

Deferred Compensation Plan INVESTMENTS COMMITTEE REPORT 14-07

Date: October 9, 2014

To: Investments Committee

From: Staff

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

Board of Deferred
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Recommendation:

That the Investments Committee review initial results for the International Emerging 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
Objectives	<ul style="list-style-type: none"> ▪ High total return ▪ Provide non-U.S. equity exposure thereby enhancing participant diversification opportunities
Primary Investments	Non-U.S. stocks of developed and emerging markets countries within all market capitalizations.
Source of Return	<ul style="list-style-type: none"> ▪ Capital appreciation/depreciation ▪ Dividend income
Expected Return	High
Expected Risk	High
Portfolio structure	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 Emerging Markets category and the full analysis is attached for the Committee's review. The estimated mandate size for this category is \$58 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 emerging markets equity investment style including appropriate categorization in the database with the stated benchmark of the strategy representative of the style (MSCI Emerging Markets)
- Minimum assets under management in strategy of \$2 billion
- Maximum assets under management in strategy of \$25 billion
- Investment expense ratio equal to or less than 1.35%

Based on the above criteria, 15 viable International Emerging Market funds were identified that are offered by the following providers:

1. BlackRock (BlackRock)
2. Dimensional Fund Advisors (DFA EMAILCap)
3. Dimensional Fund Advisors (DFA EMLgCap)
4. Delaware Investments (Delaware)
5. Fidelity Management & Research Company - FMRCo. (US Mutual Funds Only) (FidelityAdv)
6. Harding Loevner (HardingLoev)
7. JP Morgan Asset Management (JPMorgan)
8. Mondrian Investment Partners (Mondrian)
9. Morgan Stanley Investment Management (MSIM)
10. Neuberger Berman (Neuberger)
11. Parametric Portfolio Associates (Parametric)
12. Principal Financial Group (Principal)
13. Schroder Investment Management (Schroder)
14. Franklin Templeton Investments (Templeton)
15. T. Rowe Price (TRP)

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 11 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 EMERGING 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>
DFA EMAILCap	Band A	excellent
DFA EMLgCap	Band B	excellent
TRP	Band C	excellent
HardingLoev	Band D	excellent
Templeton	Band D	excellent
Mondrian	Band E	excellent
Parametric	Band E	excellent
JPMorgan	Band E	excellent
Schroder	Band E	excellent
BlackRock	Band F	average
Neuberger	Band F	average
MSIM	Band G	excellent
Delaware	Band H	average
Principal	Band I	average
FidelityAdv	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