

MEMORANDUM

Tuesday, November 15, 2022

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 (for year ending 09/30/2022)

- Performance for the passive accounts (Rhumblin All Cap and SSgA Bond) is close to the relevant benchmark for all periods, as expected.
- Ativo (-24.82%) performed in line with the benchmark (MSCI ACWI ex US -24.79%) for the 1-year and we would like to see a continuation of their relative recovery as the manager continues to lag modestly since inception.
- DFA (-23.79%) had a good year vs. the MSCI ACWI ex US index (-24.79%) as the value premia outperformed for the period. We would like to highlight that DFA has outperformed the index for the past 3-years net of fees, and long-term performance is pretty close the benchmark for the past 5-years and since inception. DFA's long-term performance is in line with their investment process based on premia and investment staff expectations.
- T.Rowe Price (TRP) underperformed (-1.00% excess return) for the past year as credit spread products underperformed treasuries given the rapid increase seen in interest rates year to date, but the manager continues to outperform for longer-term trailing periods. Staff retains very strong conviction in the team and investment process.
- Garcia Hamilton was added to the Watch List at the November 30, 2021, Investment Committee meeting and staff is very pleased to report that the manager is off to a great start in 2022 outperforming by 0.97% year to date through 09/30/22. As of now, the manager has fully recovered their 3-year underperformance (from 2018 to 2021) and is outperforming for all trailing periods ending on September 30, 2022. We are recommending their removal from the Watch List at today's meeting and will review the manager in further detail in the following page.
- DDJ (-5.62%) strongly outperformed the High Yield bond index (-14.07%) for the past year driven by strong security selection. We highlight that DDJ continues to outperform the index for all trailing periods, which the manager has accomplished with a lower volatility and drawdown profile. Staff continues to have strong conviction in the manager and investment process.
- The Security Capital Preferred Growth (PG) REIT fund (-17.34%) underperformed the MSCI US REIT index (-16.56%) for the past year as the REIT market experienced some weakness due to the rapid increase seen in interest rates year to date. We highlight that the strategy has

outperformed the index for the trailing 3- and 5-years, 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 (-9.18%) had a negative year as both equity and fixed income markets have experienced significant stress, but the manager returned +1.73% net of fees (outperforming bonds which returned -0.27%) for the past 5 years. We noted in the prior meeting that Neuberger decided to fully liquidate the Diversified Arbitrage Fund II in which ISAC is invested. This coincidentally was favorable to ISAC given our growing need for liquidity as the College Illinois fund assets continue to diminish over time given our runoff scenario. This development will not impact the valuation of our investment. We have already received approximately 92% (\$23.4 million) of the NAV as of 08/12/22 and expect the remaining proceeds (approximately \$2 million) over the coming quarters.

Garcia Hamilton & Associates

Garcia Hamilton & Associates (Garcia) was placed on the Watch List at the November 30, 2021, meeting of the Investment Committee due to poor trailing returns. The manager has recovered strongly since 4Q21 as their short duration positioning have been outperforming as of late, given the rapid increase in interest rates seen year to date. Please note, Garcia outperformed by 1.18% net of fees for the past year ending on 09/30/2022. The manager is also outperforming modestly for all longer-term trailing periods. Garcia has returned 0.40% net of fees since inception relative to 0.36% for the Bloomberg Barclays US Agg Intermediate Govt/Credit index. We continue to have strong conviction in the team, investment philosophy and their investment process.

Garcia trailing performance net of fees ending 09/30/22

	Last 3 months	1-year	3-years	5-years	Inception to date	Inception date
Garcia Hamilton	-3.74%	-8.97%	-1.58%	0.40%	0.40%	9/30/2016
BB US Agg Inter Govt/Credit	-3.06%	-10.14%	-1.64%	0.38%	0.36%	

Source: Northern Trust Reports

Recommendation

For the Investment Committee to approve removal of Garcia Hamilton & Associates from the Watch List.

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 09/30/22

Excess Return vs. Benchmark (Gross of Fees)

Domestic Equity	1 year	3 year	5 year	ISAC start
Rhumblin All Cap	0.39%	0.14%	0.11%	7/24/09

International Equity	1 year	3 year	5 year	ISAC start
Ativo ACWI ex US	0.31%	-2.28%	-0.61%	1/31/17
DFA	1.25%	1.66%	-0.03%	1/31/17

Fixed Income	1 year	3 year	5 year	ISAC start
Garcia Hamilton	1.37%	0.26%	0.24%	9/30/16
SSgA BC US Agg Bond Index	0.00%	0.03%	0.01%	6/11/13
T.Rowe Price	-0.80%	0.37%	0.52%	8/31/13

Active Manager Rank vs. Peer Group

International Equity	1 year	3 year	5 year	ISAC start
Ativo ACWI ex US	34	92	67	1/31/17
DFA	27	25	55	1/31/17

Fixed Income	1 year	3 year	5 year	ISAC start
Garcia Hamilton	3	59	60	9/30/16
T.Rowe Price	66	85	71	8/31/13

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

	1 year	3 year	5 year	ISAC start
SCM Preferred Growth	-17.34%	2.80%	5.76%	12/1/09
MSCI US REIT**	-16.56%	-2.00%	2.92%	
NB Div. Arb.	-9.18%	0.96%	1.73%	1/31/10
HFRI FoF Conservative Index**	-0.72%	4.71%	3.78%	
DDJ	-5.62%	2.79%	3.38%	6/30/10
MLHY**	-14.07%	-0.68%	1.40%	

*composite for periods before ISAC inception

**Reference index