



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 7(a)

25th November 2020

Appointment: Global Custody Services

Purpose of Report:

To conclude a tender exercise for global custody services

Recommendation:

The Committee is asked to **APPROVE** the appointment of **Northern Trust** as global custody services provider.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes No consulted: Yes No

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1 Background

The Strathclyde Pension Fund requires a global custodian to provide global custody services to the Fund. The primary function of a global custodian is safekeeping and record keeping for the Fund's assets. The custodian also provides a range of related services including cash management, valuation reporting and financial accounting, compliance monitoring, proxy voting, tax support, and foreign exchange management.

Northern Trust was appointed to provide global custody services in April 2014. A tender exercise to review this arrangement was included in the 2020/21 Business plan. This tender exercise is described below.

2 Tender Process

A list of minimum criteria and scope of service was agreed with the Fund's Investment Consultant, Hymans Robertson. Glasgow City Council Corporate Procurement Unit provided detailed terms and conditions in line with standard Council requirements. The tender documents outlined a scope of the services required by the Fund and requested responses to qualitative questions designed to assess the expertise of each of the bidders, as well as seeking detailed pricing information for commercial and value for money assessment. Fair work practices assessment was included, and details of voluntary community benefits were requested.

2.1 European Single Procurement Document (ESPD) and Invitation to Tender (ITT)

The tender exercise was initiated with publication of a notice in the Official Journal of the European Union (OJEU) on 28th August 2020. Hymans Robertson issued a European Single Procurement Document (ESPD) and supporting Invitation to Tender (ITT). The deadline for submission of completed ESPDs and ITTs was 2nd October 2020. Four responses were received by the submission deadline from the organisations listed below.

- Northern Trust
- JP Morgan
- BNY Mellon
- State Street

2.2 Assessment

The submissions were assessed by Hymans Robertson in conjunction with officers of the Fund. Each candidate was required to satisfy standard Council requirements before being assessed on the basis of 10 separate scored criteria including operational risk management, counterparty risks, value add services, fees, sustainability, and fair work practices. The ITT submissions represented 80% of the overall award criteria. Those bidders who achieved a score within 15 points of the highest scoring submission were to be invited to the presentation stage of the selection process. The following total scores were awarded for this part of the process (out of a maximum of 80).

▪ Northern Trust	69.1
▪ JP Morgan	63.0
▪ BNY Mellon	53.7
▪ State Street	40.4

Two bidders, Northern Trust and JP Morgan, achieved the threshold score.

2.3 Presentations

The presentation stage was scored out of 20. The presentations were assessed on suitability, and systems capability and reporting. The Fund's Officers and Investment Consultants received online presentations from both bidders on 26th October 2020. The following total scores were awarded for this part of the process (out of a maximum of 20).

▪ Northern Trust	18
▪ JP Morgan	16

2.4 Final Scores

The final scores for each candidate were as follows:

▪ Northern Trust	87.1
▪ JP Morgan	79.0

On the basis of the award criteria Northern Trust tendered the most advantageous proposal for the Fund.

3 Northern Trust

Northern Trust is a leading provider of asset servicing, fund administration, asset management, fiduciary, and banking solutions for corporations, institutions, family offices, and individuals worldwide. A financial holding company headquartered in Chicago, Northern Trust is one of the oldest banks in continuous operation and serves clients in more than 40 countries from offices in 22 U.S. states, Washington, D.C., and 22 international locations in North America, Europe, UK, the Middle East, and the Asia-Pacific region. As of September 2020, Northern Trust had assets under custody of \$9.3 trillion, assets under management of \$1.3 trillion, and banking assets of \$152 billion. Northern Trust provides custody services to 280 UK pension clients including 8 of the 11 LGPS funds in Scotland.

4 Implementation

Appendix A provides a summary of scope of service required by the Fund.

Subject to conclusion of contract the appointment will be effective from 1st January 2021 and will run until 31st December 2025. There is also an option to extend the contract for a further 5 years.

5 Policy and Resource Implications

Resource Implications:

Financial: Cost of core custody services is expected to be in the region of £250,000 - £300,000 per annum. Total cost of the contract will depend on actual transaction volumes, value of assets under custody, cash balances, utilisation of anticipated revenue streams and the specific requirements of the Fund. Prices are fixed for the duration of the contract.

Legal: Pinsent Mason provided legal advice. The mandate will be subject to the review and execution of appropriate legal documentation.

Personnel: No direct personnel implications

Procurement: The procurement process is described in sections 2 and 3 above. The process was conducted in accordance with European procurement rules.

Council Strategic Plan: Strathclyde Pension Fund aligns with the theme of a well governed city.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2017-22 Equalities issues were addressed in the tender process within the Fair Work Practices assessment.

What are the potential equality impacts as a result of this report? No specific impact from this proposal.

Please highlight if the policy/proposal will help address socio economic disadvantage: No specific impact from this proposal.

Sustainability Impacts:

Environmental: Northern Trust is a member of the United Nations Environment Programme Finance Initiative (UNEP FI) and discloses its greenhouse gas emissions annually.

Social, including opportunities under Article 20 of the European Procurement Directive: Northern Trust is committed to fair work practices and maintains comprehensive policies on diversity and inclusion, wellbeing, and equality.

Economic: n/a

Privacy and Data Protection impacts: To be provided for in the legal documentation for the proposed service.

6 Recommendation

The Committee is asked to approve the appointment of **Northern Trust** as global custody services provider.

Scope of Service

The scope of service from **Northern Trust** will include provision of a global custody network both directly and via a sub custodian arrangement for safekeeping and settlement of assets, investment accounting and performance measurement services covering major and alternative asset classes held in segregated mandates and pooled funds. This will include all of the core functions and some or all of the value-added services listed below.

Core Custody

- Safekeeping
- Transaction processing
- Income collection
- Tax reclaims
- Corporate actions
- Proxy vote processing
- Capital call execution

Value Added Services

- Private Markets Administration
- Investment Accounting
- Performance measurement
- Risk monitoring
- Compliance monitoring
- Cash management
- Foreign exchange
- Securities lending
- Collateral management
- Collateral upgrade services
- Class actions
- ESG analytics
- ONS data
- Commission recapture

Northern Trust will ensure the services are delivered in an environmentally sustainable manner and seek opportunities to minimise the environmental impact of their operation throughout the life of the contract.