



Indiana Public Retirement System

**Request for Qualifications for
Master Custody Services**

June 20, 2020

Callan

DEADLINE TO PRE-QUALIFY TO RESPOND: July 6, 2020, 3:00 P.M. (PDT)

INPRS

Request for Pre-Qualification to Bid on Master Custody Services

I. OVERVIEW

The **Indiana Public Retirement System** (INPRS) is an independent body corporate and politic of the state of Indiana, which currently consists of 15 Funds (eight defined benefit, four defined contribution, one retiree medical, one other postemployment benefit and one custodial). The Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), the two largest retirement plans offered by the State of Indiana, trace their existence back to the early and middle parts of the 20th Century. TRF was established in 1921 and PERF in 1945.

Defined Benefit DB Fund

- Public Employees' Defined Benefit Account (PERF DB)
- Teachers' Pre-1996 Defined Benefit Account (TRF Pre-'96 DB)
- Teachers' 1996 Defined Benefit Account (TRF '96 DB)
- 1977 Police Officers' and Firefighters' Retirement Fund ('77 Fund)
- Judges' Retirement System (JRS)
- Excise, Gaming and Conservation Officers' Retirement Fund (EG&C)
- Prosecuting Attorneys' Retirement Fund (PARF)
- Legislators' Defined Benefit Fund (LE DB)

Defined Contribution DC Fund

- Public Employees' Defined Contribution Account (PERF DC)
- My Choice: Retirement Savings Plan for Public Employees (PERF MC DC)
- Teachers' Defined Contribution Account (TRF DC)
- My Choice: Retirement Savings Plan for Teachers (TRF MC DC) (commenced July 1, 2019)
- Legislators' Defined Contribution Fund (LE DC)

Other Postemployment Benefit/ OPEB Fund

- Special Death Benefit Fund (SDBF)
- Retirement Medical Benefits Account Plan (RMBA) (delegated to INPRS July 1, 2019)

Custodial Fund

- Local Public Safety Pension Relief Fund (LPSPR)

Pursuant to statute, the Indiana General Assembly integrated the management of the two systems in 2011, creating INPRS. In accordance with Indiana Code (IC) 5-10.5, INPRS is governed by a nine-member Board of Trustees.

Legislation approving the merging of the administration of funds for the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) was adopted by the General Assembly and signed by the Governor in April 2011. The creation of the Indiana Public Retirement System (INPRS) became effective July 1, 2011.

Each retirement fund will continue as a separate fund under the oversight of a combined INPRS nine-member Board of Trustees. Individual funded status for each plan will continue to be calculated separately. With approximately \$36.1 billion in assets under management at fiscal year-end 2019, INPRS is among the largest 100 pension funds in the United States. INPRS works to serve the needs of approximately 467,000 members representing 1,244 employers including public universities, school corporations, municipalities and state agencies.

INPRS Mission: As fiduciaries, educate stakeholders, collect necessary contributions, and prudently manage member assets to deliver promised DB and DC benefits and services.

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For additional information about each fund visit the Annual Reports page of the INPRS website (<https://www.in.gov/inprs/>), including the Comprehensive Accounting and Financial Report (https://www.in.gov/inprs/files/2019_INPRSCAFRBook.pdf).

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Investments

As of December 31, 2019, the total market value of assets was \$38.2 billion and invested in diversified portfolios across multiple asset classes, and where appropriate, unitized for investment purposes with each participating plan maintaining its full indicia of ownership. (Refer to table below for specific plan breakdown.)

INPRS Total Fund Assets
(Per Plan)

Name of Fund	Net Assets as of June 30, 2019 (US\$ million)	Net Assets as of December 31, 2019 (US\$ million)
PERF DB	13,271	13,767
TRF Pre-'96 DB	3,759	4,048
TRF '96 DB	6,124	6,465
77 Fund	6,380	6,722
JRS	545	571
EG&C	142	150
PARF	66	69
LE DB	3	3
Total DB	30,290	31,795
PERF DC (Includes PERF My Choice)	2,928	3,026
TRF DC (Includes TRF My Choice)	2,784	2,838
LE DC	34	35
Total DC	5,746	5,899
SDBF	15	15
RMBA	0	436
LPSPR	17	20
Total Assets	\$36,068	\$38,165

INPRS is responsible for the oversight of invested assets in public and private markets, namely: domestic equities, fixed-income, international equities, real estate, commodities, private equity, private credit, absolute returns (hedge funds), private credit, risk parity, self-branded Target Date Funds, stable value, cash overlay and cash.

Summary of Service Requirements

INPRS requires a comprehensive set of services from a custodian bank, including, but not limited to, safekeeping, trade processing and asset servicing, plan and investment accounting, unitization and NAV calculations, GASB reporting support, performance measurement and analytics, short-term sweep cash management, trade processing and settlements, compliance monitoring, commingled fund look through, proxy voting notification support, class action processing support and corporate actions, FX execution, tax reclaims monitoring, securities lending, derivatives processing, proactive investment manager reconciliation, alternative investment support, and recordkeeping interface for the DC plans.

Given the multiple asset classes that INPRS is invested in, the preferred custodian should have robust capabilities in safe keeping (US and Non-US), asset servicing, trade processing, and financial reporting. The ability to aggregate and compile data and composites is important. Proper handling of derivatives, tracking and processing is a critical requirement and would require a more coherent deliverable to assist staff going forward. Experience with fund look through is preferred, including ability to interact with BARRA One and Dynamo for data exchange. Income collection and corporate actions are essential in the day to day administration of the Plans. Availability of cash sweep vehicle (short term cash management) and support of a cash overlay program (currently managed by Russell Investments (mandate is in the RFP process) are also required.

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The account structure of the Plans is predominantly in separate accounts, commingled funds, and Limited Partnerships. In light of this structure and the multi-manager configuration, INPRS is particularly interested in custodian capabilities to support collecting information and providing financial reports, which can be used to satisfy GASB Standards and included in INPRS's Comprehensive Annual Financial Report (CAFR). The custodian is expected to assist INPRS in year-end preparation of annual reports. The custodian is expected to assist INPRS and its external auditors in the completion of the annual financial statement audit. It is preferred that month end audited financial statements be no later than the 5th business day after month end at the latest. Delivery of a comprehensive set of financial reports, including Working Trial Balance statements, is imperative.

Financial statements are prepared using the accrual basis of accounting to reflect the overall operations of INPRS. Various reports from the custodian bank are used to prepare the required schedules for financial reporting. The general ledger platform of the custodian bank is used for recording accounting transactions, audit and reconciliation purposes. The custodian provides guidance on Level I, II and III pricing for each of the assets. Support and familiarity with GASB 28, 40, 53, 67, and 72 reports are essential deliverables. Certain summary reports from the accounting package of the custodian bank is utilized for GASB-related footnotes and supporting schedules.

INPRS requires multiple unitized investment accounts with multiple layers of unitization. The DC plan offers private label Target Date Funds with INPRS as the glidepath manager. INPRS has several managers that overlap DB/DC where INPRS has created unitized account structures. The custodian also unitizes the DB to assign values to each of the underlying plans (i.e. PERF, TRF, etc.). Please note that the custodian bank sends NAV calculations for each of the DC investment options to Voya (recordkeeper) on a daily basis. Please note that the custodian would have to work with INPRS on an Operating Agreement in the administrative and operational governance of the relationship.

Distinct to INPRS are numerous reports such as Monthly earnings transfer of ICF (Interest Credited Funds) True-Up; Monthly Target Date Rebalancing; Monthly Manager Rebalancing; Direct Expense Tracker; Year-end valuation capture change from March to June for Real estate and Absolute Returns Portfolios. Capabilities to complete Accounting and Performance Manager Reconciliation and Monthly Cash Proof would be advantageous. Please refer to Attachment C - Accounting, Financial Reporting and Performance Measurement for a detailed list.

The custodian bank takes care of all capital call management and unfunded commitment reconciliation for all private equity investments. INPRS has standing instructions with the custodian bank for wiring all private equity payments and uses the custodian bank's FX execution on all international private equity capital calls and distributions. Investment managers are responsible and have full discretion in the execution of FX with any venue or executing broker, including the custodian bank's FX desk. Please note that TorreyCove Capital Partners (Aksia) is charged with supporting the private markets asset class and providing requisite support to INPRS. The custodian's familiarity with TorreyCove in private markets would be evaluated. INPRS utilizes certain parts of the Burgiss suite of services in the administration of hedge funds and real estate. The custodian is expected to have working knowledge of commodities and portable alpha mandates.

INPRS requires a flexible data management and reporting system that can quickly provide detailed performance and other analytics at the portfolio, asset class, manager, or security level using the latest dashboard technology. The ability to drill down or "see through" commingled funds, specifically public market funds, for shadow accounting and performance and risk oversight would be ideal. Daily NAV2NAV performance (unaudited) calculations would be essential, especially for the DC plan. Although not a requirement, key considerations surrounding risk management are being evaluated such as risk analytics, corporate governance support, advanced performance measurement and analytics, including VaR/scenario/stress testing. INPRS requires performance measurement services such as return calculations, portfolio characteristics, universe comparison, attribution and custom benchmark support. The ability to monitor liquidity is critical to better manage cash flow and monitor cash drag. Tested and verifiable working experience with BARRA One would be noteworthy.

INPRS's current custody account structure for private assets is a one-to-one configuration (one line item per account). Please identify how your firm will support such a structure and familiarity with attributing capital calls, distributions, return of capital, cash flow adjusted valuations, fund look through, performance measurement, etc. to each line item investment.

INPRS participates in securities lending through an exclusive arrangement with the custodian bank, which is structured to be a risk-controlled program. The custodian bank oversees the cash collateral reinvestment management using a risk-averse program with

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a focus on safety and preservation of capital using an indemnified REPO program. INPRS requires a fully indemnified program specific to operational risk and borrower default, and other forms of indemnity beneficial to INPRS.

INPRS understands that your organization as a global banking entity is required to meet and exceed the disaster recovery and business continuity requirements of the Federal Reserve and other regulators. Given that the custodian is intertwined in the daily process of INPRS, a robust disaster recovery and business continuity plan is imperative. INPRS requires SSAE-18, updates on regular penetration audit, data transfer and delivery mechanism, data retention and destruction process, KPI support, encryption, and vendor relationship and management processes. INPRS expects the custodian to meet all capital ratios and balance sheet financial health requirements as stipulated and promulgated by the Federal Reserve and Basel III, including liquidity ratios, Total Loss Absorption Capacity, and prudential standards by the Financial Stability Board.

INPRS believes that client service, proactive engagement, and depth of experience and resources are critical to the success of the relationship. The client service team must be equally adept at dealing with the complexity of INPRS, all within a well-diversified investment structure comprised of multiple asset classes both traditional and non-traditional. The client service team must be familiar with an open architecture model and should be able to meet the current and future service needs of INPRS. Further, your organization's cross training initiatives, succession planning, and commitment to on-site support are important elements being evaluated by INPRS. The service team and the organization must fully understand and embrace the role of a "trusted partner with a fiduciary soul" in order to align their interest with the mission, purpose, and objectives of INPRS.

II. RFP BIDDER QUALIFICATION INSTRUCTIONS

A. INTRODUCTION

A.1 Issuer

INPRS is issuing this RFP in accordance with Indiana statutes governing the procurement of services and certain administrative policies of INPRS. The staff of INPRS has prepared the content of this RFP. Prospective respondents will be pre-qualified by affirming their ability to provide services for a complex system of plans such as INPRS by the due date in section A.14 Summary of Milestones below. An overview of INPRS is in this document above. Once a respondent is pre-qualified, the entire RFP will be emailed to the pre-qualified respondent. **TO PRE-QUALIFY RESPONDENTS MUST ATTEST THAT THEY CAN MEET THE MINIMUM REQUIREMENTS LISTED IN THE MINIMUM REQUIREMENTS SECTION BELOW.**

A.2 Contacts

Inquiries from Respondents are not to be directed to any staff or member of the Board of Trustees of INPRS, except as outlined in *Section A.3* of this RFP. Such unauthorized communication(s) may disqualify Respondent from further consideration. INPRS reserves the right to discuss any part of any response for the purpose of clarification. Respondents will be given equal access to any communications about the RFP between INPRS and other Respondents.

A.3 Inquiries about the RFP for INPRS

Please note that the main contacts for the RFP process are Stan Lanman, INPRS and Bo Abesamis, Callan LLC. Callan's responsibility is to help coordinate the due diligence process, compile questions and answers, and provide guidance on best practice. The ultimate selection of the master custody service provider is the responsibility of INPRS' Board of Trustees. All inquiries and requests for information affecting this RFP must be **submitted by email to both Stan Lanman at slanman@inprs.in.gov (with a copy to procurements@inprs.in.gov) and Bo Abesamis at abesamis@callan.com per the due date in section A.14 Summary of Milestones below.**

A.4 Invitation to Submit Qualifications

All qualification information must be **emailed to both Stan Lanman at slanman@inprs.in.gov (with a copy to procurements@inprs.in.gov) and Bo Abesamis at abesamis@callan.com no later than July 6, 2020 at 3:00 PM PDT.** The email subject line should be labeled "INPRS Master Custody RFP Qualification Request by Firm X".

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INPRS reserves the right to disqualify and bar from consideration any proposal received after the due date.

A.14 Summary of Milestones

The following is the expected timeline for this solicitation:

ACTIVITY	EXPECTED DATE
Request for Qualifications Published	June 20, 2020
Qualifications Submissions Due	July 6, 2020, 3:00 P.M. (PDT)
Release of RFP to Pre-qualified Respondents	July 8, 2020
Respondent's Inquiry Period Ends	July 17, 2020, 3:00 P.M. (PDT)
Answers to Inquiries Published	July 22, 2020
Respondent Electronic RFP Submissions Due	August 12, 2020, 3:00 P.M. (PDT)
Finalist Presentations at INPRS	September 2020
Selection of Custodian	TBD
Contract Negotiation	TBD

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MINIMUM QUALIFICATIONS

For purposes of due diligence, the following scope of services contemplates your ability to support a master custody structure across asset classes and investment vehicles, all the requisite safekeeping, trade processing, and asset servicing functions.

Minimum Qualifications

Respondent must meet the following minimum qualifications. Please confirm full acknowledgement of meeting the specified requirements.

- At least \$10 billion in total market capitalization as of December 31, 2019.
- At least \$5 trillion in total assets under custody as of December 31, 2019.
- At least \$500 billion in total tax-exempt assets under trust/custody as of December 31, 2019.
- Minimum of 15 U.S. public fund master custody clients as of December 31, 2019.
- Minimum of 15 years of experience in providing global custody services to institutional tax-exempt investors as of December 31, 2019.
- Minimum of 15 years of experience in support of trust/unitized custody accounting configurations involving multiple plans for tax-exempt master trust or master custody clients as of December 31, 2019.
- Minimum of 15 years in providing daily fund valuation services to DC plans and the ability to support self-branded target date fund investment options.
- Minimum of 15 years of experience in providing alternative investment support (private markets) services to institutional tax-exempt investors as of December 31, 2019.
- Minimum of \$500 billion in securities lending lendable assets for each calendar year over the last 5 years ending December 31, 2019.
- Primary client service representative assigned to the account must have a minimum of 10 years' experience in the master trust/custody field working with public pension plans and at least three (3) years of employment at the responding firm as of December 31, 2019.