

**AGENDA ITEM 6B.**

**APPROVAL OF CHANGES TO WATCH LIST**

# MEMORANDUM

Friday, November 13, 2020

From: ISAC Investment Staff  
To: ISAC Investment Committee  
Subject: Watch List

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## ***Investment Policy Watch List Procedure and Criteria***

*A number of factors may contribute to a manager's over- or under-performance at any given time - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. A Watch List will be utilized to identify managers of concern, due to performance or other issues.*

*At each quarterly meeting of the Investment Committee, Investment Staff shall recommend managers to be included on or removed from the Watch List. A manager may be recommended for the Watch List based on the qualitative or quantitative criteria described above or in the applicable guidelines or statement of work (SOW). Watch List managers will be closely monitored and scrutinized. Watch List managers may not receive new contributions (including rebalancing) without the approval of the Investment Committee.*

## **General Comments**

- Performance for the passive accounts (Rhumblin All Cap and SSgA Bond) is close to the relevant benchmark for all periods, as expected.
- Both Ativo (-0.36%) and DFA (-1.22%) lagged the index (-3.35%) for the past year as the value premia underperformed significantly (by 28%) the growth factor. Please note, despite the disappointing one-year-performance, both the short- and longer-term performance for each manager remains in line with their profile and staff expectations given their investment philosophies and styles. We continue to believe that Ativo and DFA complement each other rather well given the low correlation (0.15 since inception) of excess returns. Please note, we are starting to see a recovery in the value premia MTD (November thru 11/12/20), in which value is outperforming growth by over 4%.
- T.Rowe Price recent underperformance (March 2020) was driven by the flight to quality seen during the COVID-19 pandemic as credit spreads widened. The manager recovered in 2Q20 and 3Q20 as the fixed income market started to stabilize. As mentioned in previous meetings, T.Rowe Price is outperforming in the long term performance periods, therefore staff has no concerns. Garcia Hamilton also had a tough first quarter of 2020 and recovered in 2Q20 from their additions of longer dated fixed-rate credit exposure when spreads widened in March 2020. The manager was in line with its benchmark in 3Q20. We continue to have conviction in the manager and investment process, and we will continue to closely monitor their duration stance as it continues to detract from performance.
- DDJ (-1.18%) lagged the High Yield bond index (2.30%) for the past year due to their higher than benchmark exposure to CCC bonds and leveraged/bank loans, both of which underperformed the index. We highlight that DDJ outperformed its benchmark in 3Q20 and continues to outperform the index since inception, which the manager has accomplished with

a lower volatility and drawdown profile. We retain strong conviction in the team and investment process.

- The Security Capital Preferred Growth (PG) REIT fund (-5.22%) strongly outperformed the MSCI US REIT index (-17.76%) for the past year as the market experienced a flight to safety due to the COVID-19 pandemic. We highlight that the strategy has strongly outperformed the index for most trailing periods and since inception returns are in line with expectations. Staff retains strong conviction in manager and investment process, and expects PG to provide REIT like returns over a market cycle with dampening volatility in periods of REIT distress.
- Neuberger Berman (-1.88%) had a challenging year as leveraged/bank loans underperformed and its credit sensitivity hurt performance. For years now, we have noted to the Commission that Neuberger's credit exposure may lead to underperformance in risk off environments, which is exactly what we saw in the first quarter of 2020. While staff was not pleased with the degree of underperformance, we note that this is roughly in line with their profile and expect a recovery in coming quarters as the fixed income markets stabilize. Please note, Neuberger was up 2.92% in 2Q20 and 2.68% in 3Q20, in line with expectations.

### **Recommendation**

No managers are recommended for addition to the Watch List.

See following page for the Watch List performance evaluation grid.

## ISAC Watch List Evaluation for periods ending 09/30/20

### Excess Return vs. Benchmark (Gross of Fees)

	1 year	3 year	5 year	ISAC start
Domestic Equity				
Rhumblin All Cap	-0.06%	0.02%	0.02%	7/24/09

	1 year	3 year	5 year	ISAC start
International Equity				
Ativo ACWI ex US	-3.26%	0.25%	-1.98% *	1/31/17
DFA	-1.83%	-2.31%	-0.74% *	1/31/17

	1 year	3 year	5 year	ISAC start
Fixed Income				
Garcia Hamilton	-0.49%	-0.02%	0.08% *	9/30/16
SSgA BC US Agg Bond Index	0.08%	0.02%	0.01%	6/11/13
T.Rowe Price	-1.40%	0.05%	0.65%	8/31/13

### Active Manager Rank vs. Peer Group

	1 year	3 year	5 year	ISAC start
International Equity				
Ativo ACWI ex US	69	53	70 *	1/31/17
DFA	63	71	55 *	1/31/17

	1 year	3 year	5 year	ISAC start
Fixed Income				
Garcia Hamilton	90	79	77 *	9/30/16
T.Rowe Price	92	76	81	8/31/13

### Liquid LPs/LLCs (Absolute Return) - Net of Fees

	1 year	3 year	5 year	ISAC start
SCM Preferred Growth	-5.22%	4.90%	6.70%	12/1/09
MSCI US REIT**	-17.76%	0.31%	3.98%	
NB Div. Arb.	-1.88%	1.29%	2.43%	1/31/10
HFRI FoF Conservative Index**	1.90%	2.24%	2.30%	
DDJ	-1.18%	2.42%	5.59%	6/30/10
MLHY**	2.30%	3.83%	6.61%	

\*composite for periods before ISAC inception

\*\*Reference index