

KCPERS Policy

Policy #008 - Portfolio Rebalancing **Adopted: June 12, 2001**

Retirement System Policy #004 Investment Policy provides for Asset Allocation, Rebalancing Procedures and Asset Allocations and Triggers for the total portfolio. This policy addresses the process to be followed to help keep the Retirement Systems' investments on track with the investment policy and asset allocation.

The rebalancing procedures in the investment policy utilize threshold rebalancing between the funds' asset classes. Asset allocations will be reviewed for rebalancing on a quarterly basis. Any significant market events will also result in a rebalancing review. When an asset class exceeds the established threshold, either by gains or losses in the asset class, the Board of Trustees will direct the Secretary to bring the asset classes or overall allocation back to balance by adjusting the triggered fund back to the target allocation.

In months where a quarterly review will take place (board meetings in February, May, August, and November) staff will use quarterly data from the custodian. The following table illustrates the asset allocation and threshold triggers individually for the Police Retirement System and the Civilian Employees' Retirement System:

Asset Class	Overall Allocation Target	Trigger	Class Allocation Target	Trigger	Subclass Allocation Target	Trigger
Equities	66%	<u>±7%</u>				
<i>Large Cap</i>			40%	<u>±5%</u>		
LCG					10%---	<u>±3%</u>
LCV					20%---	<u>±3%</u>
Index					10%	<u>±3%</u>
<i>Small Cap</i>			14%	<u>±5%</u>		
SCG					7%-----	<u>±3%</u>
SCV					7%-----	<u>±3%</u>
<i>International</i>			12%	<u>±5%</u>		
Fixed	34%	<u>±7%</u>				

To further define the rebalancing procedure, on a monthly basis staff will prepare an allocation summary by asset subclass so that the board of trustees can monitor the asset allocation between quarterly reviews. Those monthly allocation summaries will use actual returns from the custodial account and will run a month behind since the custodian does not close our books until the 13th day of the following month.

Policy #008 Portfolio Rebalancing

When to Rebalance - The decision to rebalance will take place during the quarterly review or significant market events. The board of trustees will review the asset allocation summary, which will highlight any subclass allocation, class allocation, or overall allocation that exceeds the threshold trigger. If any one of the asset subclasses hits a trigger point the result will be rebalancing that asset subclass and those other subclasses that have the greatest potential for stabilizing performance of the fund. The review and decision to rebalance will be made using end of quarter information.

How to Rebalance - When any one asset subclass hits a trigger point and the decision is made to move funds between asset subclasses and classes and from one manager to another, at the time of the transfer we'll be moving funds from the asset class that has had the best performance to the asset class that has had the worst performance. Outlining a step by step process would only serve to limit the flexibility needed to rebalance in the most efficient manner possible. Circumstances surrounding individual managers at the time a trigger is reached will dictate the exact route to be taken to arrive at a rebalanced portfolio. Staff will present a proposed rebalanced portfolio, using current assets, for the board to consider at the time of a rebalancing review. In general that plan will start at the subclass level and will move the asset subclass that is out of balance back to its target allocation. Staff will inform all parties who may be involved in the rebalance, and explain what it means for them specifically. The rebalancing will take place in such a fashion as to minimize differences between the target allocation and the actual allocation and to minimize the transactional cost of the asset transfer.

Cash flows from Contributions - In the event that contributions on a monthly basis exceed benefit payments, these contributions will initially flow into the custodial cash account. Any cash from contributions in excess of the amount needed for benefit payments will be allowed to accumulate in the cash reserve account. The following decision process will be used by staff to determine which manager(s) receives funds from the cash reserve account in excess of amounts needed for benefit payments.

1. Determine which asset class is the furthest below its policy target.
2. Within this asset class determine which manager is the furthest below their policy target.
3. If this manager can take the entire contribution without causing an over funded status, then the Secretary shall direct the custodian to transfer the entire amount to that manager.
4. If the manager can't take the entire contribution without causing an over funded status, then the Secretary shall direct the custodian to transfer only that amount needed to fully fund the manager.
5. Remaining funds shall be allocated using steps three and four until the entire amount is distributed.