



In addition to the annual reporting updates, the Transaction Cost Analysis Policy has been updated to better reflect the current market environment for trading and commission recapture. The recommended changes reflect the increased prevalence of quantitative/systematic equity managers, which have advanced in-house trading capabilities and are able to achieve best execution and lower costs internally versus directing trades through a specified commission recapture broker. The policy provides flexibility for the investment manager to direct trades in a manner that meets their fiduciary obligation to achieve best execution. The policy update also reflects changes to the industry standards on transaction costs analysis and monitoring trading results for investment managers.

**ATTACHMENT**

- Board Order
- Placement Agent Policy (Redline version)
- Proxy Voting Policy (Redline version)
- Transaction Costs Analysis Policy (Redline version)

Prepared by:

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Steve Davis  
Chief Investment Officer

Reviewed by:

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Eric Stern  
Chief Executive Officer

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Brian Miller  
Senior Investment Officer



# Retirement Board Order

## Sacramento County Employees' Retirement System

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Before the Board of Retirement  
June 21, 2023

AGENDA ITEM:

### Investment Reports – Updated Timeframes

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to approve revisions to the Placement Agent, Proxy Voting and Transaction Cost Analysis Policies to reflect moving from quarterly to annual report reporting timeframes.

I HEREBY CERTIFY that the above order was passed and adopted on June 21, 2023 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:  
(Present but not voting)

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Keith DeVore  
Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary



# **Redlined Version**

## **PLACEMENT AGENT POLICY**

### **PURPOSE**

The purpose of this policy regarding Placement Agent activities by Sacramento County Employees' Retirement System ("SCERS") Investment Managers ('Placement Agent Policy') is to enhance the transparency of the investment decision-making process by requiring broad, timely and updated disclosure of the existence of any relationships between SCERS' investment managers and individuals or entities serving as a compensated representative of the investment manager for the purpose of securing an investment by SCERS ('Placement Agents'). The goal of the Placement Agent Policy is to help ensure that SCERS' investment decisions are made solely on the merits of the investment opportunity, are reasonably prudent from a fiduciary perspective, and are consistent with SCERS' Investment Policy and Objectives.

### **POLICY**

All SCERS staff, investment managers, and manager candidates will follow the following guidelines, as described herein below in the Application section, for reporting Placement Agents activities.

### **APPLICATION**

The Placement Agent Policy shall apply to all current SCERS investment managers and all investment managers being considered by SCERS for an investment management engagement ('Investment Managers and Manager Candidates')

#### **A. Investment Managers and Manager Candidates shall:**

1. Provide the following information to SCERS promptly upon request:
  - a. Whether the Investment Manager of Manager Candidate or any of their principals, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any Placement Agents in connection with any investment or proposed investment by SCERS.
  - b. A resume for each officer, partner, or principal of the Placement Agents detailing the education, professional designations, regulatory licenses and investment and work experience. It should be specifically noted if any such individual is a current or former SCERS Board Member, employee or consultant, or a member of the immediate family of any such person.

- c. A description of any and all compensation of any kind provided or agreed to be provided to the Placement Agents, including the nature, timing, and value thereof.
  - d. A description of the services to be performed by the Placement Agents.
  - e. A statement as to whether the Placement Agents is utilized by the Investment Manager of Manager Candidate with all clients or prospective clients or with only a subset of clients or prospective clients.
  - f. Whether any current or former SCERS Board Member, employee or consultant suggested the retention of the Placement Agents.
  - g. Whether the Placement Agents or any of its affiliates are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agency in a country other than the United States, the details of such registration, or an explanation of why no registration is required.
  - h. Whether the Placement Agents or any of its affiliates is registered as a lobbyist with any state or national government.
2. Provide an update of any changes to the information required above (collectively, Placement Agents Disclosure Information') within thirty (30) days of the occurrence of the change in information.
  3. Agree to incorporate compliance with the Placement Agent Policy in the investment management engagement with SCERS.
  4. Require any Placement Agents acting on its behalf in connection with any investment, or potential investment, by SCERS to disclose to SCERS' Staff any campaign contribution or gift made by the Placement Agents to any member or former member of the SCERS' Board, SCERS' Staff or SCERS' consultant during the prior twenty-four (24) month period or while continuing to receive any compensation in connection with a SCERS investment.
  5. Fully cooperate with SCERS Staff in monitoring and assuring compliance with the Placement Agent Policy.

**B. SCERS Staff shall:**

1. Assure that an agreement to comply with the Placement Agent Policy is incorporated in all current and future investment management engagements.
2. Assure that all existing Investment Managers complete and submit the Placement Agents Disclosure Form to SCERS in a timely manner. SCERS has developed a Placement Agent Disclosure Form (Form) to supplement this policy that is designed to capture the data and information described in this section. The Form is presented to all Investment Managers and Manager

Candidates; completion of which is a requirement for SCERS to enter into any formal investment agreement.

3. Confirm that the Investment Manager or Manager Candidate is solely responsible for any fees, compensation or expenses for any Placement Agents, and that SCERS will not pay any such items either directly or indirectly.
4. Provide the SCERS Board with the Placement Agent's information prior to any investment decision by SCERS with respect to the Investment Manager or Manager Candidate.
5. Promptly advise the SCERS Board of any material violation of the Placement Agents Disclosure Policy.
6. Compile an annual ~~a quarterly~~ report regarding the names of Placement Agents by each Investment Manager

### **C. Sanctions:**

Sanctions in the event of a material omission or inaccuracy in the Placement Agents Disclosure Information, or any other material violation of the Placement Agent Policy can include, but are not limited to:

1. The reimbursement to SCERS of any management or investment advisory fees for one (1) year, or an amount equal to the amounts paid or promised to be paid to the Placement Agents, whichever is greater.
2. Immediate termination of the investment management engagement without penalty, or withdrawal without penalty from the limited partnership, limited liability company, or other investment vehicle.
3. A prohibition on the Investment Manager, Manger-Candidate or Placement Agents from soliciting new investments from SCERS for twenty-four (24) months.
4. The SCERS Board shall determine which sanction(s) will apply in a given case based on the nature of the violation of the Placement Agent Policy and any other relevant legal parameters.

### **D. All Parties are Responsible**

All parties responsible for implementing, monitoring and complying with the Placement Agent Policy should consider the spirit as well as the literal expression of the Policy. In cases where there is uncertainty whether a disclosure should be made pursuant to the Placement Agent Policy, the Policy should be interpreted to require disclosure.

## DEFINITIONS

For purposes of this Policy, and pursuant to Government Code section 7513.8, a Placement Agent is defined as follows: Any person or entity hired, engaged by, or acting on behalf of an investment manager, or on behalf of another Placement Agent, as a finder, solicitor, placement agent, marketer, consultant, broker or other intermediary to raise money or solicit investment funding from or to obtain access to SCERS, either directly or indirectly. This definition does not include employees, officers, directors, partners or members that spend more than one third of their time managing the securities or assets.

## BACKGROUND

California Government Code Section 7513.85 and 7513.9 require a board of any public retirement system to adopt and implement a policy that requires minimum disclosure requirements with respect to the use of placement agents by Investment Managers and Manager Candidates. In addition SCERS' Board members, employees and consultants are subject to numerous legal requirements intended to ensure their ethical conduct, their compliance with their fiduciary responsibilities, and to prevent conflicts of interest.

## RESPONSIBILITIES

Executive Owner: General Counsel

## POLICY HISTORY

Date	Description
<u>06-21-2023</u>	<u>Board amended policy</u>
05-19-2021	Board reaffirmed policy with minor corrections
08-01-2018	Renumbered from 045
12-20-2017	Board affirmed in revised policy format
07-20-2016	Board amended policy
06-17-2010	Board amended policy
06-18-2009	Board approved policy



# Redlined Version PROXY VOTING POLICY

## PURPOSE

The purpose of this policy is to establish procedures to ensure the voting of proxies for public equity securities, to meet the fiduciary duties required by California Government Code Sections 7450 and 7451.

## POLICY

The voting of proxies, as is required by California Government Code Sections 7450 and 7451, is integral to the ownership of public equities. Proxy voting rights are valuable plan assets and should be managed in a manner consistent with the fiduciary duties and responsibilities assigned to the management of plan assets. Public pension plan fiduciaries are required to vote proxies solely in the best interests of plan participants and beneficiaries. The Sacramento County Employees' Retirement System (SCERS) Board authorizes the use of third-party proxy voting service provider to vote proxies for public equity securities, in a manner consistent with the fiduciary duty and long-term interests of plan participants and beneficiaries.

## APPLICATION

To meet the requirements of the Policy, the following procedures will be followed:

1. Investment Staff will review outside proxy voting service providers and the relevant proxy voting guidelines, and make a recommendation to the Board. The SCERS Board will approve the selection of the proxy voting service provider and the appropriate proxy voting guidelines. The proxy voting service provider will vote all proxies on behalf of SCERS, based on established and approved proxy voting guidelines, to comply with SCERS' regulatory requirements and in the best interests of plan participants and beneficiaries.
2. As necessary, Staff will review proxy ballots to ensure votes are cast accurately and in accordance with approved proxy voting guidelines. While established proxy voting guidelines cover the majority of issues, there may be certain matters that require Staff to take action to ensure proxy ballots are voted, such as when established guidelines are not able to make a voting recommendation on a specific issue. The SCERS Board delegates to Investment Staff (Staff) the authority to vote proxies in instances when the established guidelines are not applicable and additional action is necessary.
3. Staff will report to the Board, on an annual basis~~at least quarterly~~, a summary of the results of the proxy voting process. The annual~~quarterly~~ report should contain summary details on how votes were cast and any deviations from established voting guidelines, including proxy votes by Staff.



## LEGAL BACKGROUND

The voting of proxies is required by California Government Code Sections 7450 and 7451. These code sections stipulate as follows:

Government Code Section 7450:

Every local agency in this state owning common stock and whose stock is by contract managed by a fiduciary shall request such fiduciary to forward any proxies for shares owned by the agency which are to be voted in a corporate election to the governing body of such local agency.

Government Code Section 7451:

Notwithstanding any other provision of the law, every local agency in this state owning common stock shall, when returning proxies to a corporation, vote each proxy that is returned to the corporation. Nothing in this section shall prohibit a local agency in this state owning common stock from abstaining on a corporate or shareholder proposal and notifying the corporation in writing of the local agency's desire to abstain on a corporate or shareholder proposal.

Local agency includes every county, city, city and county, district, and authority, and each department, division, bureau, board, commission, agency, instrumentality or pension or retirement system of any of the foregoing.

In addition to the California requirements, most public sector pension plans have adopted the views of the U.S. Department of Labor on fiduciary duties related to proxy voting. The Department of Labor's Employee Benefit Security Administration has stated that the voting rights related to shares of stock held by pension plan are plan assets. Therefore, according to the Department, "the fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock." Consistent with Department of Labor opinion, the voting of proxies may be delegated to an investment manager or service provider, and the Securities and Exchange Commission (SEC) has issued guidance that explicitly allows institutional investors to rely on voting guidelines of third-party proxy advisory firms to satisfy this obligation.

## RESPONSIBILITIES

Executive Owner: Chief Investment Officer

## POLICY HISTORY

Date	Description
<u>06-21-2023</u>	<u>Board approved revised Proxy Voting Policy</u>
10-19-2022	Board re-affirmed Proxy Voting Policy
10-16-2019	Board approved revised Proxy Voting Policy
10-14-1999	Proxy Voting and Corporate Governance Policy Approved



# Redlined Version TRANSACTION COST ANALYSIS POLICY

## PURPOSE

The purpose of this policy is to provide guidelines and procedures for the monitoring of Sacramento County Employees' Retirement System public investment manager transaction costs, including directed brokerage transactions, to minimize overall transaction costs while maintaining the manager's primary and foremost requirement to obtain best execution.

## POLICY

SCERS' investment managers have a fiduciary duty to obtain best execution when implementing trades on behalf of SCERS. Best execution is defined as taking reasonable care to obtain the most advantageous terms when executing trades on behalf of clients. The goal of SCERS' investment managers should be to minimize total transaction costs while seeking best execution for all transactions and maximizing the value of services received.

Commission recapture programs help to minimize SCERS' overall transaction costs. SCERS' investment managers should direct trades through the designated commission recapture program when "all things being equal" the manager can direct a trade and still achieve best execution as required by the manager's investment management agreement with SCERS. The commission recapture program is administered by an approved third-party provider. When able to maintain best execution, an investment manager should direct through the commission recapture program as follows:

- A. **U.S. stock exchange listed securities:** Obtain a commission of three cents or less per share or direct the trade to a SCERS designated commission recapture broker. Any trade directed to a commission recapture broker shall be identified as a trade for the benefit of the plan. SCERS anticipates that a manager will be able to direct 25% of U.S. exchange transaction commissions to a commission recapture broker.
- B. **Non-U.S. stock exchange listed securities:** Obtain a commission that is 25% or more below the prevailing local market rate or direct the trade to a SCERS designated commission recapture broker. Any trade directed to a commission recapture broker shall be identified as a trade for the benefit of the plan. SCERS anticipates that a manager will be able to direct 25% of non-U.S. exchange transaction commissions to a commission recapture broker.

With the progression of quantitative/systematic investment strategies, many investment managers have developed advanced internal trading capabilities. These managers may have the ability to achieve best execution and minimize overall transaction costs by trading securities internally, and therefore be less likely to direct 25% of transactions to a commission recapture broker.

Staff shall provide each of SCERS' public market investment managers a copy of this policy and SCERS' list of approved designated commission recapture brokers, as that list may be amended from time to time without revision to this policy.

## **MONITORING AND REPORTING**

SCERS will utilize a third-party service provider to monitor transaction costs for its public market investment managers. SCERS' Staff will review and recommend a service provider to the Board for approval.

The transaction cost analysis will be performed across public equity and fixed income asset classes, and will include any trades executed through SCERS' commission recapture program, in addition to all other trades executed by SCERS' public market investment managers. TCA will be performed on a quarterly basis and will review costs for each manager and asset class to peer universe and relevant asset class benchmarks, as determined by the service provider and SCERS' investment staff.

While transaction costs can vary from quarter-to-quarter, over extended time periods it is expected that SCERS' investment managers will rank in the top half of relevant industry benchmarks or below expected costs as determined by the TCA provider. When an investment manager ranks below the top half of their benchmark or above expected costs for multiple quarters, Staff will perform additional analysis, which includes following up directly with the manager and TCA service provider, to identify causes and potential action necessary to reduce costs. The TCA will be included in the overall evaluation of the investment manager, which includes both quantitative and qualitative analysis.

Staff will provide an quarterly-annual report to the Board summarizing the transaction cost analysis. The summary report will emphasize overall transaction costs by asset class, but will also include instances when transaction costs were above industry benchmarks and/or if follow up action was necessary by Staff. The quarterly-annual report will also include an update on SCERS' commission recapture program and the net benefit provided to SCERS.

## **BACKGROUND**

A significant portion of SCERS' multi-billion dollar investment portfolio is invested in publicly traded equity securities, across domestic and international markets. Transaction costs are incurred whenever a security is bought or sold. Transaction costs are made up of the direct fee or commission (explicit costs) and the market impact of executing a trade (implicit costs). Transaction cost analysis has become a recognized industry standard for evaluating transaction costs. While transaction cost analysis initially focused on public equity assets, improved market data and transparency has allowed for the analysis to expand into fixed income markets. Transaction cost analysis helps to ensure investment managers are meeting their fiduciary obligations to achieve best execution.

Another common way for an institutional investor to control commission costs is through commission recapture. Commission recapture programs help reduce overall commission costs by providing a rebate of commission costs back to the asset owner. This policy provides direction to SCERS' investment managers in the conduct of investment trades to control commission costs, but not interfere with the manager's first and foremost obligation to achieve best execution.

## RESPONSIBILITIES

Executive Owner: Chief Investment Officer

## POLICY HISTORY

Date	Description
<u>06-21-2023</u>	<u>Board approved revised Transaction Cost Analysis Policy</u>
05-19-2021	Board approved revised policy, retitled as Transaction Cost Analysis Policy, replacing the Directed Brokerage Transactions and Commissions Recapture Policy
02-21-2018	Board affirmed policy in revised policy format
08-22-2002	Board amended Inv. Policy No. 2001-01 by Resolution 2002-02
01-18-2001	Board approved Investment Policy No. 2001-01 that replaced the previous policy
October 1996	Board adopted policy