

# Deferred Compensation Plan

## INVESTMENTS COMMITTEE REPORT 14-06

Date: October 9, 2014

To: Investments Committee

From: Staff

Subject: Deferred Compensation Plan Investment Manager  
Search: International Developed Markets

Board of Deferred  
Compensation Administration  
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### Recommendation:

That the Investments Committee review initial results for the International Developed Markets 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 two international investment fund options within its core investment menu, the Fidelity Diversified International Fund and the DWS EAFE Equity Index Fund. The Plan however has been making strides to streamline its core investment option menu and will be introducing a single option for this asset class, the DCP International Fund. To realize the intended investment profile for the option as indicated in the Plan's Investment Policy (see excerpt below), the DCP International Fund will incorporate an underlying fund allocation that is 65% international developed markets, 17.5% emerging markets, and 17.5% international small-cap.

Option	DCP International Stock Fund
<b>Objectives</b>	<ul style="list-style-type: none"> <li>▪ High total return</li> <li>▪ Provide non-U.S. equity exposure thereby enhancing participant diversification opportunities</li> </ul>
<b>Primary Investments</b>	Non-U.S. stocks of developed and emerging markets countries within all market capitalizations.
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>▪ Capital appreciation/depreciation</li> <li>▪ Dividend income</li> </ul>
<b>Expected Return</b>	High
<b>Expected Risk</b>	High
<b>Portfolio structure</b>	65% developed international manager/17.5% emerging markets manager /17.5% international small cap manager

Mercer has completed the investment manager search for the International Developed Markets category and the full analysis is attached for the Committee's review. The estimated mandate size for this category is \$214 million.

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 the international ex-US investment style including appropriate categorization in the database with the stated benchmark of the strategy representative of the style (MSCI EAFE)
- Minimum assets under management in strategy of \$5 billion
- Investment expense ratio equal to or less than 1.20%

Based on the above criteria, 16 viable International Developed funds were identified that are offered by the following providers:

1. American Century Investment Management (AmCentury)
2. AQR Capital Management (AQR)
3. Dimensional Fund Advisors (DFA)
4. Fidelity Management & Research Company (FidAIntlDisc)
5. Fidelity Management & Research Company (FidDivIntl)
6. GE Asset Management (GE)
7. Harbor Capital Advisors (Harbor)
8. The Hartford Mutual Funds (Hartford)
9. JP Morgan Asset Management (JPMIntlEq)
10. JP Morgan Asset Management (JPMIntlOpp)
11. Lazard Asset Management (Lazard)
12. MFS Investment Management (MFS)
13. Morgan Stanley Investment Management (MSIM)
14. Scout Investments (Scout)
15. T. Rowe Price (TRPIntlCore)
16. T. Rowe Price (TRPIntlG&I)

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 on page 10 in the attached Mercer report.

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 table provides 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.

### INTERNATIONAL DEVELOPED MARKETS

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>
Hartford	Band A	excellent
DFA	Band A	average
MFS	Band B	excellent
JPMIntlOpp	Band B	excellent
AQR	Band C	excellent
FidAIntlDisc	Band C	excellent
FidDivIntl	Band C	excellent
TRPIntlCore	Band C	average
Harbor	Band C	average
Scout	Band C	average
Lazard	Band C	average
JPMIntlEq	Band D	average
AmCentury	Band D	excellent
TRPIntlG&I	Band E	average
MSIM	Band F	excellent
GE	Band G	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