



San Bernardino County Employees' Retirement Assoc.

Staff Report Details (With Text)

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Title: Approve the selection of Finisterre Emerging Markets Total Return strategy with a \$100 million allocation, subject to completion of due diligence and legal document review.

Sponsors:

Indexes:

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Attachments: 1. Exhibit C: Finisterre Presentation

Date	Ver.	Action By	Action	Result
11/4/2021	1	BOARD OF RETIREMENT	Approved	Pass

FROM: Don Pierce, Chief Investment Officer

SUBJECT: 2021 Emerging Market Debt Manager Selection.

RECOMMENDATION:

Approve the selection of Finisterre Emerging Markets Total Return strategy with a \$100 million allocation, subject to completion of due diligence and legal document review.

BACKGROUND:

In March 2021, SBCERA initiated a search for Emerging Market (“EM”) debt investment management services with the objective of making a well-informed manager selection by drawing out responses from a diverse set of investment managers.

A progress update of the RFP was shared with the Investment Committee in August 2021. At the meeting, SBCERA’s stated objective was to identify up-to two finalist managers for consideration as the RFP process uncovered multiple differentiated approaches to managing EM debt portfolios. Following our due diligence process, Staff identified two investment managers that warranted additional time to allow for the development of their respective track records.

As highlighted at the August meeting, a total of 31 investment managers responded to SBCERA’s RFP in March. Staff and NEPC have independently reviewed the responses and followed a thorough vetting process involving quantitative and fundamental measures to identify managers that would be an appropriate fit within the broader EM debt portfolio. Some of the quantitative screens include reviewing both absolute and relative measures on performance and volatility, upside/downside capture, and correlation relative to the existing SBCERA EM debt portfolio. From a fundamental perspective, staff and NEPC focused our review on understanding the investment process (including decision making and execution of trades), factoring of macro-economic views, team strength and stability, and importance of the EM debt strategy to the firm.

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:

Eydie Cox
Thomas Kim
Amit Thanki

ATTACHMENTS:

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