



**Ohio Public Employees Retirement System**

**Soft Dollar Policy  
March 2024**



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### Revision History

<b>Soft Dollar Policy Established</b>	<b>June 17, 2003</b>
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## **I. SCOPE**

This Policy applies to purchase and sale transactions involving internally and externally managed public market securities owned by or for the benefit of the Ohio Public Employees Retirement System (“OPERS”) Defined Benefit Fund (“DB Fund”) and Health Care 115 Trust Fund (“HC Fund”) that are paid for through commissions.

## **II. PURPOSE**

This Policy establishes a framework for use of Soft Dollar and Other Commission Arrangements, which are defined in Section IV below, to minimize total transaction costs while maximizing the value of brokerage and investment research services received. It also provides for proper monitoring and oversight of Soft Dollar and Other Commission Arrangements.

## **III. LEGAL AUTHORITY**

In accordance with Ohio Revised Code Section (“ORC”) 145.11, which establishes the fiduciary responsibilities of OPERS Retirement Board (“Board”), OPERS Investment Staff will use every effort to obtain Best Execution, as defined in Section IV below, with respect to all transactions.

## **IV. PHILOSOPHY**

OPERS’ goal in all securities transactions is to obtain Best Execution. Best Execution means the execution of a purchase or sale transaction at a price and commission or fee that provides the most favorable total cost or total proceeds reasonably obtainable under the circumstances then prevailing. Best Execution does not necessarily mean paying the lowest possible commission. A brokerage commission is the fee paid to a broker-dealer for services rendered and is calculated as a lump sum or as a percentage of the amount of a transaction. Brokerage commissions compensate broker-dealers for executing transactions. Some commissions also compensate broker-dealers for providing investment research services, which are defined as advice, analysis, reports or other expressions of relevant reasoning or knowledge.

Amounts by which such brokerage commissions exceed the price of executing transactions are referred to as “Soft Dollars.” Soft Dollars used to purchase proprietary investment research services generated by a broker-dealer who executes a transaction are included in the cost of such transactions and are referred to as “Bundled Commission Arrangements.” Soft Dollars used by an executing broker to purchase investment research services from a third party for OPERS are referred to as “Commission Sharing Arrangements.”

OPERS may pay brokerage commissions that include either Bundled Commission Arrangements or Commission Sharing Arrangements. When it does, OPERS shall make a good faith determination that such price is reasonable in relation to the value of the brokerage and research services it receives. In doing so, OPERS will make a prudent and diligent effort to follow guidance provided to investment managers by regulators such as the Securities and Exchange Commission, which has done so pursuant to Section 28(e) of the Securities Exchange Act of 1934 (the “Act”).

## **V. OBJECTIVES**

### **A. Internally Traded Investment Transactions**

When selecting broker-dealers for transactions, whether internally or externally managed portfolio, OPERS Investment Staff shall follow its policies and procedures to choose the firm most capable of providing the brokerage services necessary to obtain Best Execution.

Investment Staff shall comply with ORC 145.11(B), which requires the Board to give equal consideration to firms that are owned or controlled by minorities or women.

Investment Staff shall comply with ORC 145.114 to increase the use of Ohio-qualified agents for the execution of transactions when an Ohio-qualified agent offers quality, services, and safety comparable to other agents available to OPERS.

#### **1. Bundled Commission Arrangements**

Staff determines which broker-dealers to use in executing Bundled Commission Arrangements. In doing so, Staff will consider its need for research and the cost and quality of services to be obtained through such transactions. Staff reports results of its allocation of Bundled Commission Arrangements to the Investments Division’s Broker Review Committee (“BRC”) on a regular basis.

#### **2. Commission Sharing Arrangements**

The BRC will, at least annually, review a forecast of the estimated amount of credit that will be available to OPERS through transactions involving Commission Sharing Arrangements. All requests by Investment Staff to spend these credits must be made to the BRC, which will consider the costs and benefits of such requests and maintain records of its decisions concerning them.

## **B. Externally Traded Investment Transactions**

OPERS may permit its public market external investment managers to utilize Soft Dollars as long as they: (i) seek to obtain Best Execution of their transactions; and (ii) to comply with Section 28(e) of the Act and/or other comparable laws and regulations, such as those of the Financial Conduct Authority and Prudential Regulation Authority of the United Kingdom.

## **VI. ROLES AND RESPONSIBILITIES**

### **A. OPERS Retirement Board**

The Board is responsible for reviewing and approving this Policy and any changes to it. In addition, the Board is responsible for reviewing reports related to this Policy.

### **B. Investment Staff**

The Board delegates authority to the Chief Investment Officer (“CIO”) to implement this Policy. Investment Staff shall monitor compliance with this Policy and report to the CIO concerning it. Staff is also responsible for recommending changes to this Policy.

All members of the Investment Staff are accountable to the CIO. The CIO is responsible for all Staff actions relative to the management of OPERS’ investments. In this regard, it is the responsibility of the CIO to satisfy himself/herself that all Policies and directives of the Board are implemented.

### **C. Investment Compliance**

The Investment Compliance area of Investment Accounting, Operations and Compliance (“IC”) is responsible for determining in advance, and documenting in writing, whether expenses proposed for payment with Soft Dollars qualify for such treatment under Section 28(e) of the Act. If IC determines that an exception to this Policy has occurred, IC shall notify Staff, the CIO, the Executive Director, and Board.

### **D. Broker Review Committee**

The BRC is responsible for recommending to the CIO the annual commission targets to be generated through Commission Sharing Arrangements and for determining which investment research services to purchase with such commissions. It will also monitor the use of Bundled Commissions Arrangement by the Investment Staff. It will report on Bundled Commissions and Commission Sharing Arrangements to the CIO and to the Board, as appropriate but at least annually. The Committee is also responsible for recommending changes to this Policy and for maintaining appropriate documentation of its activities.

## **E. External Public Market Investment Managers**

External public market investment managers report, as appropriate, concerning their efforts to achieve Best Execution of securities transactions and their compliance with Section 28(e) of the Act and/or other applicable laws and regulations.

## **VII. MONITORING AND REPORTING**

### **A. Quarterly**

Investment Compliance Staff requires public market external managers to provide statements averring compliance with Section 28(e) of the Act and/or other comparable laws and regulations.

### **B. Semi-Annually**

Staff requires public market external managers to provide reports documenting the nature, benefit and source of services obtained through Soft Dollars, and, where possible, a trade evaluation report, provided by a third party vendor, analyzing transactions with broker-dealers.

### **C. Annually**

BRC report on OPERS Soft Dollar expenses and the investment research services.

### **D. Periodically**

The BRC monitors the quality of trade execution results relative to the remuneration received in the form of rebated commissions and periodically presents reports concerning them to the CIO and the Board.