

SBCERA's allocation to EM debt is 8% or approximately \$1.1 billion, based on a \$14 billion plan. This allocation is currently invested through three active strategies and a passive allocation via our overlay approach.

The investment recommendation package includes NEPC's cover memo and quantitative strategy analysis report. The cover memo provides a brief overview on the review process undertaken by NEPC and the quantitative analysis report provides a breakdown of performance relative to SBCERA's current managers, widely used emerging market debt benchmarks, and risk analysis.

Finalist Selection:

Staff and NEPC reviewed the top three semi-finalist managers in depth; however, the following criteria formed the bulk of our analysis:

- Asset management firm for resources, reputation, and areas of expertise.
- Portfolio management team for tenure, depth, and stability.
- EM debt strategy for strength in process, sound philosophy, client tenure, and implementation.
- Performance history for consistency in return generation, volatility, and alpha generation.
- Manager and portfolio management team fit within the broader SBCERA EM debt portfolio.

Two of the three semi-finalists were selected to advance to the Investment Committee and the Board. However, subsequent to advancing that to the Committee for consideration, the team at one manager substantially changed, and therefore, that candidate manager was dropped from further consideration.

The Recommended Manager:

The finalist manager, Finisterre Capital ("Finisterre" or "Manager"), is a boutique manager within Principal Global Investors ("PGI"). PGI is a wholly-owned, indirect subsidiary of the Principal Financial Group, a Fortune 500 company founded in 1879. PGI manages \$576 billion in assets via a multi-boutique strategy providing investors access to multiple strategies via a single point of access through PGI.

Finisterre was acquired by PGI in July 2011, and is a UK-based boutique emerging markets manager established in 2002. Today the Manager oversees approximately \$3.6 billion in AUM with 90% of assets invested in the Total Return strategy.

The Finisterre EM Total Return strategy was launched in May 2013 and is led by Damien Buchet as CIO and Christopher Watson as Senior Portfolio Manager. They are supported in their role by dedicated Finisterre resources and broader PGI resources.

The EM Total Return strategy is an unconstrained approach to emerging market debt with an emphasis in limiting downside volatility while participating in market rallies. Finisterre implements this approach by establishing their top-down view on emerging market economies. The top-down approach analyzes macroeconomic, technical, and fundamental data to identify the risk posture of the portfolio. Once the top-down view is established, Finisterre implements a bottom-up security

selection process to build a portfolio.

COMMITTEE REVIEW:

This item was reviewed by the Investment Committee at its October 12, 2021 meeting, and recommended Board approval with a 3-1 vote.

BUDGET IMPACT:

None.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

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ATTACHMENTS:

Exhibit A: NEPC Cover Memo - Finisterre (confidential)
Exhibit B: Emerging Market Debt Quantitative Analysis (confidential)
Exhibit C: Finisterre Presentation