



## Board Report 19-09

Date: March 19, 2019

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Investment Manager Search Update March 2019

### Board Members

**John R. Mumma**  
*Chairperson*

**Thomas Moutes**  
*Vice-Chairperson*

**Raymond Ciranna**  
*First Provisional Chair*

**Robert Schoonover**  
*Second Provisional Chair*

**Wendy G. Macy**  
*Third Provisional Chair*

**Joshua Geller**  
**Hovhannes Gendjian**

**Neil Guglielmo**

**Linda P. Le**

### Recommendation:

That the Board (a) receive and file March 2019 investment manager search update; and (b) suspend investment manager presentations at Board meetings through the end of 2019.

### Discussion:

#### **A. RFP Development**

At its **July 17, 2018** meeting, the Board considered a report from staff regarding upcoming investment manager searches for the Deferred Compensation Plan investment menu. The Board approved a proposed 2018-2019 investment manager search plan. The Board further directed the Investments Committee to develop recommendations to the Board with respect to:

- The type of search process - mutual fund or institutional manager procurement (“Institutional Manager”) to be applied to each investment mandate;
- Proposed investment and evaluation criteria for each mandate; and
- Once the search processes had been performed, the recommended providers for each investment mandate.

On **September 17, 2018**, the Investments Committee met to consider recommendations from staff and Mercer Investment Consulting (Mercer) with respect to fund search types and search criteria for each investment mandate. On **October 16, 2018**, the Board adopted recommendations from the Investments Committee with respect to fund search types and search criteria to be applied to each investment mandate. A summary of the approved search types for each active and passive fund category is provided as **Attachment A**.

The Board also directed staff to return to the Board with a Request for Proposal (RFP) for Institutional Managers for investment mandates approved by the Board. Separately, an RFP

must also be issued for the Plan’s Stable Value Fund, the term of which expires June 30, 2020. Staff has also reviewed with Mercer the timing for the mutual fund only search processes. Following is a summary outline of next steps for each of these searches:

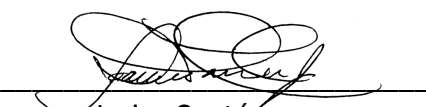
Search Process	Next Action Step
<b>Stable Value Fund RFP</b>	Submit RFP for approval by Board at April 16, 2019 meeting
<b>Equity Mutual Fund Only</b>	Review fund search results and develop report for Investments Committee review April/May 2019
<b>Bond and Equity RFP/Bond and Equity Mutual Fund Search</b>	Submit RFP for approval by Board at May 21, 2019 meeting; Process mutual fund searches concurrently

An expanded timeline will be provided to the Board at its April 16, 2019 meeting once staff and Mercer have had the opportunity to review the mutual fund only search results. The timeline will include tentative dates for Investments Committee meetings as they relate to consideration of responses and results from the above-noted search processes.

**B. Investment Manager Presentations**

On a quarterly basis, investment managers are scheduled for presentations to the Board. For the remainder of 2019, three investment manager presentations are presently on the meeting calendar: Loomis Sayles (Core Plus Bond Fund); Vanguard (Bond index and Large-Cap, Mid-Cap, and Small-Cap equity index funds); and Galliard (Stable Value Fund).

In order to ensure the neutrality of the Board’s processes and selections, staff recommends that the Board suspend investment manager presentations at Board meetings through the end of 2019. This will help to avoid the appearance of incumbent investment managers being provided a unique advantage to present information about their investment resources, process, and results directly to the Board when non-incumbent managers under consideration would not be able to do this. It is anticipated that all of the Board’s investment manager search processes and selections will have concluded by the end of 2019 and presentations will be renewed in early 2020.

Submitted by:   
Isaias Cantú

Approved by:   
Steven Montagna

**Attachment A**

Investment Mandate	Active or Passive	Incumbent Manager	Inception Date	5-Year End Date	Assets (as of 12/31/18)	Approved Search Vehicle
<b>Bank Deposit Account</b>	n/a	East West Bank	10/1/14	9/30/19	\$189 million	<b>Institutional Manager Procurement only (Selection Process Completed)</b>
<b>Bank Deposit Account</b>	n/a	Bank of the West	10/1/14	9/30/19	\$189 million	
<b>Bank Deposit Account</b>	n/a	Vacant	n/a	n/a	n/a	
Investment Mandate	Active or Passive	Incumbent Manager	Inception Date	5-Year End Date	Assets (as of 12/31/18)	Approved Search Vehicle
<b>Stable Value</b>	Active	Galliard Stable Value	7/1/15	6/30/20	\$1.2 billion	Institutional Manager Procurement only
<b>Core Bond Passive</b>	Passive	Vanguard Total Bond Market Index	6/26/15	6/25/20	\$290 million	Institutional Manager Procurement and Mutual Fund Search
<b>Core Bond Active</b>	Active	Natixis Loomis Sayles Core Plus Bond	10/14/14	10/13/19	\$290 million	Institutional Manager Procurement and Mutual Fund Search
<b>Large-Cap Core Equity</b>	Passive	Vanguard Institutional Index	6/26/15	6/25/20	\$2.0 billion	Institutional Manager Procurement and Mutual Fund Search
<b>Mid-Cap Core Equity</b>	Passive	Vanguard Mid-Cap Index	6/26/15	6/25/20	\$165 million	Institutional Manager Procurement and Mutual Fund Search
<b>Mid-Cap Value Equity</b>	Active	RidgeWorth Mid-Cap Value Equity	3/20/15	3/19/20	\$83 million	Mutual Fund Search only
<b>Mid-Cap Growth Equity</b>	Active	Voya Mid-Cap Opportunities	3/20/15	3/19/20	\$83 million	Mutual Fund Search only
<b>Small-Cap Core Equity</b>	Passive	Vanguard Small-Cap Index	6/26/15	6/25/20	\$105 million	Institutional Manager Procurement and Mutual Fund Search
<b>Small-Cap Value Equity</b>	Active	DFA Small-Cap Value	3/20/15	3/19/20	\$105 million	Mutual Fund Search only
<b>Small-Cap Growth Equity</b>	Active	Hartford Small-Cap Growth HLS	3/20/15	3/19/20	\$105 million	Mutual Fund Search only
<b>International Equity</b>	Active	MFS Institutional International Equity	6/26/15	6/25/20	\$340 million	Institutional Manager Procurement and Mutual Fund Search
<b>International Small-Cap Equity</b>	Active	Brandes International Small-Cap Equity	6/26/15	6/25/20	\$92 million	Mutual Fund Search only
<b>International Emerging Markets Equity</b>	Active	DFA Emerging Markets Core Equity	6/26/15	6/25/20	\$92 million	Mutual Fund Search only