



Memorandum

To	Santa Barbara County Employees' Retirement System ("SBCERS")
From	RVK, Inc. ("RVK")
Subject	PanAgora Vehicle Change Recommendation
Date	February 28, 2024

Recommendation

RVK recommends that SBCERS proceed with a vehicle change for the PanAgora Dynamic International Equity strategy from the current separate account to the proposed CIT. Overall costs will remain similar and most likely decrease from the current fees being paid inclusive of custodial operating costs. Operational efficiency will also increase as BNY Mellon, SBCERS Staff and RVK will be able to account for this investment as one line item as opposed to the 200+ line items currently held in this portfolio.

Background

PanAgora is one of three investment managers in the SBCERS Developed Non-US Equity portfolio. SBCERS' total exposure to the PanAgora Dynamic International Equity strategy was approximately \$226 million/5.3% of the Total Fund as of December 31, 2023. SBCERS is currently invested in the Dynamic International Equity strategy through a separate account custodied with BNY Mellon. SBCERS initially retained PanAgora Dynamic International Equity in the second quarter of 2009.

SBCERS Staff and RVK are continuously seeking opportunities to gain operational efficiencies and lower overall portfolio costs. In response to an inquiry, PanAgora notified us that they are interested in launching a Collective Investment Trust ("CIT") vehicle for the Dynamic International Equity strategy that SBCERS is invested in. The CIT would be a daily valued and daily liquid vehicle.

SBCERS currently has an effective fee of ~32 basis points with PanAgora. This 32 basis point fee is inclusive of investment management fees only and does not include custodial operating costs. PanAgora is offering SBCERS a founder's fee of 35 basis points for the CIT. We expect BNY Mellon operating costs to be significantly lower for a CIT vehicle than for the current separate account vehicle, which will result in a similar or lower overall cost.

PanAgora has confirmed with their operations team that, less any unforeseen issues, they will be able to accommodate a transfer in-kind of currently held securities into the CIT. This greatly reduces any transition related costs and risks to SBCERS as there is no need to hire a transition manager or risk being out of the market for any period of time.