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San Bernardino County Employees'
Retirement Association

Origination: 3/3/2005
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 Area: Investments
 References:
 Applicability: SBCERA systemwide

Asset Transition Policy

POLICY NO. 012

~~I. General~~

- ~~a. The purpose of this asset transition policy is to set forth objectives and guidelines to follow in the transition of assets for the San Bernardino County Employees' Retirement Association.~~

~~II. Objectives~~

- ~~a. Transfer assets while controlling for unintended risk
 b. Transfer assets with operational efficiency
 c. Transfer assets in a timely fashion~~

~~III. Guidelines~~

- ~~a. Identify costs
 i. Explicit and implicit costs
 b. Identify complexity of assets
 c. Identify the trading plan
 i. Agency or Principal trading
 d. Identify the benchmark
 e. Identify accountability~~

~~IV. Reporting – Post transition results will be reported at subsequent Investment Committee Meeting.~~

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The above policy proposal instructs Staff with the assistance of the Board's investment consultant to implement a transition of assets while not involving the Board with the procedure of the transition.

The above objectives: Controlling for unintended risk, and transferring assets efficiently and timely can be measured and evaluated. The guidelines illustrate the five factors the Staff will need to communicate not only to the Board, but also the managers when implementing a transition of assets.

Terminology:

Unintended Risk: The Board of Retirement has made investments with the funds based on a certain risk and return profile identified in periodic asset allocation studies. These risks are intended. The transition can cause a mismatch between what is intended and what is incurred. For instance, an allocation moved from international equity to emerging market debt could have a large intra-day allocation to cash. This ~~would be~~ represents an unintended risk, and a risk that the transition manager ~~would be held accountable~~ can mitigate.

Operational Efficiency: The transition should access liquidity without revealing any information about the transition. Moreover, operational efficiency requires that a fair value be established for the portfolio.

Timely: Balance the cost of delay with the cost of liquidity.

Identify Costs: Explicit costs include all fees. Implicit costs are those associated with day-to-day trading. Liquidity costs are one consideration. However, some costs are also associated with the trading strategy. For instance, in an agency trade, the actual transition costs are variable. The fund bears the risk. In a principal transaction, the broker bears the execution risk, but the fund will likely have to pay for that insurance.

Identify Complexity of Assets: Assets are typically separated into three main categories – Level One, Two, and Three assets. Level One are the category of assets that most naturally lend themselves to transition management as they are the most liquid and easiest assets to trade. Level Two and Three assets are progressively less liquid and benefit most from being left with the investment manager to sell- down.

Identify Trading Strategy: Depending on the asset class and complexity the Staff will identify the approach to transition – principal trades when necessary, but with a preference for agency trades if possible.

Identify Benchmark: The benchmark will measure the transition approach while maintaining accountability.

Exhibit A: Page 3

Identify Accountability: The project will have milestones with parties being accountable to completing those steps.

Attachments

No Attachments

Approval Signatures

Step Description	Approver	Date
Chief Counsel Review	Barbara Hannah: Chief Counsel	pending
Investment Services Review	Donald Pierce: Chief Investment Officer	7/26/2023
Investment Services Review	Eydie Cox: Sr Investment Analyst	7/26/2023

Applicability

SBCERA, SBCERA Internal

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