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Domestic Equity Portfolio Transition Manager Recommendation

**City of Jacksonville
Police & Fire Pension Fund**

July 8, 2016

EXECUTIVE SUMMARY

- Summit Strategies Group solicited pre-trade estimates from **Loop Capital**, **Northern Trust**, and **State Street** to:
 - Facilitate the terminations of GAMCO and DePrince Race & Zollo;
 - Fund Wedge Capital; and
 - Rebalance the domestic equity portfolio.

- All three transition managers expect to complete 85-95% of trading in one day. Over 99% of the transition is estimated to be completed in three days. There is one small, less liquid security that would take longer to liquidate prudently. After partially trading initially, this security would likely be transferred to the target manager to complete liquidation, as the manager could then begin trading the portfolio sooner and exit the position more slowly.

- Summit focused on explicit costs (e.g. commissions, taxes), as well as implicit costs (e.g. bid/ask spread, market impact) and the qualitative attributes of each candidate.
 - Explicit costs are the *hard-dollars* spent to execute the trades to move from the legacy to the target portfolios.
 - Implicit costs are the *estimated* market-driven costs associated with transitioning from the legacy to the target portfolios.

- Summit recommends Northern Trust be used for the transition.
 - Second lowest explicit cost estimate.
 - Lowest implicit cost estimate.
 - Lowest overall cost estimate.
 - Pre-existing relationship with the Pension Plan; Northern Trust is the Custodian.
 - Recognized expertise in transition management.

TRANSITION MANAGER RECOMMENDATION

- Summit considered Loop Capital, Northern Trust (the Fund’s custodian), and State Street for transition management services.
 - In terms of explicit costs, the bids ranged from \$64,464 (Loop Capital) to \$81,259 (State Street), with Northern Trust falling in the middle at \$72,604.
 - Northern Trust had the lowest estimated implicit costs, followed by State Street and then Loop Capital. Implicit costs are estimated and can vary based on market activity during and prior to the transition.
 - In aggregate (explicit and implicit costs), Northern Trust offered the lowest-cost transition, followed by State Street and then Loop Capital.
- Based on the aggregate estimated costs of transition, as well as their historical track record in transition management services and current standing as the Fund’s custodian, Summit recommends that the Fund utilize **Northern Trust** as transition manager.

	Loop Capital	Northern Trust	State Street
Commission	\$60,955	\$69,097	\$77,748
Taxes & Exchange Fees	\$3,509	\$3,507	\$3,511
Total Explicit Costs	\$64,464	\$72,604	\$81,259
Bid/Ask Spread	\$147,685	\$128,822	\$107,639
Market Impact	\$339,132	\$227,106	\$278,711
Total Implicit Costs	\$486,817	\$355,928	\$386,350
GRAND TOTAL	\$551,281	\$428,532	\$467,609

- Estimated costs are based on legacy managers’ current holdings, new managers’ buy lists, the transition managers’ ability transfer in-kind securities as well as to internally and externally cross trades, and open market sales and purchases of the remainder of the portfolios. Wedge initially asked to be funded in cash. Summit estimates additional cost savings if Wedge is funded with securities on their buy list.

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