MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Date:	June 17, 2026
To:	Board of Retirement
From:	Doris L. Rentschler, Executive Director F. Robert Reveles, Retirement Financial Investment Officer
Subject:	Custodian Contract Extension Recommendation

Recommended Action:

Provide direction to staff regarding whether to extend the current custodial contract for another 1-year term or issue a Request for Proposal (RFP) for custodial bank services.

Fiscal and Financial Impacts:

No immediate financial impact.

Strategic Plan Importance and Risk Assessment:

Using a custodian supports Goal 1 – Protect the Plan's long-term financial health and Goal 2 – Strengthen risk oversight by mitigating operational risks, preventing fraud and misappropriation, and providing third party asset servicing and portfolio valuation services.

Background and Discussion:

MCERA initially entered into a custodial bank agreement with State Street Bank and Trust on December 1, 2015. The agreement has since been extended multiple times, with the current term scheduled to expire on November 30, 2026. Following this term, the contract provides for automatic one-year renewals.

In alignment with MCERA's updated service provider evaluation process and the recent Request for Proposals (RFP) for investment consulting services, staff are presenting this item to provide a general custodial services update, assess current service satisfaction, and recommend a strategic direction.

Staff are satisfied with the services provided and recommend allowing the contract to automatically extend for a one-year term through November 30, 2027. Alternatively, the Board may direct staff to issue a formal RFP for custodial services.

What Is a Custodian?

Custodial banks are a critical component of institutional asset management. They help minimize operational risks of trading and security settlement and provide fiduciary safeguards through independent asset valuations and a structured system of checks and balances. Custodians support back-office administration by automating dividend collection, processing corporate actions, delivering cash management solutions, and assist in corporate governance through proxy voting oversight.

The primary services provided by our custodian can be categorized into six categories:

1. **Accounting Services**
2. **Securities Settlement**
3. **Cash Management**
4. **Securities Lending**
5. **Corporate Actions, Class Actions, Proxy Processing**
6. **Performance and Holdings Reporting**

Staff reviewed the ACFRs of peer County Employees Retirement Law (CERL) systems to evaluate custodian bank utilization and fee structures. State Street and Northern Trust are the most common custodians, as summarized below:

System	Custodial Bank	Investments at Fair Value ($)	FYE Date	Fees ($)	Annual Bps
Los Angeles	State Street Bank	82,394,742,000	6/30/2025	265,810	0.03
Fresno	Northern Trust	7,176,337,000	6/30/2025	58,000	0.08
Sacramento	State Street Bank	14,790,916,000	6/30/2025	322,000	0.22
Orange	State Street Bank	23,186,548,000	12/31/2024	580,000	0.25
San Joaquin	Northern Trust	4,535,299,162	12/31/2024	168,427	0.37
San Mateo	Northern Trust	7,024,023,000	6/30/2025	265,732	0.38
San Diego	BNY Mellon	16,911,831,000	6/30/2025	665,000	0.39
Ventura	State Street Bank	9,020,682,000	6/30/2025	351,215	0.39
Alameda	State Street Bank	12,010,908,000	12/31/2024	558,000	0.46
Contra Costa	Northern Trust	10,935,210,000	12/31/2024	554,000	0.51
Kern	Northern Trust	6,266,580,000	6/30/2025	478,689	0.76
San Bernardino	State Street Bank	16,432,775,000	6/30/2025	1,399,000	0.85
Mendocino	State Street Bank	793,339,000	6/30/2025	75,965	0.96
Marin	State Street Bank	3,533,911,627	6/30/2025	417,000	1.18
Santa Barbara	BNY Mellon	4,727,363,000	6/30/2025	565,000	1.20
Stanislaus	Northern Trust	3,145,462,000	6/30/2025	422,000	1.34
Imperial	JP Morgan Chase	1,299,274,635	6/30/2025	177,000	1.36
Merced	Northern Trust	1,344,386,478	6/30/2025	264,873	1.97
Tulare	BNY Mellon	2,204,845,279	6/30/2025	593,000	2.69
Sonoma	State Street Bank	3,725,821,000	12/31/2024	1,027,000	2.76

As Trustees are likely aware, custodial services can vary significantly across retirement systems. Some peers may utilize securities lending programs, currency overlays, or strict proxy voting policies, whereas MCERA does not. Beyond service differences, accounting for such expenses is also inconsistent. For example, based on the initial review of ACFRs staff reached out to Fresno who confirmed that custodial expense is offset by securities lending income. Consequently, some caution is warranted when reviewing the table.

Still, a comparative review of peer systems indicates that MCERA's current fee structure is competitive. The simple average fee paid to custodians is 0.91 basis points, while the median fee is 0.64 basis points. At 0.96 basis points, MCERA achieves pricing efficiencies greater than systems with significantly larger asset bases, such as Marin (1.18 bps) and Stanislaus (1.34 bps). Additionally, State Street and Northern Trust are the dominant custodians, serving 16 out of the 20 peer systems evaluated.

Changing custodial banks introduces considerable operational risk, requiring the transfer of funds for all asset managers, the transfer of reporting structures, and extensive staff oversight.

Recommendation:

Given that staff are satisfied with State Street's current operational performance and that the contract pricing delivers strong economies of scale, initiating a formal Request for Proposals (RFP) would demand substantial staff resources for minimal potential fiscal benefit.

If the Board rejects the staff recommendation to extend the contract and instead issue an RFP, direction is sought now so staff have sufficient time to draft and issue a request for proposals. In such case, after evaluating proposals received, finalist interviews would likely be scheduled for the November 4th Board meeting. Please note the November meeting includes receiving the annual Actuarial Valuation.