



DIRECTED BROKERAGE TRANSACTIONS AND COMMISSIONS RECAPTURE POLICY

PURPOSE

The purpose of this policy is to provide direction to SCERS public equity investment managers in the conduct of investment trades to control commission costs while maintaining the manager's primary and foremost requirement to obtain best net execution.

POLICY

When a SCERS investment manager believes that "all things being equal," the manager can direct a trade and still achieve best net execution as required by the manager's investment management agreement with SCERS, the manager shall direct trades 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 30% 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.

A designated commission recapture broker is a broker that offers a commission recapture program through which a portion of the direct commissions is credited to an institutional investor such as SCERS that is included on SCERS' list of approved designated commission recapture brokers as maintained by SCERS' custodian bank. The recaptured commissions shall be treated as income to SCERS, and shall not be used to purchase services.

APPLICATION

Staff shall provide each of SCERS' public securities 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.

Staff shall monitor SCERS' transactions costs and provide the Board a quarterly report on the impact of directed trades and commission recapture on trade execution costs.

SCERS will conduct an annual review of the commission recapture sharing percentage and determine that the percentage is consistent with industry practice.

BACKGROUND

A significant portion of SCERS' multi-billion dollar investment portfolio is invested in publicly traded equity securities in several investment markets globally. Transaction costs are incurred whenever a security is bought or sold. Transaction costs are made up of the direct fee or commission and the market impact of executing a trade. One common way for an institutional investor to control commission costs is through commission recapture. This policy provides direction to SCERS' equity 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 net execution."

RESPONSIBILITIES

Executive Owner: Chief Investment Officer

POLICY HISTORY

Date	Description
08-01-2018	Renumbered from 032
04-18-2018	Board affirmed 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