
JANUARY 24, 2022

AGENDA ITEM 2
ACTION ITEM

CALSAVERS RETIREMENT SAVINGS BOARD

Resolution No. 2022-01: Approval to Release a Request for Proposals for Environmental, Social, and Governance (ESG) Investment Option

Summary

The CalSavers Retirement Savings Board (“Board”) will consider authorizing the Executive Director to release a request for proposals (RFP) for an investment option focused on environmental, social, and governance (ESG) factors to replace the current ESG fund, which may cease to exist by the end of 2022.

Background

On May 21, 2018, the Board adopted its Investment Policy Statement (IPS) (Attachment 2A) for the CalSavers Retirement Savings Program (“CalSavers” or “Program”), following months of deliberations facilitated by the Board’s investment consultant, Meketa Investment Group (“Meketa”). The IPS contains a list of investment options the Board offers to CalSavers participants, which includes an ESG fund.

Following an unsuccessful solicitation attempt in 2018 and a subsequent successful solicitation in early 2019, the Board awarded contract No. CSCRSIB06-18 to Newton Investment Management Limited (“Newton”) for ESG fund management services. Newton, a subsidiary of BNY Mellon, manages the *BNY Mellon Sustainable Balanced Fund* (ticker: DRAKX). The fund provides balanced exposure to equity and fixed income at a generally similar fee level (15 basis points) to the Program’s other existing investment options, which have fees ranging from 2.5 to 12 basis points.

The Board has remained satisfied with the performance of the fund and recently exercised its option to extend the contract with Newton by one year. However, due to circumstances outside the Board’s control and unrelated to the merits of the fund, the fund may cease to exist by the end of 2022. If the Board wishes to continue to make an ESG investment option available to participants, it will need to secure a new contract with a new investment manager and allow sufficient time for distribution of disclosures to participants to ensure a smooth conversion to the new fund.

In the event Newton informs the Board during the solicitation process that it can continue to provide the current fund for CalSavers participants, the Board may choose to cancel the solicitation that would result from the proposed RFP.

Scope of Work

As delineated in the proposed RFP (Attachment 2B), the scope of work includes:

- a) The selected firm(s) shall provide an ESG-oriented mutual fund(s) or other investment type appropriate for the IRA structure of the CalSavers program. The Board is willing to consider one or more of the following: a stand-alone equity option, a stand-alone fixed income option or an option that holds exposure to both equities and fixed income (“balanced option”). As such, firms offering any type or style of ESG fund are encouraged to submit a proposal for evaluation.
- b) Consistent with the Program’s lack of minimum balance requirements, the investment product shall not have an account minimum balance, or the selected firm(s) must be willing to waive any such minimum.
- c) The selected firm(s) shall be required to work in concert with the program administrator and investment consultant to provide the Board any necessary information needed to evaluate the fund. The Board will monitor the selected ESG option(s) by selecting a benchmark or benchmarks that represent the opportunity set the selected strategy invests in. This benchmark will be utilized to ensure the selected option is meeting its objective over long time periods. Further information regarding the monitoring of investment options can be found in the Investment Policy Statement. In addition, the selected firm(s) shall be required to attend Board meetings as requested, no less than once annually.
- d) The Board seeks to limit the overall management fee of the strategy offered. Although passive investment strategies typically have lower fees, the Board also recognizes there are merits to active ESG strategies. Therefore, active strategies will be given consideration alongside passive strategies, though active options would need to offer ESG focus and exposure that the Board believes cannot be achieved through a passive option to warrant higher fees. The table below highlights current fees for all current investment options.

Option	Strategy	Active or Passive or Blend	Assets as of 12/31/2021	Investment Manager Fees (basis points)
Target Date Fund Suite (default option after 30 days)	State Street Global Advisors Target Retirement Funds	Passive	\$167.8M	9 bps
Core Bond	State Street Global Advisors Aggregate Bond Index Fund	Passive	\$271.7K	2.5 bps
Global Equity	State Street Global Advisors Blend of Domestic and Ex-US Strategies	Passive	\$1.6M	4-5bps (est.)
Capital Preservation (default option first 30 days)	State Street Global Advisors Money Market Fund	Active	\$2.8M	12 bps
ESG	Newton Investment Management Blend of Active Equity/ Passive Fixed Income	Blend	\$540.0K	15 bps

- e) The selected firm(s) shall provide all information and disclosures related to the fund(s) selected in English and Spanish.
- f) The selected firm(s) shall collaborate with the outgoing manager of the current ESG option, Newton Investment Management, and the program administrator, Ascensus, however necessary to execute the conversion of existing accounts to the new manager.

Performance

Fund performance will be monitored against a benchmark to be selected by the Board once the ESG fund is in place. Performance and analysis metrics will be provided to the Board by the Board’s investment consultant on a quarterly basis consistent with the IPS.

Contract Term

Any agreement(s) entered into pursuant to this RFP will become effective upon approval by the Department of General Services (DGS) or September 1, 2022, whichever is later. The term of the agreement(s) will be three (3) years with three (3) one-year extension options the Board may choose to exercise, for a possible total term not to exceed six (6) years. This is a zero dollar contract for the Board because the firm(s) will be compensated by fees levied on participants.

Expected Timeline

If the Board approves release of the RFP at the January 24, 2022, meeting, staff expect to bring a proposed firm to the Board for consideration at its meeting on May 24, 2022, as shown in the table below. This would allow several months to complete the administrative processes necessary to finalize the contract; ensure collaboration between incoming and outgoing providers and the program administrator to convert the accounts; and provide adequate time for distribution of required disclosure notices to account holders.

Date	Action
February 14, 2022	RFP Available to Prospective Bidders
March 1, 2022, 4:00 p.m. PT	Deadline for Written Question Submission
March 8, 2022	Answers to Written Questions Posted
March 25, 2022, 4:00 p.m. PT	Deadline for Proposal Submission
March 28 – April 8, 2022	Evaluation of Proposals
April 11 – 15, 2022	Interviews
May 24, 2022	Board Selection, Notice of Intent to Award
September 1, 2022	Contract Award

Evaluation

All proposals will be reviewed by an evaluation committee established by the executive director composed of staff and up to two Board member volunteers. The Board’s investment consultants, Meketa, will provide additional analysis and expertise during review of the proposals. Bidders will be evaluated based upon the quality of their firm and personnel; fund management; performance; and cost (proposed fees). Finalists selected based on the first phase of scoring will

be interviewed and the final scoring will be updated, holding cost (proposed fees) at 30 percent of the total score per DGS guidelines.

Scored Category	Points Possible
Cost (fees)	39
Qualifications and Experience of the Firm/Personnel	35
Fund Management	20
Performance	15
Total Possible Points First Phase	109
Interview	20
Total Possible Points	129

Resolution No. 2022-01

Resolution No. 2022-01 (Attachment 2C), if approved by the Board, would direct the executive director to release RFP No. CRSB01-22 (Attachment 2B); make any changes deemed necessary for a successful procurement of an investment option considering environmental, social, and governance factors; and to cancel the solicitation in the event Newton informs the Board during the solicitation process that it can continue to provide the current fund for CalSavers participants.

Staff recommendation

Staff recommend the Board approve resolution No. 2022-01 to release RFP No. CRSB01-22 for an ESG investment option, in substantially the same form as Attachment 2B.

Attachments

- Attachment 2A: Investment Policy Statement
- Attachment 2B: RFP No. CRSB01-22
- Attachment 2C: Resolution No. 2022-01