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BOARD OF RETIREMENT

Staff Report

File #: 19-1253.1	**Agenda Date:** 3/4/2021	**Agenda #:** 20.

FROM: Don Pierce, Chief Investment Officer

SUBJECT: Investment Program Update

RECOMMENDATION:
Investment Program Update.

BACKGROUND:
This staff report is designed to address several proposed upcoming changes to the portfolio and the reasons why we are proposing them.

As background, we were disappointed with our June 2020 fiscal year result. While some of the underperformance was a function of vigorous price declines in structured credit and a delayed private asset recovery, which have since improved, there were several mandates that performed more to the downside than we expected. This led to a number of internal discussions, including NEPC, which have resulted in the following proposals.

First, we plan to initiate two manager searches: one for emerging market debt, and one for emerging market equity. As we reviewed our longer-term manager performance and their overall contribution to the portfolio, both allocations would benefit from additional mandates as these strategies were an area of underperformance. We have a large account with an emerging market manager, and while we continue to have confidence in this manager, their strategy focuses primarily on private assets, and we want to have the option to redeploy proceeds into other liquid emerging market strategies. We see two main benefits of multiple mandates when utilizing active management. One benefit is the information flow about the overall cost of capital in the manager's market, another benefit is the ability to add incremental dollars when those markets are attractive and to rebalance away when future return expectations are lower.

Next, there are several accounts that we plan to drawdown over time. While managers overall are very good about notifying us when there are opportunities in their respective markets, the corollary isn't necessarily the case. Both European credit mandates have seen senior level personnel changes and we expect over time these mandates will be sources of funds for other mandates. They may retain a core allocation if the mandates meet our cost of capital, but those mandates must compete against other opportunities.

Third, we have reviewed our Private Equity program at length. We plan to adopt a recommendation from NEPC and look to increase our commitment size to private equity managers. This is consistent with our strategic view that concentration with high conviction managers is appropriate.

COMMITTEE REVIEW:
This item was reviewed by the Investment Committee at its February 9, 2021 meeting.

BUDGET IMPACT:
None.

STRATEGIC PLANNING GOAL/OBJECTIVE:
Prudent Fiscal Management

STAFF CONTACT:
Don Pierce

ATTACHMENTS:
None.