

# **Board of Retirement Regular Meeting**

## Sacramento County Employees' Retirement System

**Agenda Item 8** 

**MEETING DATE:** September 19, 2018

SUBJECT: Investment Management Agreement for

**Public Equity Manager Weatherbie Capital** 

SUBMITTED FOR: X Consent — and Action — and File

#### **RECOMMENDATION**

Staff recommends that the Board approve an amendment to the Investment Management Agreement (IMA) with public equity manager Weatherbie Capital (Weatherbie), and provides Staff authority to approve future amendments that are technical in nature, reduce management fees, or revise investment guidelines, but remain in compliance with the Board approved Investment Policy Statement (IPS) for the Public Equity asset class.

#### **PURPOSE**

This agenda item does not specifically support the 2018-19 Strategic Management Plan, but complies with SCERS' Public Equity IPS requirement of Board approval for entering into contracts with investment managers. This item contributes to the effective management and oversight of investment activities.

### **BACKGROUND**

SCERS recently completed restructuring the Domestic Equity asset class to conform to SCERS' Strategic Asset Allocation. As part of the June 2018 restructuring, SCERS evaluated the investment managers included in the structure, including the target allocation and fee structure for each manager. The restructuring process resulted in SCERS consolidating its domestic small cap growth manager lineup down to one existing manager, Weatherbie Capital. SCERS has maintained a strong relationship with Weatherbie over many years, dating back to 2002.

#### Weatherbie

Weatherbie has managed a small cap growth mandate for SCERS since the account inception in 2002. The IMA with Weatherbie was updated recently, effective January 2016. In addition to updating the IMA to current legal standards, SCERS and Weatherbie also agreed to move to a performance-based fee schedule. At the time the new IMA was implemented, Weatherbie had

experienced a period of underperformance, with 3-year annual gross returns below the benchmark by 280 bps. Since that time, Weatherbie has been one of SCERS' best performing equity managers, with 3-year annual gross returns of 22.5%, as of June 30, 2018, outperforming their benchmark by 11.9% annually. Weatherbie's outperformance has benefited both SCERS and Weatherbie, as the manager has begun to earn the performance incentive fee implemented in 2016.

The proposed amendment to the IMA with Weatherbie includes the following modifications:

- Allows the manager to include SCERS on its representative list of clients and permits the manager to use SCERS as a reference.
- Updates investment guidelines, primarily around market capitalization range:
  - Includes a maximum allowable market capitalization for securities included in the portfolio
  - Amends the maximum allowable market capitalization range to be at the initial time of purchase (versus current language which states "at time of purchase").
- The change reduces the possibility of compliance violations occurring due to changing market conditions and market capitalizations, by allowing the manager additional flexibility at the time of purchase, while also implementing a maximum market capitalization, which was not previously established.

#### Future IMA Amendments

Upon Board approval to hire a public equity investment manager, the Board resolution typically contains language authorizing the "President or Chief Executive Officer to execute an Investment Management Agreement and any other documents which may be reasonably necessary" to complete the agreement. Recently, Staff has encountered situations where minor technical contractual amendments (i.e. fee reductions, permitting use of SCERS name for marketing purposes, amending market capitalization ranges) would improve our relationships between SCERS and its public equity managers. However, the language in the current enabling resolutions does not provide Staff the ability to execute future documents, such as minor amendments to the IMA, including changes to investment guidelines and/or reduction in management fees, without Board approval or consent.

Staff is seeking Board approval to allow the Chief Executive Officer to execute documents necessary to approve future amendments to Investment Management Agreements that are technical in nature, reduce management fees, or adjust investment guidelines to better suit the manager or current market conditions, but remain in compliance with the Board approved Public Equity IPS. The proposed changes will improve the process and make it more efficient to execute minor modifications to equity manager IMAs, but not change the overall nature or scope of the agreement with the investment manager. The following sentence will be added to Board resolutions pertaining to new or amended IMAs with public equity managers, including Weatherbie, going forward:

The President or the Chief Executive Officer is authorized to execute an amendment to the Investment Management Agreement and any other documents that may be reasonably necessary. These documents may include future amendments to the Agreement that are

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technical in nature, reduce management fees (Exhibit B), or amend investment guidelines (Exhibit A) in conformity with the Investment Policy Statement for the Public Equity asset class.

<u>ATTACHMENT</u>	
None	
Prepared by:	
Brian Miller Investment Officer	
Reviewed by:	
Steve Davis Chief Investment Officer	Eric Stern Chief Executive Officer