

Memorandum

To	SBCERS Board of Retirement (“SBCERS”)
From	RVK, Inc. (“RVK”)
Subject	Futures Overlay Strategy Invitation to Bid Process Memo
Date	January 22, 2025

Recommendation

RVK and SBCERS Investment Staff recommend that SBCERS engage Parametric as the Futures Overlay Strategy (“FOS”) manager.

Purpose of the Memorandum

At the October 23rd Board of Retirement meeting, SBCERS authorized RVK and SBCERS Investment Staff to issue an Invitation to Bid (“ITB”) for managers with the ability to provide FOS services to institutions of similar size and scale as SBCERS. The purpose of this document is to provide an overview of the ITB process by which RVK and SBCERS Investment Staff selected the FOS manager finalist.

The recommendation to engage with a FOS manager was driven by the increased operational complexities of managing the System, as SBCERS assets under management have continued to increase. The expected scope of services for the FOS manager will include the use of futures and other derivative instruments to provide exposure to desired asset classes when implementing transition strategies, as well as providing cash equitization and rebalancing services that align with the Board-approved allocation policies. The services provided by the FOS manager should not be viewed as a return generator, but rather as a tool to manage and mitigate risk as well as to assist the System in adhering to the Board-approved asset allocation as the System continues to mature.

Process: Invitation to Bid

In total, four firms were invited to bid. Invitations were determined based on RVK’s knowledge of qualified FOS managers active in the marketplace. The four firms met the following minimum requirements:

1. Registered Investment Advisor Under Investment Advisor Act of 1940.
2. Minimum of 5 investment professionals dedicated to service.
3. Minimum of working with 4 custodian banks.
4. Minimum of 10 public fund clients.
5. Minimum of \$20 Billion in notional exposure.
6. At least 5 years of providing Futures Overlay Strategies to clients.

At the October Board of Retirement meeting, SBCERS Investment Staff presented the list of managers that met the minimum requirements, and all parties agreed to invite NISA, Parametric, Russell and SSgA to submit a bid. The ITB was subsequently issued on October 28th and each manager was provided with a Request for Information (“RFI”) document to serve as the basis of their response. Responses were due on November 25th and all four invited managers submitted responses.



RVK and SBCERS Investment Staff evaluated each response across a number of qualitative and quantitative criteria, including, but not limited to, firm, team, philosophy/process, and fees. RFI submissions were reviewed in detail, considering evaluation of selection criteria RVK deems to be of critical importance when vetting FOS managers for this mandate. Examples of relevant and desired characteristics for this mandate include:

- Match the role/objective/theme of the FOS,
- Well-Established Organization,
- Repeatable Approach,
- Disciplined Investment Process,
- Depth of Portfolio Team, and
- Competitive fees.

After reviewing the RFI responses, RVK and Investment Staff decided to advance all four respondents to an interview round.

Selection of Finalist

RVK and SBCERS Investment Staff held interviews with NISA, Parametric, Russell and SSgA between December 16th and December 20th. In addition to speaking with various key members of the investment team responsible for the proposed mandate, the results of a requested case study was presented in which the candidates put forth a proposed solution to a major market dislocation event that resulted in the SBCERS portfolio experiencing large imbalances relative to policy targets, specifically an underweight to public markets and overweight to private markets.

Following the conclusion of the interviews, RVK and SBCERS Investment Staff met and decided to advance three of the four firms (all but SSgA) and solicit best and final fee offers from NISA, Parametric and Russell with a deadline of December 31st.

On January 3rd, RVK and SBCERS Investment Staff discussed and determined to invite Parametric to the January 22nd Board of Retirement meeting to present as the finalist. The selection of Parametric as the finalist has extensive supporting rationale. Previously, RVK and SBCERS Investment Staff communicated to the Board that this mandate is intended to alleviate operational complexities of manager transitions and expand the capabilities of SBCERS Investment Staff. While all providers are highly-qualified and capable of fulfilling the mandate, Parametric provided the most compelling written response and interview. Furthermore, Parametric's best and final fee offer was the most competitive and economically attractive relative to the other candidates, a testament to their strong desire in establishing a partnership with SBCERS.



Parametric's presentation was the most well-received, providing detailed insight to their decision-making process and rationale for proposed solutions to the provided case study and overall polished responses. The interview was very cohesive in allowing many team members on both the junior and senior levels to speak on their FOS program. In addition to previously providing a derivatives education to SBCERS' Board during the March 20th, 2024 Board meeting, Parametric currently serves 12 SACRS Systems. With Parametric's large West Coast presence, history of executing these services, and positive experience in previously communicating with the SBCERS Board, this brings increased confidence and comfort from RVK and SBCERS Investment Staff that Parametric is the best fit for the FOS mandate.

Parametric Overlay Fee Proposal

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.