirements.
2. Professional Licenses. Respondent must hold all required business and professional licenses and/or certifications to provide global custody services in Texas.
3. Experience of Respondent. Respondent shall confirm the following:
  1. It has at least \$250 billion in total tax-exempt assets under trust/custody as of December 31, 2018.
  2. It has a minimum of 10 years' experience providing global custody services for U.S. public pension funds.
  3. It has at least \$100 billion in assets for which its business unit is currently providing daily valuation and investment accounting services, including daily unit NAV calculations.
  4. It has at least \$100 billion in investment manager assets for which it is providing complete global custody services, including safekeeping, settlement and trade processing, income collection, corporate action administration, and class action and proxy voting support.
  5. It is providing securities lending administration services for at least two public fund custody clients who utilize third party lending agents.

All four Respondents passed the Minimum Requirements Phase.

The Preliminary Review Phase included an initial evaluation of compliance with the RFP, an initial responsiveness review, and evaluation of certain required vendor checks. All four Respondents passed the Preliminary Review Phase.

For the Proposal Review Phase, ERS conducted a substantive review of the proposals received from Respondents. The qualifications and services portions of the proposals were reviewed by the RFP evaluation team, which included subject matter experts in multiple ERS divisions including Investments, Finance, Information Systems, and the Office of the General Counsel. The evaluation included considerable attention to the proposed provision of various types of services required and Respondents' technical practices and qualifications.

Qualifications and services scores represented 70% of each Respondent's final score. ERS evaluated the Respondents' pricing proposals, a combination of fixed fees proposed for defined deliverables (custody, accounting and performance reporting) and per fund fees for alternative investments services. ERS staff calculated an anticipated total contract value for each proposal, based on historic levels, with the lowest overall price proposal receiving the highest score. Price proposals accounted for 30% of the total score in the Proposal Review Phase.

ERS also initially evaluated certain items solely on a pass/fail basis during this phase, including contractibility, legal requirements and regulatory compliance, financial stability, and the review of full, unredacted SOC-report(s) or equivalent reports. Depending on information provided during the phase, these pass/fail items may have been finally determined in the Finalists Review Phase.

Based on the Proposal Review Phase of the evaluation, ERS selected BNY Mellon and Northern Trust as finalists (the Finalists). The Finalists Review Phase was scored using the same criteria and weights as used under the Proposal Review Phase, with qualifications and services scores based on new information gathered through clarification questions, site visits and videoconference interviews. Price proposals were included as part of the preliminary finalist review and then evaluated based on best and

final offers. In addition to being scored, as noted above, ERS evaluated site visits on a pass/fail basis. In this phase, ERS also evaluated past performance on a pass/fail basis. The videoconference interviews were held on January 9 and 13, and included a prepared presentation by each Finalist and further questions posed by evaluation team members. ERS conducted operational site visits with Finalists on November 21 and 22 to review operational capabilities. ERS conducted data and security operations center site visits with Finalists on December 10, 11, and 12 to review information security structures and practices.

**Staff Recommendation**

Based on the evaluation process outlined above, ERS staff recommend awarding a contract to the global custody service company offering the best value during the presentation of this agenda item to the Board.