



MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Reid Chisholm, Assistant General Counsel

DATE: May 23, 2023

SUBJECT: BNY Mellon contract

The Supplemental Retirement Plans' ("SRP") custodian contract with The Bank of New York Mellon ("BNY Mellon") expires on June 30, 2025. The Vendor Selection Policy requires the custodian and three other major vendors to be selected through a request for proposals ("RFP") or similar process. Alternatively, the Supplemental Retirement Board of Trustees ("Board") could extend the contract, as it did with Callan's contract last year and with Empower's contract in 2022.

RFP in 2014-15

As part of moving the NC 401(k) and NC 457 Plans to an unbundled structure (which was effective in January 2016), SRP needed to select and contract directly with a custodian. In the bundled plan structure, custodial services were provided through the recordkeeper (Prudential). The Board and staff worked with the investment consultant (Mercer) in 2014-15 to draft the RFP, conduct the procurement process, and transition SRP's assets and custodial services.

A similar RFP process was undertaken in 2014-15 for recordkeeping and communications services, which resulted in a new contract with Prudential.

BNY Mellon's current contract

SRP's contract with BNY Mellon had an initial five-year term from January 1, 2016, through December 31, 2020, with three, one-year renewal options for SRP. In 2020 and 2021, the Board exercised the three renewal options, extending the term through December 31, 2023.

At its 2022 Q3 meeting, the Board approved staff's recommendation to align the remaining term of BNY Mellon's SRP contract with the remaining term of BNY Mellon's custodian contract for the Investment Management Division ("IMD"), which covers the North Carolina Retirement Systems and non-pension funds managed by the Department of State Treasurer ("DST"). Following this amendment, SRP's contract with BNY Mellon (as well as IMD's contract) ran through June 30, 2023, with an option to renew the contract for another two years, though June 30, 2025. Last year, the Board exercised this option, as did IMD.

Contract monitoring and enhancements

DST and the Board have worked to improve the services and lower the fees in BNY Mellon's contract, including through a series of nine amendments from 2017 to 2022. Benefits to SRP have included the following:

- Enhancing and clarifying BNY Mellon's performance standards (e.g., daily NAV, performance reporting) and providing additional performance guarantees (i.e., reimbursable amounts for failure to meet certain performance standards);
- Enhancing and clarifying services for foreign tax relief/reclaims and country registrations;
- Enhancing information security provisions;
- Documenting the quarterly rebalancing process and implementing BNY Mellon's rebalancing tool, Smart Allocator, at no additional charge; and
- Reducing the cost of BNY Mellon's services through a new fee schedule effective January 1, 2021, and a quarterly fee credit from BNY Mellon effective 2021 Q3.

In the Board's quarterly meeting materials, staff includes a table of BNY Mellon's performance against its standards. BNY Mellon also presents to the Board annually, most recently at the previous Board meeting.

SRP's options

- RFP: If the Board wants to put the custodian contract out to bid, the process should start immediately in order to allow sufficient time to draft an RFP, conduct the RFP evaluation process, bring a recommendation to the Board for approval, and, if necessary, negotiate a new contract and transition SRP's assets to a new custodian prior to the expiration of BNY Mellon's contract. Staff recommends retaining Callan to assist in the procurement process and, if necessary, the transition process. SRP's contract with Callan includes optional procurement and transition services, ranging from \$95,000 to \$140,000 depending on the services used by DST and the Board.
- Contract extension: As mentioned above, BNY Mellon's contract has been amended numerous times since its inception in 2016, resulting in significant service enhancements, lower fees, and greater value for participants. If the Board wants to extend BNY Mellon's contract, staff recommends a two-year extension through June 30, 2027, which is the same extension expected for IMD. Staff would negotiate the extension on the same terms and with the same fees as the current contract. Even with an extension, the Board would retain the right to terminate the contract early and conduct an RFP. The Board can terminate the contract without cause on 180 days' notice and immediately for cause.

Recommendation

Staff recommends extending BNY Mellon's contract for two years, from July 1, 2025, through June 30, 2027, subject to successful negotiations with BNY Mellon.