

# SBCERS

Santa Barbara County Employees' Retirement System

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**DATE:** January 22, 2025

**TO:** SBCERS Board of Retirement

**FROM:** SBCERS Investment Staff

**RE:** **Invitation to Bid Results for Future Overlay Strategy Management**

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## **Recommendation**

That the Board of Retirement receive and file the presentation from RVK, Inc. Consultant Paige Blaser and Rebecca M. Valdez, SBCERS Investment Officer, regarding the Future Overlay Invitation to Bid Recommendation and the finalist presentation by Parametric Advisors, LLC, and

- A. Authorize the SBCERS CEO to negotiate and execute a written agreement with Parametric Portfolio Advisors, LLC to manage the Future Overlay mandate; or
- B. Take other appropriate action.

## **Summary**

On October 23<sup>rd</sup>, 2024, The Board of Retirement authorized staff to issue an Invitation To Bid (ITB) for a Future Overlay Strategy manager (FOS). Respondents were asked to use futures and other derivatives to implement transition strategies that provide exposure to desired asset classes during manager transitions. The ITB asked the managers for additional services which would include cash equitization and rebalancing services, which could be implemented by the Board based on future recommendations. Invitations were issued to:

Parametric Portfolio Advisors, LLC  
State Street Global Advisors

Russell Investments  
NISA Investment Advisors, LLC

After reviewing the responses, RVK and SBCERS Investment Staff agreed to invite all respondents to the interview phase of the process. During the interview phase, each firm received the same Case Study to allow for direct comparison of responses. Additionally, each firm was asked the same question regarding replicating a negatively performing index to evaluate their ability to provide unscripted responses.

The Invitation to Bid was highly competitive, and all respondents demonstrated they could adequately serve SBCERS as a Futures Overlay Strategy manager. The following are the Scope of Services and Minimum Required Qualifications (MRQs) each respondent needed to fulfill to be to be a successful candidate:

*Scope of Services:*

- A) Investment Objective – Responding firms should use futures and other derivatives to implement transition strategies that provide exposure to desired asset classes during manager transitions. Firms should also provide cash equitization and rebalancing services.
- B) Investment Duties – Facilitate the Investment Objective stated above in alignment with the Board’s allocation policies. Successful respondents will also provide education and ongoing advisory services to the Board of Retirement Trustees and Investment Staff.
- C) Report to the Board – Futures Overlay Strategy manager may be required to appear before the Board of Retirement or Investment Staff annually to discuss performance and other relevant issues.

*Minimum Required Qualifications (MRQs) for Proposal:*

- A) Registered Investment Advisor under Investment Advisor Act of 1940
- B) Minimum of 5 investment professionals dedicated to service
- C) Minimum of working with 4 custodian banks
- D) Minimum of 10 public fund clients
- E) Minimum of \$20 billion in notional exposure
- F) At least 5 years providing futures overlay strategies to clients

Based on both the written and oral responses to the Invitation to Bid, RVK and SBCERS staff recommend that the Board of Retirement engage Parametric Advisors, LLC (Parametric) as a Futures Overlay Strategy Manager.

*Fiscal Impact to SBCERS*

Parametric Advisors, LLC has provided the following fee structure:

**Base Fee:**

Minimum Quarterly Fee: \$12,500

**Notional Fees:**

7 basis points on the first \$250 million of notional exposure

5 basis points on the next \$250 million of notional exposure

3 basis points thereafter

Fees are applicable only when there are assets under management for a given quarter. SBCERS may not engage with Parametric for extended periods of time based on system needs. While not engaging the services of Parametric there is no additional cost to the system to retain Parametric as a provider. Previously estimated fee range was 3 bps to 15 bps. The proposed fee schedule falls within the estimated range of services.

**Attachments**

- Futures Overlay Strategy Invitation to Bid Process Memo
- Finalist Presentation - Parametric
- Invitation to Bid Results for Future Overlay Strategy - Case Study