San Bernardino County Employees' Retirement Assoc.

Staff Report Details (With Text)

File #:	19-1101.1	**Name:**	
Type:	Information Item		
File created:	10/15/2020	**In control:**	BOARD OF RETIREMENT
On agenda:	11/5/2020	**Final action:**	
Title:	Overview of Russell Investments Overlay Program.		
Sponsors:			
Indexes:			
Code sections:			
Attachments:	1. Exhibit A: SBCERA Exposure Management Overview Presentation		

Date	Ver.	Action By	Action	Result

FROM: Don Pierce, Chief Investment Officer

SUBJECT: Russell Investments Overlay Program

RECOMMENDATION:
Overview of Russell Investments Overlay Program.

BACKGROUND:
The Overlay program with Russell Investments began in July 2006 to facilitate the Informed Rebalancing guidelines approved by the Board. Additional background on the Informed Rebalancing program is noted below.

The Overlay program was designed to implement the Informed Rebalancing program and implement strategic policy allocations. At the formation of the Informed Rebalancing program, staff estimated the added value over time to be 35 bp a year at the Total Plan level. Today, with now over 14 years of track-record, the Informed Rebalancing program implemented through Russell has contributed over 100 bp per year since inception, resulting in over $1 billion in gains to the plan. The use of futures and options in the program is an important feature that makes the program work efficiently and allows for drawdown management when circumstances allow. Staff and the team from Russell Investments will present an overview of the Overlay program; a copy of their presentation is attached as Exhibit A.

Informed Rebalancing Background:

The Informed Rebalancing program was SBCERA's response to an industry approach to rebalancing that simply used ranges around assets classes to trigger rebalancing. In contrast, the Informed Rebalancing program makes use of market information for relative value choices between assets which were developed from peer reviewed financial journals. Adopting the Informed Rebalancing program made portfolio rebalancing a managed process rather than an unmanaged process subject

San Bernardino County Employees' Retirement Assoc.   Page 1 of 2   Printed on 5/9/2024

powered by Legistar™

to markets.

The Informed Rebalancing program is made up of a series of relative value rules on four major asset classes; US Equity and Bonds, and International Equity and International Bonds. The rules themselves comprise US Stock vs US Bonds, US Stock vs International Equity, US Stock vs Cash, US Large Cap vs US Small Cap, International Equity vs International Bonds, and Core Bonds vs High Yield. Broadly, the program is built on the premise that the top 10% and the bottom 10% of experience is illustrative, and that the remaining 80% of experience is not meaningful. As a result, rebalancing occurs at those top and bottom 10% of experiences, while the remaining 80% of the time, no action is taken. This contributes to the Informed Rebalancing program's low turnover; that low turnover was an important criteria to the Board when the program was adopted.

COMMITTEE REVIEW:
Due to meeting time constraints for some trustees, the Investment Committee elected to defer hearing this item to the November 5, 2020 meeting of the full Board.

BUDGET IMPACT:
None.

STRATEGIC PLANNING GOAL/OBJECTIVE:
Prudent Fiscal Management

STAFF CONTACT:
Don Pierce

ATTACHMENTS:
Exhibit A: SBCERA Exposure Management Overview Presentation

San Bernardino County Employees' Retirement Assoc.   Page 2 of 2   Printed on 5/9/2024

powered by Legistar™