



Agenda Item 7b

October 13, 2014

ITEM NAME: Contracts Administration: Extension of Current Master Custodian Agreement

PROGRAM: Total Fund

ITEM TYPE: Organizational Systems & Controls – Action

RECOMMENDATION

Grant authority for Investment Office staff to extend the current custody contract with State Street Bank & Trust for two years.

EXECUTIVE SUMMARY

The current five-year custody contract with State Street Bank & Trust (SSB) is scheduled to expire June 30, 2016. Staff's request is to add an additional two years, for a total for seven years, to the current contract.

Staff's recommendation is consistent with Board Resolution 92-04B-4. Extending the current custody contract will defray significant administrative expenses and allow CalPERS to obtain quality services at a reasonable cost. CalPERS has the ability to monitor the performance of this agreement.

STRATEGIC PLAN

This item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. The SSB contract extension will lock in a key vendor at an excellent value, one who provides quality services critical to CalPERS investment and financial needs.

BACKGROUND

Through a series of successive contract awards beginning in 1992, SSB has provided CalPERS with master custody services. The services provided have been excellent from a cost, service level and product quality perspective. SSB has worked diligently to understand the needs of the Investment Office, Financial Office and Information Technology Services Branch, and has delivered services to successfully support CalPERS.

ANALYSIS

SSB provides custody, investment accounting, performance and reporting services for CalPERS as the core contracting business. SSB also provides a number of additional specialty services as part of the contract, including but not limited to, Investment Manager Services (IMS) for Global Equity, and California Employers' Retiree Benefit Trust (CERBT) recordkeeping and on-site support. These complex services are intricately interwoven into CalPERS trading, risk, financial reporting and operations platforms.

By continuing to contract with SSB, CalPERS will continue to receive exceptional services while recognizing a significant cost savings. SSB is considered an extremely high quality global custodian, with no clear competitors that surpass them from service coverage, quality and cost perspective.

BUDGET AND FISCAL IMPACTS

During the last request for proposal process in 2010 only two other custodians submitted bids, both of which came with significantly higher cost (40-50% higher than SSB). There are no additional, unbudgeted costs associated with extending the current contract.

If favorable terms for the contract extension do not materialize, staff will report back and proceed with a request for proposal.

BENEFITS/RISKS

Extending the current custody contract with SSB will provide the following benefits:

- CalPERS will receive uninterrupted, excellent quality support from our custody provider
- SSB is able to provide an exceptionally wide breadth and bundle of services

Staff has not identified any additional risks associated with the extension of the current custody contract.

WYLIE TOLLETTE
Chief Operating Investment Officer