

# SBCERS

Santa Barbara County Employees' Retirement System

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**DATE:** October 23, 2024

**TO:** SBCERS BOARD OF RETIREMENT

**FROM:** SBCERS Investment Staff

**RE:** **Invitation to Bid (ITB) for Futures Overlay Strategy Management**

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## **Recommendation**

That the Board of Retirement authorize the SBCERS Investment Staff and General Consultant, RVK, to issue an Invitation to Bid for managers with the ability to provide Futures Overlay Strategies to institutions of similar size and scale as SBCERS.

## **Summary**

Investment Staff recommends that SBCERS engage with a Futures Overlay Strategy manager. As SBCERS assets under management have grown, so have the operational complexities of the managing the fund. A Future Overlay Strategy (FOS) manager would allow for more streamlined manager transitions and expand the capabilities of SBCERS Investment Staff; however, they are not a replacement for transition managers. FOS managers are able to replicate investment exposure for investment managers that closely align with broad indexes. For investment managers in niche or specialized asset classes, transition managers would still be needed.

This action will authorize Investment Staff to issue an invitation to bid for an FOS manager. The recommended FOS manager will be presented to the Board of Retirement at the January 2025 meeting along with a request to authorize the SBCERS CEO to negotiate and execute a written agreement for services. Upon implementation, manager transition services will be utilized immediately, SBCERS Staff will further analyze using FOS managers for additional services which would include equitization of cash and rebalancing services and if needed, return to the Board with future recommendations regarding the use of FOS managers.

## *Scope of Services:*

- A) Investment Objective – Responding firms should use futures and other derivatives to implement transition strategies that provide exposure to desired asset classes during manager transitions. Firms should also provide cash equitization and rebalancing services.
  
- B) Investment Duties – Facilitate the Investment Objective stated above in alignment with the Board's allocation policies. Successful respondents will also provide education and ongoing advisory services to the Board of Retirement Trustees and Investment Staff.

- C) Report to the Board – Futures Overlay Strategy manager may be required to appear before the Board of Retirement or Investment Staff annually to discuss performance and other relevant issues.

*Minimum Required Qualifications (MRQs) for Proposal:*

- A) Registered Investment Advisor under Investment Advisor Act of 1940
- B) Minimum of 5 investment professionals dedicated to service
- C) Minimum of working with 4 custodian banks
- D) Minimum of 10 public fund clients
- E) Minimum of \$20 billion in notional exposure
- F) At least 5 years of providing futures overlay strategies to clients

*Evaluation Criteria:*

Desirable Qualities

Well-Established Organization  
Disciplined Investment Process

Repeatable Approach  
Depth of Portfolio Team

*Timeline of Invitation to Bid*

Oct 28, 2024	Invitation to bid submitted to managers, and questionnaire provided
Nov 4	Deadline for submission of questions concerning the questionnaire
Nov 25	Deadline for submission of proposals (12:00pm PDT)
Dec 16 - Dec 20	Interview dates (virtual)
January 22, 2025	Finalist(s) in attendance to present to Board

*Firms Invited to Bid*

Parametric Portfolio Advisors, LLC  
State Street Global Advisors

Russell Investments  
NISA Investment Advisors, LLC

*Fiscal Impact to SBCERS*

A survey of other SACRS systems found that the cost of FOS managers run as low as 3 bps up to as high as 15 bps, depending on the scope of services, with a base fee of approximately \$5,000 for small scale projects. FOS managers only charge for notional assets under management. There would be no cost to maintain the relationship in quarters where no services are rendered.

**Attachments**

- None