



## Memorandum

To	Santa Barbara County Employees' Retirement System ("SBCERS")
From	RVK, Inc.
Subject	Small Cap Equity Restructure – Transition Management Post-Trade Evaluation
Date	March 11, 2024

### Background:

This memo outlines our review of the transition management process for the small cap equity restructure process that occurred in February 2024.

The transition was awarded to Abel Noser following a competitive bid process and following receipt of a recommendation to this effect from RVK. The pre-trade under which bids were submitted considered the termination of an existing small cap equity separate account fund and the funding of a mutual fund:

Port #	Manager	Value
Leg - Port 1	Small Cap Equity Fund (SA)	\$ 28,917,649
	<b>TOTAL</b>	<b>\$ 28,917,649</b>

Port #	Manager	Target Values
Targ - Port 1	DFSTX	\$ 28,917,649
	<b>TOTAL</b>	<b>\$ 28,917,649</b>

The actual event size was slightly larger, with a total legacy value of approximately \$30 Million. The trading strategy included the purchase and subsequent sale of the IWM ETF, which served to hedge the illiquid component of the portfolio. This resulted in a total of \$54 Million in trading. Transition trading occurred between February 27, 2024 and February 28, 2024. On March 8, 2024, Abel Noser provided a post-trade analysis that reviewed the event, including liquidity sources, methods of execution, cost-containment strategies, and overall approaches to manage risk exposures.



## Transition Management Event Evaluation and Conclusions:

Execution Venue and Trade Cost/Risk details for the Small Cap Equity Restructure trade event are provided in the table below.

### Santa Barbara County Employees' Retirement System Small Cap Restructure - March 2024 - Exhibit 1 Transition Post Trade Evaluation - March 11, 2024

#### Small Cap Restructure

Execution Abilities/Liquidity Sourcing	Original Pre-Trade	Final Pre-Trade	Post-Trade
a) What are the estimated venues of execution (in-kind, internal DOL cross, internal flow cross, external crossing, market trading)? Do venue assumptions appear reasonable?	Trade involves liquidation transactions related to a mostly liquid and generally diversified small cap equity portfolio, with timed subsequent purchase into a mutual fund portfolio. Venues estimated were largely market trading (85.39%) with only 5.00% internal and 8.00% external crossing.	Trade involves liquidation transactions related to a mostly liquid and generally diversified small cap equity portfolio, with timed subsequent purchase into a mutual fund portfolio. Venues estimated were largely market trading with potential of some internal and external crossing.	Trade involved liquidation transactions related to a mostly liquid and generally diversified small cap equity portfolio, with timed subsequent purchase into a mutual fund portfolio. Venue consisted of market trading (100.00%).
Execution Abilities/Transaction Costs	Original Pre-Trade	Final Pre-Trade	Post-Trade
a) What are total explicit cost estimates (commissions + taxes), how are they derived (rates)?	Proposes a 0.8 cps US equity commission on executions, which results in an estimated \$7,647.77 + taxes of \$615.36 + additional costs for shortened settlement and unwinding of ETF exposure \$5,001.37 = <b>Total Explicit Costs of \$13,264.50.</b>	Proposes a 0.8 cps US equity commission on executions, which results in an estimated \$7,643.34 + taxes of \$654.14 + additional costs for unwinding of ETF exposure \$442.40 = <b>Total Explicit Costs of \$8,739.88.</b>	Equity commission on executions \$8,133.74 + market fees and taxes of \$337.00 = <b>Total Explicit Costs of \$8,470.74.</b>
b) What is the total implicit costs (spread and market impact), how are they derived (estimation process)?	Estimated Spread at \$9,039.91 and market impact costs of \$25,024.59 = <b>Total Implicit Costs: \$34,064.50.</b>	Estimated Spread at \$8,133.25 and market impact costs of \$26,245.85 = <b>Total Implicit Costs: \$34,379.10.</b>	Actual spread and market impact costs were <b>\$22,779.26.</b>
c) What is the opportunity risk estimate provided (tracking risk), how is it derived (estimation process)?	Estimates an <b>Opportunity Risk of \$94,806.02 or 32.78 bps on legacy value.</b> This is estimated looking only at 2 days of trading securities and a 45-day lookback of the portfolios.	Estimates an <b>Opportunity Risk of \$93,790.53 or 31.26 bps on legacy value.</b> This is estimated looking only at 2 days of trading securities (with 99.62% completion after day 1 and 100.00% completion after 2 days) and a 45-day lookback at the portfolios.	
1 SD Opportunity Risk Estimate	\$ 94,806.02	\$ 93,790.53	
<b>Total Transition Costs (EXPLICIT + IMPLICIT) - 1 SD Worse</b>	<b>\$ 142,135.02</b>	<b>\$ 136,909.51</b>	
<b>Total Transition Costs (EXPLICIT + IMPLICIT) - MEAN</b>	<b>\$ 47,329.00</b>	<b>\$ 43,118.98</b>	<b>\$ 31,250.00</b>
<b>Total Transition Costs (EXPLICIT + IMPLICIT) - 1 SD Better</b>	<b>\$ (47,477.02)</b>	<b>\$ (50,671.55)</b>	<b>Lower than mean cost estimate and within range</b>

Note: Figures may not sum precisely due to rounding.



### Conclusions:

- Actual costs (\$31,250.00 or 5.79 basis points) on the Small Cap Equity Restructuring were below the mean cost estimate of \$43,118.98 (or 14.37 basis points), and were within the expected cost range.
- The largest contributors to savings were opportunity costs (the costs associated with the volatility in security prices, resulting in differential performance between the legacy and target portfolios). During the trading window, volumes were slightly higher than normal, while volatility was slightly lower than normal, leading to trade cost savings.
- Operational risk was mitigated through effective planning and coordination activities between SBCERS, RVK, BNY Mellon, Abel Noser, and other parties including the respective managers.
- RVK believes that Abel Noser performed capably in this transition event. Associated reporting, and clarifications, appear to reasonably document Abel Noser's performance.

We look forward to discussing this analysis with you and answering any questions.