



North Carolina
Total Retirement Plans



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MEMORANDUM

TO: Supplemental Retirement Board of Trustees
FROM: Mary Buonfiglio, Director Supplemental Retirement Plans
DATE: December 3, 2020
RE: NC 401(k) and NC 457 Plans' Stable Value Fund's Custodian

As noted in the August 2020 board meeting, Wells Fargo, currently the custodian for the separate account assets in the Stable Value Fund, sold its custodial business to Principal in 2019. The Stable Value Fund's assets will need to be transitioned to a new custodian by the second half of next year.

Background

The Stable Value custodian's primary responsibilities include: custody of separate account assets, calculating the daily NAV for the fund, trade processing and coordination with the recordkeeper (Prudential) and investment managers.

Department of State Treasurer (DST) staff has met with Principal and with BNY Mellon (BNYM) regarding serving as custodian of the Stable Value Fund with the objective of evaluating each firm's capabilities and custody fee. A formal vendor solicitation (e.g., RFP) is not required in this situation under the board's Vendor Selection Policy. The selection of Principal, as successor to Wells Fargo, would effectively amount to an assignment and amendment/renegotiation of the current contract with Wells Fargo. The selection of BNYM would require an amendment to BNYM's current contract.

The criteria used in evaluating each firm included:

- Background and experience in providing custody services of stable value assets;
- Quality of existing custody and accounting system;
- Level of annual investment in their technology platform and cyber security;
- Financial resources, including the ability to provide compensation in the event of errors; and
- Cost.



Although BNYM is slightly higher in cost, staff recommends transitioning the Stable Value Fund's separate account assets to BNYM due to their established position in the Global Custody marketplace, depth of resources and quality of their custody and accounting platform. The existing BNYM custody contract covering all non-Stable Value assets expires on December 31, 2022 following the board's renewal of the contract for 2021 and 2022 at the August meeting. The board and the department have an additional one-year renewal option for 2023. There is no fee associated with transitioning assets to either provider.

Recommendation

Staff seeks board approval to initiate transitioning the Stable Value Fund's separate account assets to BNYM, including:

- Engaging Wells Fargo and BNYM to create a transition plan of assets to include communication to existing investment managers, recordkeeper and other stakeholders;
- Terminating the existing contract with Wells Fargo; and
- Amending the current BNYM contract, as necessary, to include the Stable Value Fund.