

SBCERS

Santa Barbara County Employees' Retirement System

DATE: October 25, 2023
TO: SBCERS BOARD OF RETIREMENT
FROM: SBCERS Investment Staff
RE: **Transaction Cost Analysis Review**

Recommendation

That the Board of Retirement receive and file the Equity Trading Transaction Cost Analysis and Foreign Currency Exchange Transaction Cost Analysis for the year ending June 30, 2023.

Summary

SBCERS analyzes the trading costs of our separate account managers through two different firms. Abel Noser monitors trading costs for our equity managers (US and International) and KlarifyFX monitors the cost of foreign currency (FX) trades for our separate account managers. SBCERS has worked with Abel Noser since 2015 and KlarifyFX since 2012. Separate accounts comprise about \$1.113 Billion or 27% of the Total Fund value. As a portion of Publicly Traded Assets, Separate accounts represent 46% with the remainder being held in commingled funds.

Abel Noser

Abel Noser provides SBCERS with bi-annual Transaction Cost Analysis (TCA) reporting. We receive these reports at no additional cost through the existing commission recapture program.

SBCERS staff reviewed the transaction analysis with Mary Davidson of Abel Noser this month and no excessive trading costs were identified in either the U.S. or Global reports. Costs for U.S. managers were 7.4 basis points per dollar traded which ranks in the 43rd percentile of the Abel Noser universe. Global managers also performed well, ranking in the 35th percentile costing on average 4.3 basis points per trade as well.

In the U.S. market managers traded a principal of \$248,033,000, paying approximately \$105,000 in commission costs. These costs fall in an acceptable range compared to peers. There were 3 managers that underwent additional scrutiny based on their performance versus the peer group.

Active Managers like Nuveen, Artisan and Rice Hall James scored poorly as it relates to the Commission Cost per trade, which is consistent with last year's report. Commission Costs are the fees charged for transacting and can be extensive if the trade is "High Touch" (The manager requests a broker personnel to monitor the market and trade). However, the higher Commission

Cost per trade did not translate into overall lower scores for Nuveen because they effectively executed around the VWAP (Volume-Weighted Average Price). Given that Nuveen's mandate is Real Assets, staff found this finding in alignment given the structure of the asset class. Regarding Artisan and Rice Hall James, a few trades that were done over several days during spikes of volatility were identified to have increased cost. Those spikes in volatility lead to execution prices that were slightly above the VWAP on those trade days. However, this was de minimis compared to the overall trade volume of the portfolio. After review, the Investment Team believes this is in line with the mandate of active managers.

It should also be noted that during the period of review, First Eagle was terminated from the portfolio. This was a significant event for the portfolio. However, despite the significantly increased trade volume the transition minimally impacted on the overall portfolio from a transaction cost standpoint.

In the international markets, managers traded a principal of \$447,119,000, paying approximately \$238,000 in commission charges. In the Global Markets SBCERS continues to perform above average. Artisan experienced the same issue with spiked volatility trades in the International markets, as mentioned previously, in the domestic markets, but effects in international markets were less notable.

After reviewing all trading costs, Abel Noser also did not make any recommendations with regard to the trading practices of any of SBCERS managers and noted that SBCERS' overall trading costs are in line with their universe expectations.

KlarityFX

In January 2016, staff negotiated a lower fee contract for KlarityFX to monitor our investments and provide reports to staff on an annual basis. The option to revert to our original quarterly reporting if FX costs increase was retained in the revised agreement.

In September, staff had an update call with Amarjit "Amo" Sahota to discuss results for our separately managed accounts. Overall performance for our separately managed accounts was a -0.03% spread. This means that for every \$1M in foreign transactions, SBCERS is incurring approximately \$300 in FX charges. These foreign exchange transaction costs are well within the acceptable range as measured against the Klarity FX peer universe. For reference the spread was -.19% in 2011, before FX Transaction Cost Analysis was implemented.

During the Fiscal Year ending June 30, 2023, SBCERS executed \$266M across 4,933 transactions while in 2020-2021 SBCERS executed \$285M across 6,176 transactions. There were no recommended actions from Klarity this year and SBCERS continues to maintain an acceptable spread in regard to foreign exchange trading.

After reviewing both Klarity and Abel Noser reports, staff feels confident that SBCERS commissions and overall execution are in line with a prudent investor. These analyses continue to be a value add to SBCERS and the Investment Team will continue to work with Klarity and Abel Noser to monitor the trading activity.

Attachments

- SBCERS - Global Summary – Fiscal
- SBCERS - US Summary – Fiscal
- SBCERS FX TCA Reporting FY23