Employees' Retirement Fund of the City of DALLAS

The Employees' Retirement Fund of the City of Dallas

Next Generation Equity Manager Search Update

September 14, 2017

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Next Generation Equity allocation and manager search at ERF

- This search is to help fulfill the 10% allocation approved by the ERF Board in 2012 to Next Generation Investment Managers (NGM)
- The purpose of the Next Generation Manager Program is to: generate investment returns by identifying earlier stage managers with the potential for strong performance; provide access to investment opportunities that may otherwise be overlooked; discover and cultivate the next generation of external portfolio management talent; and increase diversification among ERF managers
- All equity strategies were considered including: domestic; global; international; small/ mid/ large cap; and smid cap
- ERF current allocation to NGMs is approximately 9.2%

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Equity Manager RFPs were submitted and reviewed by ERF staff and Wilshire

- 72 RFPs were requested by investment managers; 22 final submissions were made by the May 5th deadline
- The 22 submissions included the following managers:

Argus Investors' Counsel	Ariel Investments	Ativo Capital Management	Blackcrane Capital	Champlain Investment Partners
Denali Advisors	GlobeFlex Capital	Glovista Investments	Greenfield Seitz Capital Management	Johnston Asset Management
Martin Investment Management	Matarin Capital	New Amsterdam Partners	OakBrook Investments	Opus Capital Management
Paradigm Capital Management	Phocas Financial	Piedmont Investment Advisors	Smith, Graham, & Co.	South Texas Money Management
Strategic Global Advisors	Suffolk Capital Management			

- The six firms recommended for on-site due diligence were:
  Ariel Investments; Ativo Capital; GlobeFlex Capital; Matarin Capital; Smith, Graham & Co.; and Strategic Global Advisors

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Four investment managers are recommended for final presentations

1. Ariel Investments – *Global Product*

- Founded in 2004, headquartered in Chicago with 20 investment professionals, six dedicated to the product in their New York City office; 86 employees firm-wide; 93% employee owned with two partners owning 72%
- Portfolio is constructed by weighing the risks and rewards of each potential stock, investing across all sectors whose weightings are primarily driven by the outcome of bottom-up stock selection. The long-term performance drivers for the strategy are expected to be fundamental factors such as quality, risk, and valuation.
- Key differentiator is an investment process where team considers risk first and invests countercyclically in ideas which offer both superior upside and a margin of safety.

Firm Name	Product Name	Firm AUM ($MM)	Total Product AUM ($MM)	Fees	Allocation	1 Yr Return	3 Yr Return	5 Yr Return	3 Yr IR	5 Yr IR
Ariel Investments	**Ariel Global Product** MSCI AC World Index	11,800	2,595	66 bps	$70M	14.65 18.78	5.88 4.82	13.00 10.54	0.34	0.68

All absolute returns data as of 6/30/17

Recommendation for final presentations (continued)

2. Ativo Capital Management – *International Developed Equity*

- Based in Chicago, founded in 2001; firm is 100% employee and 97% women/ minority owned by seven partners with all 13 employees located in Chicago
- Investment philosophy based on capturing the mispricing of securities caused by distortions in accounting data; firm maintains a proprietary valuation model used to compute a discounted cash flow, and return on investment
- Two differentiators include: a proprietary valuation model; and their quantitative/ fundamental approach to stock selection

Firm Name	Product Name	Firm AUM ($MM)	Total Product AUM ($MM)	Fees	Allocation	1 Yr Return	3 Yr Return	5 Yr Return	3 Yr IR	5 Yr IR
Ativo Capital Management	**Ativo International Developed** MSCI EAFE + Canada Index	2,086	619	64 bps	$70M	12.76 20.26	3.02 1.15	11.02 8.69	0.41	0.54

All absolute returns data as of 6/30/17

3. Matarin Capital Management – *North American Small Cap*

- Founded in 2011 and based in Stamford, CT with seven employees, all related to the proposed product; firm is 100% employee owned, and 54% woman/ minority owned
- The product employs a bottom up approach with a core style that is sector and industry neutral. The process is a blend of fundamental and quantitative with investment decisions made by a team of three portfolio managers
- Key differentiator is a process by which stock selection is determined by the output of a portfolio optimization model

Firm Name	Product Name	Firm AUM ($MM)	Total Product AUM ($MM)	Fees	Allocation	1 Yr Return	3 Yr Return	5 Yr Return	3 Yr IR	5 Yr IR
Matarin Capital Management	**Matarin N. America Small Cap** Russell 2000 Index	1,100	900	79 bps	$35M	23.96 24.60	10.55 7.36	15.62 13.70	0.78	0.44

All absolute returns data as of 6/30/17

4. Smith, Graham & Co. – *Mid Cap Equity*

- Firm was founded in 1990 with 94% of the firm's ownership held by minorities and/ or women. 31 employees are located in two offices: headquarters in Houston; and New York City.
- The product adheres to a bottom up, value–oriented investment approach through all market environments; the quantitatively based process is designed to create a portfolio with the most attractive valuations that also exhibit positive earnings trends across each of the index sectors
- A key differentiator is an investment philosophy that combines the discipline and structure of a quantitative process with a fundamental approach

Firm Name	Product Name	Firm AUM ($MM)	Total Product AUM ($MM)	Fees	Allocation	1 Yr Return	3 Yr Return	5 Yr Return	3 Yr IR	5 Yr IR
Smith, Graham & Co.	**Midcap Value** Russell Midcap Index	5,600	271	75 bps	$70M	30.11 16.48	10.34 7.69	19.31 14.72	0.40	0.75

All absolute returns data as of 6/30/17

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Proposed RFP process timeline & next steps

- ✓ April 12th – With board approval, issued RFP
- ✓ May 5th – RFP responses returned from managers and were reviewed by Wilshire & staff
- ✓ June 13th – After review, submit list of managers recommended for further on site due diligence for board approval
- ✓ July/ August – On site manager due diligence visits with both ERF staff and Wilshire
- ▪ September 14th – Submit list of managers recommended for final presentations to the Board
- ▪ October 10th – Final presentations to the Board; final manager(s) selection made

Appendix

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Proposal Evaluation

RFP Respondant	ERF Staff A	B	C	D	Average
Ariel	87	85	93	85	**88**
Ativo	84	89	84	75	**83**
GlobeFlex	88	85	82	75	**83**
Matarin	87	92	91	80	**88**
Smith Graham	80	80	78	80	**80**
Strategic Global Advisors	89	85	79	73	**82**

Staff reviewed and scored all RFPs based on the following evaluation criteria and weighting:

- ❑ Investment Philosophy & Process 30%
- ❑ People & Organization 20%
- ❑ Resources 20%
- ❑ Performance 20%
- ❑ Fees 10%