

**CONVERGEX**

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# Plan Sponsor Services

A Commission Recapture Presentation to Fresno County

**CONTACT:** John Seyler, Senior Vice President  
Phone: 212-237-0412, [jseyler@convergex.com](mailto:jseyler@convergex.com)

# Commission Recapture Overview

- A program designed to reduce fund expenses and increase cash flow
- Helps funds reduce transaction costs and conserve assets
- A portion of the gross commission is returned to the fund in the form of a rebate
- Rebates can be used to pay for authorized fund expenses
- Commission recapture programs can be an effective way for the fund to manage fiduciary responsibilities
- U.S. plans have used commission recapture since mid 1980's

# Soft Dollars

- Soft Dollars are commission credits used by investment managers, to pay for research and brokerage services provided by brokers
- A 1975 Congressional amendment to Securities Exchange Act of 1934 created safe harbor of Section 28(e); as explained by the SEC, the safe harbor allows money managers to use client funds to purchase “brokerage and research services” for their managed accounts under certain circumstances without breaching their fiduciary duties to clients. (2006 SEC release)
- This research can be produced by the broker’s internal research staff, or by a third-party

# How Did Recapture Evolve?

- Trustees have fiduciary responsibility to control commissions (USDOL Technical Bulletin 86-1, May 1986)
- Commissions are an asset of the fund, not of the investment manager, and should be conserved (AIMR Blue Ribbon Task Force for Soft Dollar Standards, August 1997)
- Commission recapture can reduce costs and help meet fiduciary responsibilities (USDOL Report of ERISA Advisory Committee's Working Group on Soft Dollars & Directed Brokerage, December 1997).

# ERISA Advisory Committee's

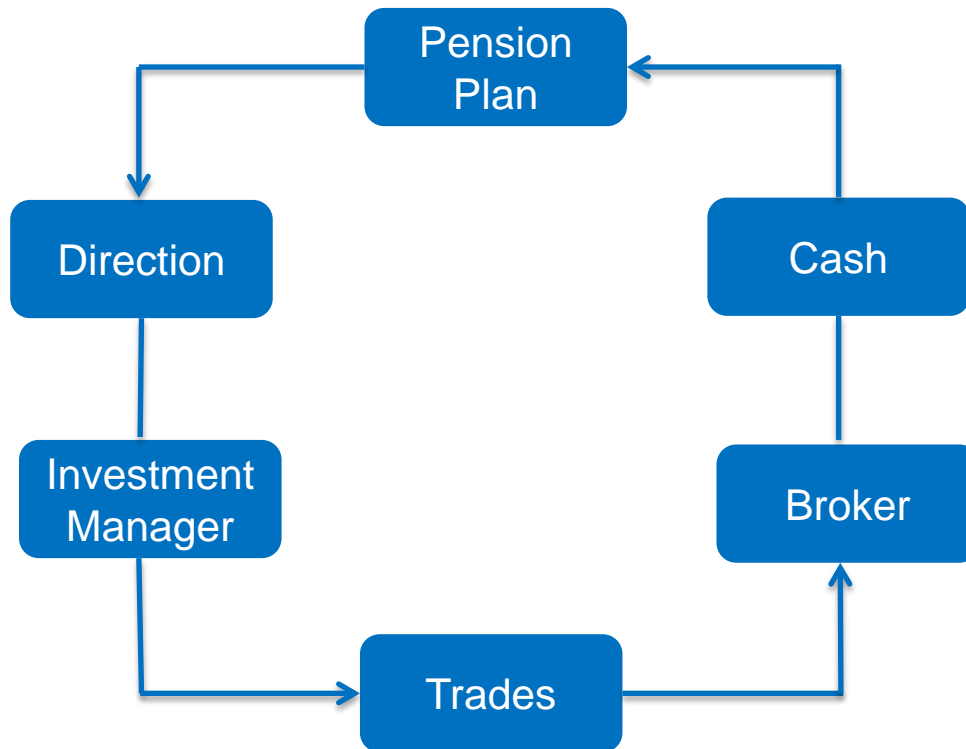
## Working Group on Soft Dollars/Directed Brokerage

“...a properly structured commission recapture program can assist investment managers, reduce plan costs, and help plan sponsors fulfill their fiduciary responsibilities.” - Herbert C. Skinner, Jr., President and Principal of Investment Performance Services, Official Transcript (July 16,1997) at 115-131

“... if a plan sponsor does not direct, then their plan may be subsidizing every other pension plan's research.” - Kenneth L. Kahn, President and Chief Operating Officer of Alpha Management, Inc., Official Transcript (July 17, 1997) at 45-47

*Report of The DOL's Working Group on  
Soft Dollar and Directed Brokerage  
November 13, 1997*

# Commission Recapture



1. A pension plan sponsor
2. Instructs a money manager
3. To direct trades
4. To broker
5. Broker rebates a portion of commission dollars (cash)
6. Back to the plan

# How a Commission Recapture Program Works

- The fund's money managers trade at their normal commission rates
- Provider rebates a portion of the commission back to the fund
- Easy-to-implement letter of agreement between commission recapture program provider and plan client
- Non-binding direction letter from plan to managers requesting participation
- No separate commission recapture program fees, volume or time requirements
- Commission recapture provider receives a portion of the gross commissions as its compensation

# What to Look for in a Global Recapture Provider

- Pursuit of best execution
  - Competitive rates
  - Multiple execution choices via an extensive network of correspondent brokers
- Global execution capabilities
- Fast and accurate reporting
- Timely trade reconciliations
- Easy-to-implement program
- Exceptional client support



# Characteristics of a Successful Program

- Multiple Asset Categories
  - Global Equities, ETF's, Options, ADR's
  - Syndicate - can only be used for research credits
- Multiple Execution Options for Managers
- Manager Participation and Compliance
- Proactive Client Service

# Additional Ways for Plans to Save During Portfolio Adjustments

Plans can leverage their existing recapture program to realize additional savings

- Trades resulting from portfolio adjustments decided by the Plan, not the manager
- These trades are only for the Plan's account and are not combined into a block trade with orders from multiple plan sponsors
- These adjustments include:
  - Portfolio rebalances
  - Trim trades
  - Fundings/liquidations
  - Cash inflows/outflows
- The Plan is able to realize 100% of the commission benefit from these portfolio adjustments

# Fresno County Employees' Retirement System

## January 01, 2015 – December 31, 2015

**Recapture Services**  
**Fresno County Employees' Ret. Assoc.**  
 January 01, 2015 through December 31, 2015  
 Ref#: 23169

Manager	LOD Date	Deal Type	Last Trade Date	YTD Gross	YTD Client Credit	Prior Year Gross Commission	Prior Year Client Credit
Aronson Johnson Ortiz, LP	10/05/2012	ND		0.00	0.00	0.00	0.00
Artisan Partners L.P.	09/08/2006		11/24/2015	861.46	383.47	3,372.75	1,556.42
BlackRock Advisors		ND		0.00	0.00	0.00	0.00
Kalmar Investments, Inc.	10/05/2012		12/02/2015	14,492.05	10,144.47	13,128.57	9,190.00
Loomis Sayles & Company, L.P.	02/23/2004			0.00	0.00	0.00	0.00
Mondrian Investment Partners	09/27/2010	CO		0.00	0.00	0.00	0.00
State Street Global Advisors		CO		0.00	0.00	0.00	0.00
Systematic Financial Management, L.P.	10/05/2012		12/11/2015	15,462.45	10,823.86	48,226.62	33,758.63
Waddell & Reed Inc.	10/05/2012		12/03/2015	41,029.84	18,920.80	25,513.23	15,226.69
Wellington Management Co	09/27/2010		04/20/2015	1,040.90	508.25	5,937.21	2,807.17
Western Asset Management				0.00	0.00	0.00	0.00
Winslow Capital Management	10/05/2012		03/20/2015	2,283.00	1,065.40	8,588.01	4,176.34
				<b>75,169.70</b>	<b>41,846.25</b>	<b>104,766.39</b>	<b>66,715.25</b>

**Global Headquarters  
Convergex  
1633 Broadway  
New York, NY 10019**

**[www.convergex.com](http://www.convergex.com)**

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