

Deferred Compensation Plan INVESTMENTS COMMITTEE REPORT 14-04

Date: September 29, 2014
 To: Investments Committee
 From: Staff
 Subject: Deferred Compensation Plan Investment Manager
 Search: Mid-Cap Growth & Mid-Cap Value Equity

Board of Deferred
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Recommendation:

That the Investments Committee review initial results for the Mid-Cap Growth and Mid-Cap Value Equity 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:

Currently, the Plan offers one mid-cap investment fund option within its core investment menu, the DCP Mid-Cap Stock Fund. The underlying fund is the Vanguard Mid-Cap Index Fund (Institutional Plus Shares). The estimated mandate size is \$59 million.

As indicated in the DCP Mid-Cap Stock Fund investment option profile, included within the Plan’s Investment Policy (see excerpt below), the DCP Mid-Cap Stock Fund will move towards an allocation that is 50% passive, 25% growth, and 25% value.

Option	DCP Mid Cap Stock Fund
Objectives	<ul style="list-style-type: none"> ▪ High total return ▪ Diversification within the mid/small cap equity market segment
Primary Investments	Domestic stocks with market capitalizations that are similar to those of stocks found in Russell Midcap Index. The total portfolio should exhibit characteristics representative of a core equity investment style, including price/earnings and price/book ratios similar to that of the Russell Midcap Index.
Source of Return	<ul style="list-style-type: none"> ▪ Dividend income ▪ Capital appreciation/depreciation
Expected Return	Very High
Expected Risk	Very High
Portfolio structure	50% passive manager/25% growth manager/25% value manager

To further the Plan towards offering a mid-cap fund that is allocated to categories as identified within the Investment Policy, Mercer has completed the investment manager search for the Mid-Cap Growth and Value Equity categories. The full analysis for each asset category is attached for the Committee's review.

The following criteria were used to screen for viable Mid-Cap Growth and Mid-Cap Value Equity managers:

- Mutual fund vehicle open to new investors and compatible with Great-West platform
- Strategy track record of 5 years or longer (specific vehicle may be shorter)
- Investment style consistent with the mid cap styles (growth and value), including appropriate categorization in the database with the stated benchmark of the strategy representative of the style
- Minimum assets under management in strategy of \$600 million
- Maximum assets under management in strategy of \$15 billion
- Investment expense ratio equal to or less than 1.25%

Based on the above criteria, 14 viable Mid-Cap Growth funds were identified that are offered by the following providers:

1. American Century Investment Management
2. Baird Investment Management
3. Kornitzer Capital Management
4. Eagle Asset Management
5. Goldman Sachs Asset Management
6. Waddell & Reed Asset Management Group
7. Janus Capital Management
8. Massachusetts Mutual Life Insurance Company
9. Munder Capital Management
10. Neuberger Berman
11. Nicholas Company
12. Vanguard
13. Voya Investment Management Co.
14. William Blair & Company

Thirteen (13) viable Mid-Cap Value Equity funds were also identified that are offered by the following providers:

1. American Century Investment Management
2. Columbia Management Investment Advisers
3. Lord Abbett & Co.
4. Perkins Investment Management
5. Pioneer Investments

6. Principal Financial Group (I)
7. Principal Financial Group (III)
8. Ceredex Value Advisors
9. RS Investments
10. Sterling Capital Management
11. Vanguard
12. Victory Capital Management
13. 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 are included in the attached Mercer reports: on page 10 of the Mid-Cap Growth analysis and on page 10 of the Mid-Cap Value Equity analysis.

In reviewing the summaries, 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 Committee 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 tables provide the Committee with a summary of these bands, but they are not intended to be interpreted by the Committee as a formal scoring of the funds.

MID-CAP GROWTH

Firm	Evaluation Category Banding <i>(based on staff's consolidation of evaluation category results)</i>	Independent Mercer Fund Rating <i>(not included in evaluation categories)</i>
Vanguard	Band A	excellent
WilliamBlair	Band B	excellent
MassMutual	Band B	excellent
Voya	Band C	excellent
Janus	Band C	excellent
Ivy	Band C	average
AmCentury	Band C	average
Eagle	Band D	excellent
Goldman	Band D	average
Neuberger	Band E	average
Baird	Band F	average
Nicholas	Band F	average
Munder	Band G	average
Buffalo	Band H	average

MID-CAP VALUE EQUITY

Firm	Evaluation Category Banding <i>(based on staff's consolidation of evaluation category results)</i>	Independent Mercer Fund Rating <i>(not included in evaluation categories)</i>
Ridgeworth	Band A	excellent
Vanguard	Band A	excellent
Victory	Band B	average
AmCentury	Band C	average
WFA	Band D	average
Principal III	Band D	excellent
Sterling	Band E	average
Principal I	Band F	excellent
Pioneer	Band G	average
Perkins	Band H	average
RS	Band H	average
LordAbbett	Band I	average
Columbia	Band J	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