



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 14

**MEETING DATE:** June 20, 2018

**SUBJECT:** Renewal of SCERS' Custody Agreement

**SUBMITTED FOR:** \_\_\_ Consent        X   **Deliberation and Action**      \_\_\_ **Receive and File**

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### **RECOMMENDATION**

Staff recommends that the Board authorize the Chief Executive Officer to negotiate and execute documents necessary to update SCERS' custody agreement with State Street Bank and Trust (SSBT).

### **PURPOSE**

The Board is responsible for approving contracts with its consultants, auditors, actuaries, and investment managers. The Board's current custody agreement was drafted in 1989 and has been subject to several fee amendments. Both Staff and SSBT believe an updated custody agreement would better reflect the custody relationship.

### **DISCUSSION**

In September 1989, SCERS and SSBT began a custodial relationship and entered into an agreement that has been extended several times. In 2009, 2012, and 2017, SCERS and SSBT negotiated and agreed to new fee arrangements. In each of the fee amendments, the language of the underlying custody agreement remained largely unchanged.

Though it is common for custody agreements to survive an extended duration, the parties agreed last year to a one-year fee agreement, which expires June 30, 2018, to evaluate the need for a more comprehensive contract update of roles and responsibilities.

SCERS and SSBT have been drafting amendments in recent months that better reflect the complexity of SCERS' current portfolio, including the interaction of SCERS' overlay program with daily activities, valuations associated with alternative investments, securities lending activities, securities litigation, and privacy and data security.

Staff is confident that terms can be reached before the expiration of the current fee agreement.

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**BACKGROUND**

As the custodian, SSBT is generally responsible for safeguarding SCERS' financial assets. It does so by:

- Safekeeping assets/securities such as stocks, bonds, commodities, and currency;
- Arranging settlement of purchases and sales in/out of securities and currency;
- Collecting information on income from investments, administering tax withholding documents, and arranging foreign tax reclamation;
- Maintaining currency/cash bank accounts, effecting deposits and withdrawals, and managing other cash transactions; and
- Performing foreign exchange transactions.

SSBT has charged a flat annual fee in each of the contracts with SCERS. When first retained, SSBT charged SCERS an annual fee of \$125,000 for domestic and international portfolio administration, with an additional \$75,000 for annual performance analytics services. Over the years, SSBT's fees have risen in line with the complexity of SCERS' portfolio. In 2012, the annual fee was \$270,000 with a 2.5% annual cost escalator, and with an additional \$135,000 for annual performance analytics services. The 2017 renewal continued the 2012 fee agreement through June 30, 2018.

**ATTACHMENTS**

None.

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Robert L. Gaumer  
General Counsel

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Eric Stern  
Chief Executive Officer