



North Carolina Total Retirement Plans



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MEMORANDUM

TO: NC Supplemental Retirement Board of Trustees

FROM: Reid Chisholm, Assistant General Counsel

DATE: August 27, 2020

SUBJECT: Renewal options for the BNY Mellon contract

At the last Board meeting, I gave an overview of the custodial services provided by BNY Mellon and discussed the term of BNY Mellon's contract.

BNY Mellon has been the custodian for the NC 401(k) and NC 457 Plans since approximately January 1, 2016. It was selected pursuant to a request for proposals (RFP) that was issued on September 30, 2014 as part of the move to an unbundled structure for the plans.

BNY Mellon's services generally exclude the NC Stable Value Fund, except for some reporting and valuation services. The NC Stable Value Fund's assets are held mostly at Wells Fargo, and Galliard provides the fund's value to BNY Mellon on a daily basis.

BNY Mellon provides custody for the plans' assets that are held in separate accounts. This excludes the separate accounts in the NC Stable Value Fund, and it also excludes the assets held in collective investment trusts with BlackRock or Prudential's investment business.

Some of the other core custodial services provided by BNY Mellon are the following:

- Calculating a daily net asset value (NAV), which is used to value participants' accounts, for each of the plans' 11 investment options;
- Processing trades and performing quarterly rebalancing of the plans' investments. In a quarterly rebalancing, money is reallocated across investment options based on

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GoalMaker's target allocations. Likewise, money is also reallocated among multiple managers within a fund based on the fund's target allocations;

- Working with Prudential on such items as participant flows and the transmission of NAVs; and
- Working with the plans' investment managers.

BNY Mellon provides other, related services as well, such as value and performance reporting (including comparisons with investment managers) and assistance with foreign markets (including account openings, tax filings, and foreign exchange).

In addition, as mentioned at the last meeting, staff is negotiating a contract amendment enhancing performance standards and guarantees. Staff is satisfied with BNY Mellon's actions to address service-related issues.

As I discussed at the last Board meeting, the initial five-year term of BNY Mellon's contract expires at the end of this year. However, the Board and the Department have the right to renew the contract for up to three, one-year terms. Also, the Board and the Department can terminate the contract (including a renewal term) upon at least 180 days' notice.

Listed below are three options for renewing the contract. Each option allows at least 16 months to conduct a procurement process for a custodian and, if necessary, to transition to a new custodian.

1. Option 1: Renew the contract only for 2021, and immediately begin the procurement process for a custodian.
2. Option 2: Renew the contract for 2021, 2022, and 2023, and begin the procurement process for a custodian in mid-2022.
3. Option 3: Renew the contract for 2021, 2022, and decide in mid-2021 whether to renew the contract for 2023 or to begin the procurement process for a custodian.

Staff recommends Option 3, contingent upon successful negotiation and execution of a contract amendment enhancing performance standards and guarantees. In the unlikely event that staff is unsuccessful in negotiating an amendment, staff recommends Option 1.