



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 12

MEETING DATE: January 16, 2019

SUBJECT: Investment Accounting Request for Proposal

SUBMITTED FOR: ___ Consent X Deliberation and Action ___ Receive and File

RECOMMENDATION

Staff to recommend Board authorize the development and issuance of a Request for Proposal (RFP) related to private market accounting and reporting services.

PURPOSE

This item supports the 2018-19 Strategic Management Plan goal to improve investment accounting capabilities.

DISCUSSION

The SCERS Strategic Plan 2014-2018 identifies the need for modernization of IT systems to improve efficiency and reliability of business processes in the benefits and accounting operations and to improve self-service for members and benefit recipients.

The Investment Accounting System is one of the components of the IT Modernization Program.

In 2017, SCERS staff conducted a project to identify current Investment Accounting System processes and new system requirements. The results of this project were reported to the Board at the January 2018 meeting. The key findings of the project are the following:

1. Over time, SCERS has developed a collection of partially automated tools and procedures for generating and reconciling investment accounting data. This includes downloading of data from the custodian into MS Access databases developed by SCERS, extracting data from databases into Excel worksheets, and manipulating worksheet data through various cut-and-paste steps to create accounting entries. This overall "system" was developed by staff members who are no longer working at SCERS.
2. Another issue for SCERS accounting staff is the manual, labor-intensive task of developing accounting entries for private market assets by reviewing hardcopy (or PDF) reports from the asset managers and manually imputing the asset managers' activities.

There is no industry standard format for the reports and the various asset structures and cash flows increases the complexity of extracting data. SCERS' private market investment portfolio has grown to more than 100 underlying funds and will likely continue to expand in diversity, complexity, and number.

At the February 2018 Board meeting, staff was authorized to issue an Investment Accounting System Request for Information (RFI). The purpose of the RFI was to identify 2-4 solution vendors with the following objectives:

- Obtain software vendor input on the stated requirements to inform the development of a future Request for Proposals.
- Better understand the likely implementation effort, schedule, and costs.
- Develop a business case that presents the costs and benefits of acquiring an investment accounting software solution.
- Develop a list of vendors interested in receiving the RFP.
- Make a recommendation to SCERS' management and the Board regarding proceeding with the acquisition by developing and issuing a Request for Proposals, evaluating responses, and entering into a vendor contract.

SCERS staff, with the participation of consultant Chris Spurrell, received and reviewed RFI responses from the following investment accounting software and services providers:

1. Broadridge Financial Solutions, Inc.
2. Clearwater Analytics
3. Eagle Investment Systems, LLC
4. InvestCloud, Inc.
5. SS&C Technologies, Inc.
6. State Street Global Services

The responders were each capable of providing a hosted solution meeting SCERS' requirements. Most of the firms estimated that a full solution would require 12-18 months to implement with implementation costs in the area of \$1 million and ongoing operating costs of about \$1 million per year.

SCERS staff concluded that the cost, timeframe, and disruption of implementing a full solution does not currently provide sufficient benefits to SCERS. As the size and complexity of SCERS' investment portfolio increases, staff will continue to evaluate if a full investment accounting solution is appropriate.

Staff did identify a lower cost, partial solution that will address a significant problem area. Several RFI responses included a solution component for processing, reconciling, and verifying accounting data related to private market quarterly financial reports and fund cash flows. This is a problem area for SCERS (see finding 2 above) and for most large institutional investors. As a result, service providers are now offering shared services to perform this work. This allows

sharing of the manual labor across multiple users, significantly reducing the net cost to each individual user such as SCERS.

The implementation cost/effort for the private market data reporting service is minimal and the ongoing services cost would be around \$300,000-\$350,000 per year. SCERS staff recommends issuing a Request for Proposals (RFP) for such a solution.

Prepared by:

/S/

Stephen Hawley
Chief Strategy Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer