

Deferred Compensation Plan INVESTMENTS COMMITTEE REPORT 14-01

Date: August 28, 2014
To: Investments Committee
From: Staff
Subject: Deferred Compensation Plan Investment Manager
Search - Active Core Bond

*Board of Deferred
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Recommendation:

That the Investments Committee review initial results for the Active Core Bond mutual fund search and identify finalist funds for additional assessment.

Background:

At its February 18, 2014 meeting, the Board adopted revisions to the Plan's Investment Policy Statement incorporating the option for a mutual funds search process for filling certain investment manager mandates as approved by the Board. The Board further approved recommendations for moving forward with a search schedule for the Plan's various investment options as recommended by staff. At its March 18, 2014 meeting, the Board also reviewed the search criteria for each asset category as recommended by staff and Mercer Investments, the Plan's investments consultant.

Discussion:

The Active Core Bond category makes up 50% of the underlying allocation for the DCP Bond Fund, an option in the Plan's core investment menu (the other half of the DCP Bond Fund is passively managed). The estimated mandate size is \$167 million.

Mercer has completed the investment manager search for the Active Core Bond mandate. The full analysis is attached for the Committee's review. The following criteria were used to screen for viable managers:

- Mutual fund vehicle open to new investors and compatible with Great-West platform
- Strategy track record of 7 years or longer (specific vehicle may be shorter)
- Investment style consistent with a core bond manager investing in intermediate duration bonds and categorized in the database as a core bond strategy
- Minimum assets under management in strategy of \$7.5 billion
- Investment expense ratio equal to or less than 0.65% (approximately 1.25 times the institutional median)

Based on these criteria, 12 viable funds were identified that are offered by the following providers:

1. American Century Investment Management

2. Baird Advisors
3. Delaware Investments
4. Dodge & Cox Investment Managers
5. Janus Capital Management
6. JP Morgan Asset Management
7. Loomis, Sayles & Company
8. TCW Group
9. Pacific Investment Management Company
10. Pacific Investment Management Company (II)
11. T. Rowe Price
12. Wells Capital Management

Mercer assessed these funds and evaluated them based on major categories of long-term performance, team depth, personnel turnover, portfolio construction, business management, strategy assets, and expense ratio. A summary and detail of these rankings is included in the attached Mercer report on page 9.

In reviewing that summary, staff found that it would be helpful to provide the Committee with a tool for simplifying Mercer’s assessments into bands of general relative standing, which allows the Board to, in a broad way, compare the results of staff’s consolidation of the review results with Mercer’s independent fund ratings (which involve a separate analytic process and are provided in Mercer’s report as supplementary information only). The following table provides the Committee with a summary of these bands, but is not intended to be interpreted by the Committee as a formal scoring of the funds.

Firm	Evaluation Category Banding (based on staff’s consolidation of evaluation category results)	Independent Mercer Fund Rating (not included in evaluation categories)
Loomis	Band A	excellent
Dodge&Cox	Band A	excellent
MetWest	Band B	excellent
JPMorgan	Band B	excellent
T. Rowe	Band C	above average
PIMCO	Band D	excellent
WFA	Band D	excellent
PIMCO II	Band E	excellent
AmCentury	Band F	average
Baird	Band G	average

Firm	Evaluation Category Banding (based on staff's consolidation of evaluation category results)	Independent Mercer Fund Rating (not included in evaluation categories)
Janus	Band H	average
Delaware	Band I	above average

Upon review of the general search criteria and the broad qualifications of the identified providers, staff recommends that the Committee identify finalist funds for additional assessment.

Submitted by: _____
 Esther Chang

Approved by: _____
 Steven Montagna