



To: SBCERA
From: NEPC, LLC
Date: Sept 4, 2025
Subject: Recommendation to Retain State Street as Custodian

Purpose

This memo presents a recommendation to approve the retention of State Street as the custodian for SBCERA to ensure the continued security, efficiency, and compliance of our plan's assets.

Background

The SBCERA pension plan currently holds approximately \$16.3 billion (as of 6/30/2025) in assets, managed by State Street. In response to State Street's request to renegotiate the terms of their contract for providing custodial services, SBCERA undertook an evaluation of their proposed offering as well as those of other service providers. NEPC fully supported SBCERA undertaking this process, as it believed attaining a service level understanding of State Street and its competitors would be beneficial. After carefully assessing the risks and opportunities of transitioning to a new custodian, an RFP was not initiated. SBCERA is satisfied with the level of services provided by State Street and will retain them as its custodian.

Evaluation Process

The evaluation process was undertaken both as a response to State Street's request for a contract extension and as an act of fiduciary responsibility. Prior to 2025, SBCERA had not undertaken a custodian search since 2016. In its evaluation, SBCERA engaged due diligence with State Street and several others.

SBCERA's evaluation entailed an assessment of the following factors:

- **Organizational Strength**
 - Financials
 - Management and Firm Stability

Exhibit B: Page 2

- Risk
- **Client Service Model**
 - **Client Service**
 - Proposed Service Team
 - Proposed Service Model
 - Proposed Service Level Governance
- **Core Function**
 - **Cash Management**
 - Daily Processing Procedures and Tools (wires, sweeps, etc.)
 - Short-term cash management (STIF products)
 - **Accounting/Custody/Performance & Analytics**
 - Team Structure/Strength
 - Controls Process
 - Manual Processing Procedures
- **Technology**
 - Online Tools
 - Data Integration
 - Tech Business Model
- **Contract and Fee Structure**
 - Clarity of fee schedule
 - Contract
- **Risks and Opportunities of Transitioning**
 - Opportunity: Improvement in cost structure
 - Opportunity: Improvement in quality of service
 - Risk: Errors in data migration and system integration
 - Risk: Opportunity cost of data and system integration errors
 - Risk: Opportunity cost of extended onboarding period

After evaluating all factors, State Street presented itself as the top candidate.

Recommendation

We recommend retaining State Street as the custodian of SBCERA. Key reasons for this recommendation include:

- **Attractive New Contract and Fee Structure:** SBCERA negotiated significantly more favorable contract terms with State Street. While custodial fee data of peers is not widely available in public documents, NEPC believes the current fee structure is attractive compared to public pensions with assets over \$1Billion.
- **Advanced Technology and Analytics:** State Street technology infrastructure supports real-time reporting, secure data management, and multi-asset class analytics.
- **Global Expertise and Scale:** State Street is one of the world's largest custodians (over \$46 Trillion in assets under custody).

Exhibit B: Page 3

- **Dedicated Client Support:** State Street provides dedicated account management and responsive service, ensuring timely resolution of issues.
- **Familiarity:** Over the course of SBCERA's 20-year relationship with State Street we have received consistent support and above all satisfactory service. While the offers of other providers were competitive, they were not compelling enough for us to consider transitioning to a new custodian, as the onboarding stage of this process typically takes at least 1 year.
- **Risks and Opportunities of Transition:** The risks of data errors via system integration when transitioning to a new custodian are high and can create significant opportunity costs. The probability of encountering such risks is even higher for SBCERA, per the complexity of many of our investment holdings. Given SBCERA's overall satisfaction with State Street's services and its new fees, we see no reason to take on such risks.
- **NEPC Support:** NEPC is in full support of this recommendation. Having also worked with State Street's Custodial Team for several decades, NEPC views the firm as one of the best options in today's market.

Conclusion

The selection of State Street aligns with our fiduciary duty to act in the best interests of our plan participants. Their expertise, cost-effectiveness, and technological capabilities position them to serve our plan effectively. We respectfully request the Board's approval of this recommendation.