Memorandum

To	Santa Barbara County Employees Retirement System (“SBCERS”)
From	RVK, Inc. (“RVK”)
Subject	Global Equity Restructure – Transition Management Post-Trade Evaluation
Date	April 26, 2023

Background:

This memo outlines our review of the transition management process for the global equity restructure process that occurred in March 2023.

The transition was awarded to BlackRock 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 a composite portfolio (as shown below) comprised of an actual weighted portfolio of the outgoing international equity manager (First Eagle, including a small global fixed income allocation) for restructuring to two existing international equity managers (PanAgora and Artisan).

Investment Manager	Current Allocation	Current Allocation $	New Allocation	New AUM	TM Asset Flows
Active Intl Value Equity Separate Account	31.81%	$ 105,900,000	0.00%	$ -	$ (105,900,000)
Dynamic Intl Equity Separate Account	33.64%	$ 112,000,000	60.00%	$ 199,740,000	$ 87,740,000
Non-US Growth Equity Separate Account	34.54%	$ 115,000,000	40.00%	$ 133,160,000	$ 18,160,000
Total	**100.00%**	**$ 332,900,000**	**100.00%**	**$ 332,900,000**	**$ -**

The actual event size was similar, with a total legacy value of $106 Million. Transition trading occurred between March 10, 2023 and March 15, 2023. On March 22, 2023, BlackRock 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. The transition performance was reviewed with BlackRock on a call on April 5, 2023.

Transition Management Event Evaluation and Conclusions:

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

Santa Barbara County Employees Retirement System
Global Equity Restructure - March 2023 - Exhibit 1
Transition Post Trade Evaluation - April 6, 2023

	Global Equity 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 matched liquidation and purchase transactions related to somewhat liquid and generally diversified international equity portfolios with a small fixed income component. Low levels of in-kinds (2.89% of total trade volume or $6.1 Million) were estimated. Venues consist mostly of Market Trading (91.76%), with some External Crossing (1.39%).	Trade involves matched liquidation and purchase transactions related to somewhat liquid and generally diversified international equity portfolios with a small fixed income component. Continued low levels of in-kinds (3.32% of total trade volume or $7.03 Million) were estimated.	Trade involves matched liquidation and purchase transactions related to somewhat liquid and generally diversified international equity portfolios with a small fixed income component. In-kinds remained limited a $7.1 Million. Venues consisted mostly of Market Trading through Algorithmic Trading / Direct Market Access.
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 0.9 cps commission on US/CA equity; and 3.8 bps commission on Intl developed; $70,418 + Fixed Income Commissions of $800 + Taxes of $124,564 = Total Explicit Costs of $195,782.	Proposes a 0.9 cps commission on US/CA equity; and 3.8 bps commission on Intl developed; $69,781 + Fixed Income Commissions of $779 + Taxes of $115,063 = Total Explicit Costs of $185,623.	Equity and Fixed Income commission on executions $69,618 + taxes of $112,453 = Total Explicit Costs of $182,071.
b) What is the total implicit costs (spread and market impact), how are they derived (estimation process)	Estimated Spread at $29,410 + Foreign Exchange Spread Costs of $2,211 + Market Impact of $123,254 = Total Implicit Costs: $154,876.	Estimated Spread at $27,933 + Foreign Exchange Spread Costs of $2,129 + Market Impact of $143,489 + Fixed Income Market Impact and Spread of $86 = Total Implicit Costs: $173,637.	Spread and Market Impact of $170,084 + Foreign Exchange Spread of $5,630 = Total Implicit Costs of $175,714.
c) What is the opportunity risk estimate provided (tracking risk), how is it derived (estimation process)	Estimates an Opportunity Risk of $288,847 or 27.37 bps on legacy value. This is estimated using an internal BlackRock model analysis, an annualized tracking error of 4.25%, and 8 days to trade (with 96% completion after day 1 and 99% completion after 5 days).	Estimates an Opportunity Risk of $370,194 or 34.94 bps on legacy value. This is estimated using an internal BlackRock model analysis, an annualized tracking error of 5.69%, and 5 days to trade (with 96% completion after day 1 and 99% completion after 5 days).	Opportunity Cost Savings (or negative cost) actually incurred of $1,153,815 (or 75 bps on legacy)
1 SD Opportunity Risk Estimate	**$ 288,847**	**$ 370,194**	**$ (1,153,815.00)**
Total Transition Costs (EXPLICIT + IMPLICIT) - 1 SD Worse	**$ 639,505**	**$ 729,454**	
Total Transition Costs (EXPLICIT + IMPLICIT) - MEAN	**$ 350,658**	**$ 359,260**	**$ (796,030)**
Total Transition Costs (EXPLICIT + IMPLICIT) - 1 SD Better	**$ 61,811**	**$ (10,934)**	**Well below the mean cost estimate and within 3 standard deviations of the estimate provided in pre-trade.**

Note: Figures may not sum precisely due to rounding.

Conclusions:

- **Implementation Shortfall during the active implementation period was a negative cost (or savings) of -$796,030 (or -75.0 basis points) and was largely due to the relative performance (target portfolio under performance, and therefore cheaper to purchase) during the trading window.**

- **Actual costs on the Global Equity Restructuring were well below the mean cost estimate of $350,657 (or -33.9 basis points).**

- **Actual costs were well outside of the predicted one standard deviation range estimate provided in the final pre-trade (+/- 34.9 basis points).**

- **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).**

- **Global markets experienced heightened volatility during the trading period amid news of a banking crisis. Strong market performance on the sell side, particularly as it relates to the sale of the SPDR Gold Shares ETF, combined with under performance on the buy side during the trading window contributed to decreased costs and resulted in savings to the client.**

- **The generally favorable liquidity profile of the portfolios allowed for portfolio regional and sector imbalances to be resolved early in the trading window.**

- **Operational risk was mitigated through effective planning and coordination activities between SBCERS, RVK, BNY Mellon, BlackRock, and other parties including the respective managers.**

- **RVK believes that BlackRock performed capably in this transition event. Associated reporting, and clarifications, appear to reasonably document BlackRock's performance.**

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