



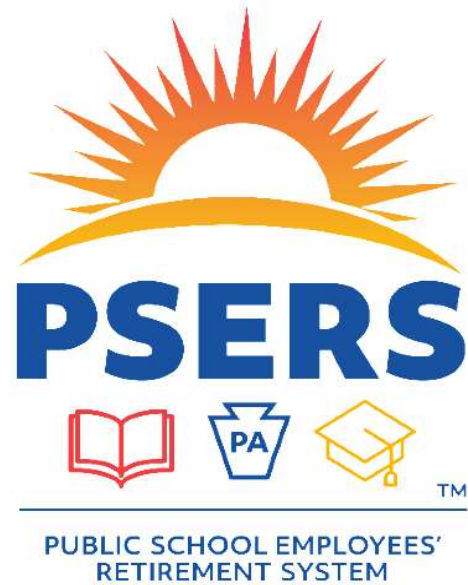
PSERB Resolution 2024-27

Re: Bank of New York Mellon – Securities Lending Agent

May 31, 2024

RESOLVED, that the Public School Employees' Retirement Board (the "Board") adopts the recommendation of the Investment Committee to hire Bank of New York Mellon as securities lending agent subject to the Investment Policy Statement, related Board policies, Objectives and Guidelines, as amended from time to time.

The final terms and conditions of the investment are subject to legal due diligence and must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on, or by a memo to that effect appended to, the implementing investment contracts.



BNY Mellon Securities Lending Agent

Chris Jones, CTP
Director, Investment Operations

Steven Heuer, CFA, CAIA
Senior Manager

May 30, 2024

Today's Presentation

BNY Mellon Securities Lending Agent

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1. Background

- Deutsche Bank had been PSERS' Securities Lending Agent since 2015 (prior to that BNY Mellon was the agent)
- Upon the arrival of the new CIO, PSERS began reviewing its investment-wide policies which led to a deeper review of the securities lending program size, direction and contract
- Last fall, an internal I.O. working group started looking at other potential providers

2. Recommendation

PSERS IO and Verus recommend that the Board approves BNY Mellon as PSERS securities lending agent.

Overview	
Firm Name	BNY Mellon
Strategy Name	BNY Mellon Agency Securities Finance (Securities Lending)
Strategy AUM	\$4.9 trillion in lendable assets and \$515 billion on loan
Recommended Commitment Amount	Estimated \$10 billion in lendable securities
Existing Relationship	Yes – Custodian
Asset Class / Sub Asset Class	Eligible public market assets
Investment Office Professionals Due Diligence Team (“IOP”)	Chris Jones, Director, Investment Operations Steven Heuer, Senior Manager
Investment Office Oversight	Chris Jones, Director, Investment Operations
External Consultant Oversight	Verus

3. Expertise and Strategy

Firm & Expertise

- \$4.9 trillion in lendable assets as of December 31, 2023
- \$515 billion on loan as of December 31, 2023
- Proprietary front-end trading system
- BNY Mellon is well resourced with vast and extensive capabilities
 - Approximately 395 professionals supporting securities lending
 - Six trading desks and four operational centers across three global regions (almost 24-hour trading capabilities)
 - Comprehensive cash collateral investment program
 - Securities lending office located in Pittsburgh, PA
- Enterprise risk management system covering entire securities lending process

Strategy

- Enable clients such as PSERS to utilize long investment horizon to generate incremental revenue
- Client-driven strategy

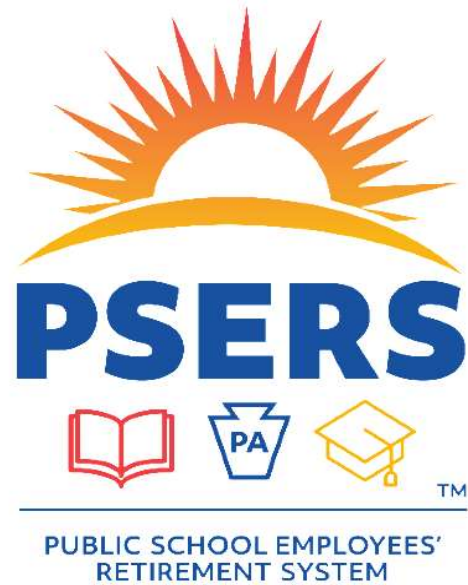
4. Program Considerations

The securities lending program is expected to face risks consistent with lending mandates

Risk	Detail	Mitigating Factors
Borrower Risk	Borrower risk is when a lent security is not returned to the lender (PSERS).	<p><i>Lending Agent will promptly replace the loaned securities.</i></p> <p><i>Controls to mitigate borrower risk include comprehensive credit reviews, borrowing limits, client-approved borrowers, and daily mark-to-market.</i></p>
Operational Risk	Operational risk includes delivery failures and/or failures to adequately mark-to-market positions.	<p><i>Controls to mitigate operational risk include strict operational controls, daily reconciliations, robust policies and procedures, and the automation of processes.</i></p>
Market Risk	Market risk is the risk associated with the cash collateral investment program.	<p><i>Controls to mitigate market risk include conservative credit policies, conservative client-established guidelines (credit, maturity, and interest rate risk limitations), and regular reviews and oversight.</i></p>

5. Highlights

- Allows PSERS to customize the program to include how the cash collateral is invested
- Indemnifies PSERS for the securities loaned
- Has one of the world's largest inventories of lendable assets (\$4.9 trillion)
- Developed a best-in-class proprietary front-end securities lending system
- Is the custodian for PSERS which removes a level of complication
- Implemented a firm-wide enterprise risk management structure
- Has a robust disaster recovery program
- Offers a dedicated client service officer
- Provides an internet-based comprehensive reporting system
- Leverages existing Commonwealth relationships



BNY Mellon Securities Lending Agent

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Securities Lending Agent Assessment Memorandum

April 12, 2024

Board of Trustees
Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")
5 North Fifth Street Harrisburg, PA 17101

Re: Bank of New York Mellon (BNY Mellon) for Agency Securities Lending Services for PSERS

Dear Trustees:

Verus Advisory, Inc. ("Verus"), having been duly authorized by the Board of PSERS, has evaluated the Bank of New York Mellon's ("BNY Mellon") securities lending services, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, and believes that BNY Mellon's securities lending capabilities are of institutional quality and that they are capable to serve as a securities lending agent on behalf of PSERS.

Verus considers BNY Mellon to be one of the top providers of agency securities lending services. The firm has been providing securities lending services for nearly 50 years and is the industry's largest lending program with almost \$5 trillion in lendable assets and over \$500 billion on loan. The firm's global operations encompass six trading desks including one located in Pittsburgh, PA and lending expertise in 34 local markets. BNY Mellon has the required technological capabilities including a proprietary trading platform for lending and cash collateral reinvestment software. The trading platform gauges demand for each security in real-time to identify opportunities that will benefit the client.

Risk management constitutes a pivotal area of focus for BNY Mellon given the multifaceted risks associated with securities lending activities, especially concerning the reinvestment of cash collateral. The firm is committed to the ongoing management of various associated risks, including but not limited to liquidity risk, credit risk, interest rate risk, and market risk. The firm has dedicated risk control measures for each of these and the necessary resources and technology to ensure vigilant ongoing monitoring and management of these risks.

There are a limited number of securities lending agents that can provide the service required by PSERS. Providers in this market include other major custodian banks such as Northern Trust and State Street, various asset managers such as Fidelity and Goldman Sachs and independent boutiques like eSecLending. Verus and staff interviewed BNY Mellon and believe that the firm represents the best fit for PSERS needs for the following primary reasons:

- Experienced team and resources: The agency lending leadership team has an average tenure of 25+ years in financial services and the cash collateral team an average of 19 years in the industry. Each team is supported by the broader resources of the organization and in total there are nearly 400 individuals that support securities lending.
- Technology: BNY Mellon has the necessary infrastructure to effectively lend securities, monitor risks, and reinvest cash collateral. The firm also continues to invest in technology to improve efficiency and outcomes for clients.
- Risk management: BNY Mellon has an extensive risk management structure and is very conscious of risk throughout the lending process. The firm has established policies and procedures for carefully monitoring relevant risks.
- Current relationship: As the current custodian for PSERS, BNY Mellon can bundle securities lending services without involving an additional third party leading to a simpler and more streamlined lending experience.

For these reasons, we believe BNY Mellon is suitable to meet the objectives of PSERS acting as a security lending agent.

Please feel free to contact me should you have any questions about this recommendation.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mark E. Brubaker", with a long horizontal flourish extending to the right.

Mark E. Brubaker, CFA
Managing Director