

AGENDA ITEM 9C

APPROVAL OF CHANGES TO WATCH LIST

Submitted for: Information

Summary: No managers are recommended for addition to the Watch List.

Action requested: None

MEMORANDUM

Monday, August 19, 2019

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

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, Rhumblin Large Cap & SSgA Bond) is close to the relevant benchmark for all periods, as expected.
- Ativo provided strong up capture for the past year and staff expects to see a continuation of their recovery on a relative basis going forward. DFA lagged by 4.7% for the past year as the size premia continues to struggle. We note that DFA trailing performance looks less attractive at this point in time as their investment process continues to be out of favor. But their investment process continues to work in line with staff expectations and we retain strong conviction that they will recover on a relative basis just like we witnessed in 2017. We continue to believe that Ativo and DFA complement each other rather well given the continued low correlation (0.02 since inception) of excess returns.
- The T. Rowe Price Core Plus continues to outperform the Barclays Aggregate Bond Index for all trailing periods. The product long-term performance remains in line with expectations and is consistent with their more conservative approach with a target objective of 1% outperformance.
- Garcia Hamilton duration management which had provided strong downside protection in early 2018, has been a headwind over the last few quarters. The manager continues to outpace the Intermediate Govt/Credit bond index for longer-term trailing periods and ranks favorably (usually top quartile) vs peers.
- DDJ (+5.11%) lagged the High Yield bond index (+7.58%) for the past year as the market recovered sharply after a challenging 4Q18. We highlight that DDJ has outperformed the index for all longer-term trailing periods with lower volatility and drawdown (provided strong downside protection in 4Q18 as expected).

- The Security Capital Preferred Growth (PG) REIT fund (+9.38%) lagged the MSCI US REIT index (+13.56%) for the past year as the market recovered sharply after a challenging 4Q18 (PG provided strong downside protection in 4Q18 as expected). Long-term trailing performance remains satisfactory and 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 (+2.05%) had a modest year and continues to post respectable longer-term performance in line with the T-bills plus 4% benchmark and leading Fund of Fund peers. NB provided diversification benefits in 2018 which was a challenging year for equity and credit markets. While we are pleased with recent gains, we are cognizant that credit exposure may lead to underperformance in risk-off environments.
- Pinnacle (+5.08%) had a strong year vs. the commodities market (-6.75%) and provided diversification benefits in 2018 and 2019 YTD. Recent improvements in performance (+9% YTD) have offset what until December 2018 had been a very disappointing long-term absolute trailing performance since inception. Staff conviction in the manager waned over time despite the modest diversification benefit they were providing. Therefore, the manager was recommended for termination by investment staff, which was initially approved by the Investment Committee during the meeting on April 25, 2019 and subsequently by the Commission during the meeting on June 24, 2019. Afterwards, investment staff submitted a full redemption notice for this investment and expect to receive 90% of the future value (currently \$28.8 million) by January 2020 and the remaining 10% once the next audit is completed.

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 06/30/19

Excess Return vs. Benchmark (Gross of Fees)

	1 year	3 year	5 year	ISAC start
Domestic Equity				
Rhumblin All Cap	0.07%	-0.03%	0.02%	7/24/09
Rhumblin Large Cap	0.31%	0.17%	0.12%	6/21/12

	1 year	3 year	5 year	ISAC start
International Equity				
Ativo ACWI ex US	1.55%	-2.12% *	0.76% *	1/31/17
DFA	-4.71%	-0.80% *	-0.19% *	1/31/17

	1 year	3 year	5 year	ISAC start
Fixed Income				
Garcia Hamilton	-1.23%	0.17% *	0.38% *	9/30/16
SSgA BC US Agg Bond Index	-0.02%	-0.01%	0.00%	6/11/13
T.Rowe Price	0.51%	1.14%	0.71%	8/31/13

Active Manager Rank vs. Peer Group

	1 year	3 year	5 year	ISAC start
International Equity				
Ativo ACWI ex US	22	79 *	50 *	1/31/17
DFA	80	55 *	68 *	1/31/17

	1 year	3 year	5 year	ISAC start
Fixed Income				
Garcia Hamilton	98	60 *	17 *	9/30/16
T.Rowe Price	43	58	37	8/31/13

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

	1 year	3 year	5 year	ISAC start
SCM Preferred Growth	9.38%	4.62%	7.03%	12/1/09
MSCI US REIT**	13.56%	4.91%	8.29%	
NB Div. Arb.	2.05%	5.29%	2.74%	1/31/10
HFRI FoF Conservative Index**	2.35%	3.89%	2.17%	
Pinnacle	5.08%	2.79%	2.38%	1/31/10
BCOM TR Index**	-6.75%	-2.18%	-9.15%	
DDJ	5.11%	9.68%	6.61%	6/30/10
MLHY**	7.58%	7.55%	4.70%	

*composite for periods before ISAC inception

**Reference index