



San Bernardino County Employees' Retirement Assoc.

Staff Report Details (With Text)

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On agenda:	12/2/2021	Final action:	12/2/2021
Title:	Approve a \$100mm initial subscription to William Blair Investment Management's Emerging Markets Growth and a \$100mm initial subscription to Wasatch Global Investors' Emerging Markets Select products, subject to completion of due diligence and legal document review.		
Sponsors:			
Indexes:			
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Attachments:	1. Exhibit B: William Blair Presentation, 2. Exhibit D: Wasatch Presentation		

Date	Ver.	Action By	Action	Result
12/2/2021	1	BOARD OF RETIREMENT	Approved	Pass

FROM: Don Pierce, Chief Investment Officer

SUBJECT: 2021 Emerging Market Equity Manager Selection

RECOMMENDATION:

Approve a \$100mm initial subscription to William Blair Investment Management's Emerging Markets Growth and a \$100mm initial subscription to Wasatch Global Investors' Emerging Markets Select products, subject to completion of due diligence and legal document review.

BACKGROUND:

In March 2021, SBCERA initiated an RFP for Emerging Market ("EM") equity investment management services with the objective and impetus of making a well-informed manager selection from a diverse set of responses.

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 highlighted in staff's oral report at the August Board meeting, a total of 72 investment managers responded to SBCERA's RFP in March. Staff and NEPC independently reviewed the responses and followed a thorough vetting process involving quantitative and fundamental measures to identify managers that would be an appropriate fit for SBCERA's EM equity portfolio. Some of the quantitative screens included reviewing both absolute and relative measures on performance and volatility, upside/downside capture, and correlation with other strategies. From a fundamental perspective, staff and NEPC focused our review on understanding the investment process including decision making, execution of trades, team strength and stability, and importance of the EM equity strategy to the firm.

Staff and NEPC reviewed the top seven finalist managers in depth. In this stage, the following criteria formed the bulk of our analysis:

- Asset management firm resources, reputation, and area of expertise.
- Portfolio management team for tenure, depth, and stability.
- 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 portfolio.

SBCERA's target allocation to EM equity is 6% or approximately \$840 million, based on a \$14 billion plan. This allocation is currently about 8% due to an informed rebalancing overweight. The allocation is invested in one active manager, one semi-passive manager, and index exposure through the overlay.

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 EM benchmarks, and risk analysis.

The recommendation of \$100 million for each manager is an initial allocation. We would expect that these allocations to increase over time as opportunities arise to add capital. In SBCERA's portfolio, EM Equity is fully invested at its asset allocation target using the overlay. Funding for the initial allocations and any subsequent increases would come from within the existing EM Equity portfolio as part of the implementation of the Board approved asset allocation targets.

Recommended Manager - William Blair:

William Blair Investment Management ("William Blair") is a 100% employee owned partnership that was founded in 1935 and manages \$77 billion in assets. The firm is head quartered in Chicago with offices globally.

William Blair's track record for the Emerging Markets Growth strategy stretches back to 1996. The strategy is managed by three Portfolio Managers, Todd McClone, Casey Preyss, and Vivian Lin Thurston. All three are partners of the firm. The portfolio management team is supported by a team of 16 experienced research analysts. The research analysts are organized by sector and support the firm's global products. The Emerging Markets Growth product represents \$6.7 billion of the approximately \$47 billion managed by the Global Equity team.

Emerging Markets Growth is an all cap strategy that attempts to identify companies that exhibit consistent, quality growth characteristics. The team uses a bottom up approach to build a portfolio of about 150 stocks. The portfolio includes exposure to small, mid, and large cap companies. They target businesses and management teams with a sustainable value creation track record that can continue to drive long-term growth. Another key aspect of their process is to identify companies that generate cash to reinvest and grow the business. Positions are sized based on confidence and available liquidity. The portfolio managers adjust position sizes opportunistically based on absolute and relative valuations.

Staff and NEPC recommend a \$100mm initial subscription to William Blair's Emerging Markets

Growth product, subject to completion of due diligence and legal document review.

Recommended Manager - Wasatch:

Wasatch Global Investors ("Wasatch") was founded in 1975 and has close to \$40 billion of assets under management. Based in Salt Lake City, the firm has approximately 90 employees and is 100% employee-owned, with broad ownership across 32 equity owners (all current employees). The firm's overarching philosophy is to focus on companies with long-term earnings growth led by exceptional management teams across the globe.

Emerging Markets Select ("EM Select") is a concentrated, high-conviction portfolio that is typically comprised of 20-40 holdings. The team focuses on a combination of an initial multi-factor screening process and fundamental bottoms-up research to identify candidates for inclusion into the portfolio. Importantly, idea generation is benchmark-agnostic with respect to geography and sector; moreover, there may be significant overlap with Wasatch's small cap portfolios (note: all of the manager's small-cap products are closed).

Typically, target companies exhibit multiple common factors, including the ability to generate long-term sustainable earnings growth, to produce strong financial metrics, to drive a sustainable competitive advantage and to have management aligned with all stakeholders. These companies are then evaluated through a rigorous valuation discipline to derive an expected return profile based on a three- to five-year investment horizon; this valuation analysis is then used in conjunction with other risk factors in portfolio construction.

EM Select was launched in January 2013 and is led by Ajay Krishnan (Lead Portfolio Manager) and Matthew Dreith/Scott Thomas (Associate Portfolio Managers). The portfolio managers are supported by a team of analysts that are organized by sector; however, all analysts are expected to contribute to discussion on names at regular portfolio meetings as well as during travel-based due diligence meetings.

Staff and NEPC recommend that the Board approve the selection of Wasatch Global Investors Emerging Markets Select with an initial \$100 million allocation, subject to completion of due diligence and legal document review.

COMMITTEE REVIEW:

This item was reviewed by the Investment Committee at its November 16, 2021 meeting and recommends Board approval, with a 3-0 vote. Trustees Bracco, Newcomer and Fiorino were absent from the meeting. Trustee Stafford voted as the alternate committee member.

BUDGET IMPACT:

None.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Jacob Abbott
Thomas Kim
Emely Moreno

ATTACHMENTS:

- Exhibit A: NEPC Memo - William Blair (confidential)
- Exhibit B: William Blair Presentation
- Exhibit C: NEPC Memo - Wasatch (confidential)
- Exhibit D: Wasatch Presentation
- Exhibit E: Emerging Market Equity Quantitative Analysis (confidential)