Employees' Retirement Fund of the City of DALLAS

The Employees' Retirement Fund of the City of Dallas

Opportunistic Credit Manager Search Update

November 10, 2015

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Opportunistic Credit allocation and manager search at ERF

- In September 2014 the Board approved a 2.5% allocation to an Opportunistic Credit Strategy
- The credit product opportunity set is broad but deepest in:
  - Developed Market High Yield
  - Developed Market Investment Grade Debt
  - Developed Market Bank Loans
  - Emerging Market Debt
  - Distressed Debt and Loans
- Varied economic drivers make credit products attractive in both the asset and liability space
- Goal is to hire one or more managers to invest across the credit opportunity set

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ERF Review process for Opportunistic Credit Managers

- Minimum qualifications:
  - Minimum three year track record as of June 30th, 2015;
  - Product assets under management (AUM) greater than $50 million
- Firms differentiate themselves based on:
  - Staff expertise, longevity, depth, and team cohesiveness;
  - Overall market knowledge;
  - Security selection process and qualitative analysis;
  - Quantitative analysis and research;
  - Compliance procedures, overall firm resources, capabilities, and technology infrastructure
- 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%

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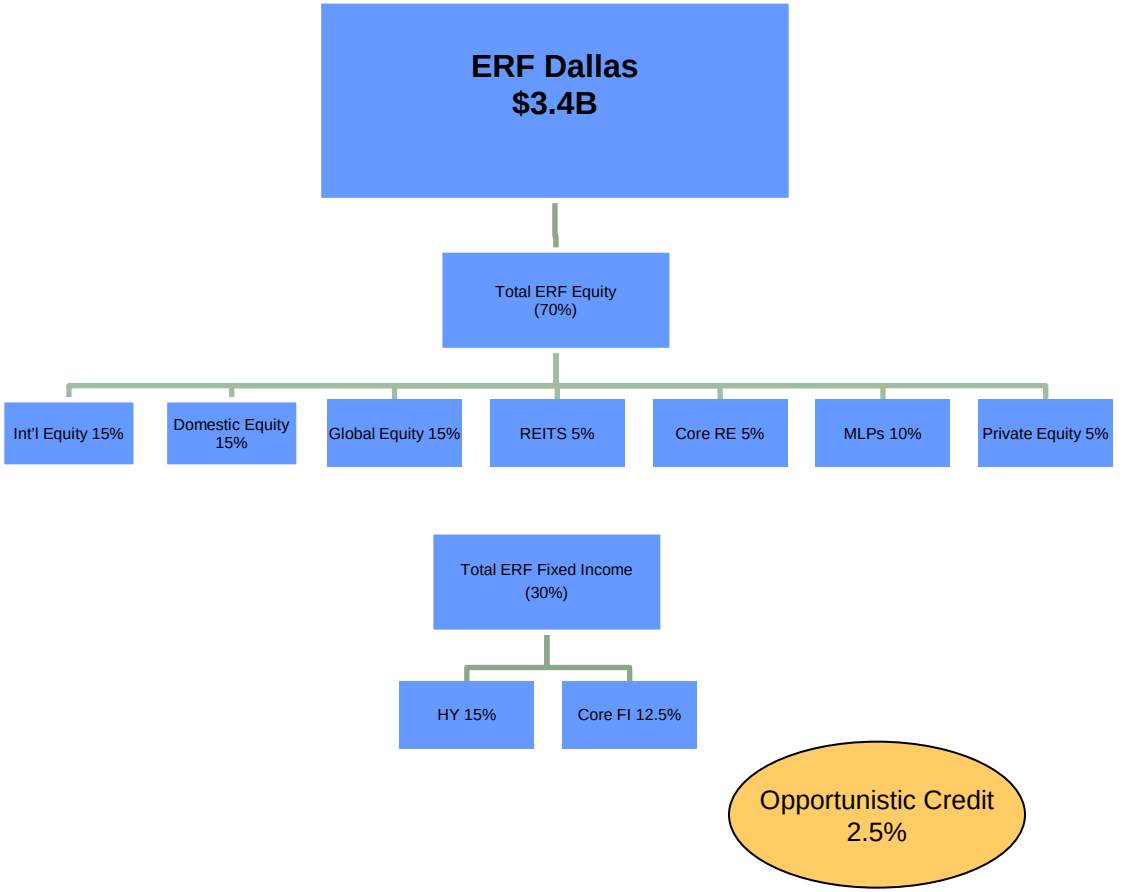
An Opportunistic Credit Manager fit into the ERF Portfolio

Asset Allocation	Percentage
Domestic Equity	15.0%
International Equity	15.0%
Global Equity	5.0%
Global Low Volatility	10.0%
REITS	5.0%
Private Equity	5.0%
Real Assets	
- Core Real Estate	5.0%
- Master Limited Partnership	10.0%
Total Equity	**70.0%**
Global Fixed Income	12.5%
High Yield	15.0%
Opportunistic Credit	2.5%
Total Fixed Income	**30.0%**



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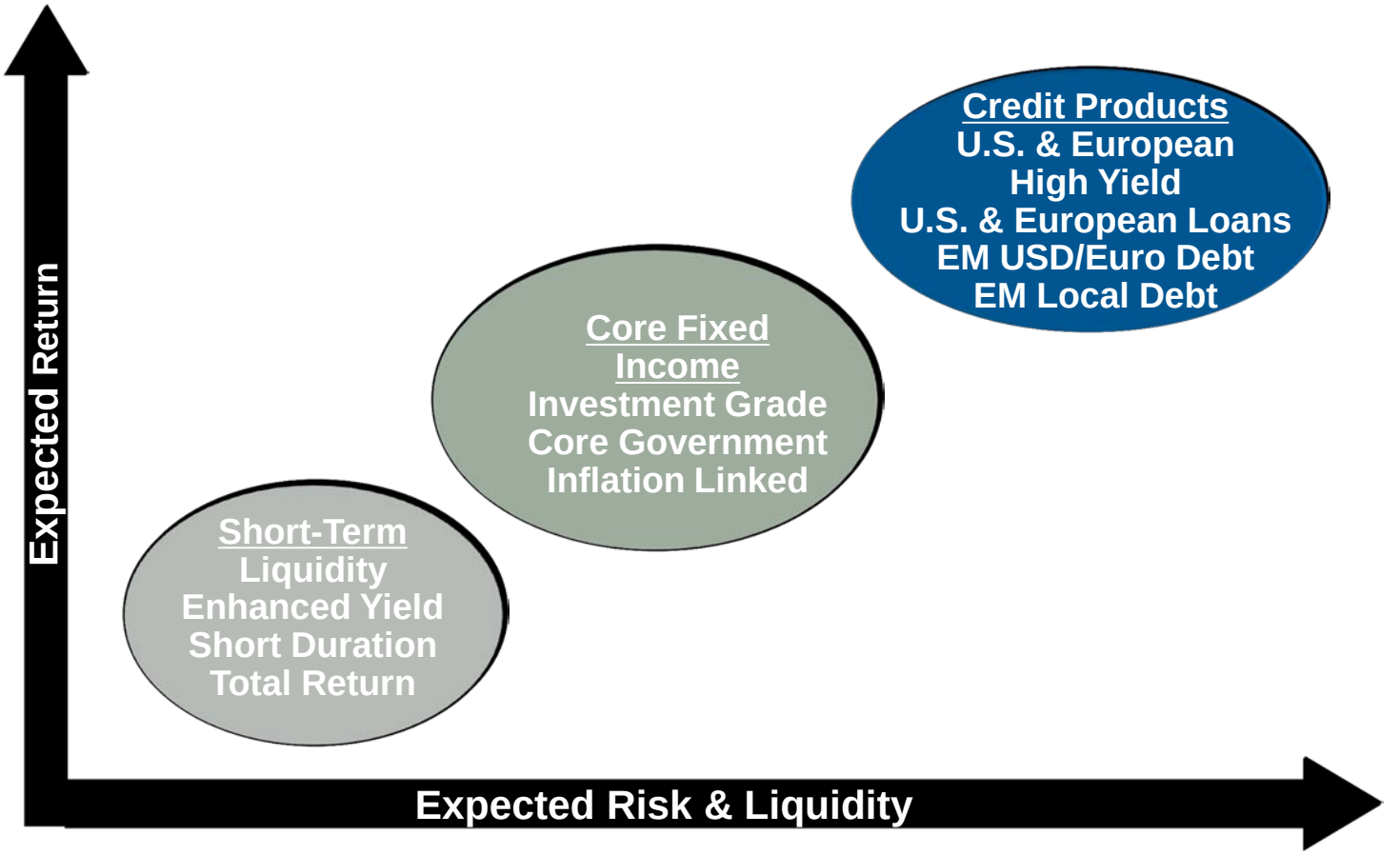
Credit opportunities is viewed as a separate macro asset class



Source: Wilshire

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Opportunistic Credit Manager RFPs were submitted and reviewed by Wilshire and ERF staff

- 63 RFPs were requested by investment managers with 25 submissions to ERF by the August 7th deadline
- The 25 submissions included:

Aegon Investment Management	Atlantic Asset Management	Brandywine Global Investment Management	Brigade Capital Management	CVC Credit Partners
DDJ Capital Management	Franklin Templeton	GIA Partners	Guggenheim Partners	Highland Capital Management Fund Advisors
JKM Investment Management	Kingsland Capital Management	Logan Circle Partners	Loomis, Sayles & Company	Lord Abbott & Co.
MacKay Shields	Monroe Capital Management Advisors	Mudrick Capital Management	Neuberger Berman	Nomura Asset Management
Oaktree Capital Management	PineBridge Investments	Symphony Asset Management	TCW Asset Management	Western Asset Management

- The four firms that were recommended for on-site due diligence were: Loomis Sayles; MacKay Shields; Neuberger Berman; and PineBridge
- Two firms are recommended for final presentations to the Board in December: **MacKay Shields; and Neuberger Berman**

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Two firms are recommended for final presentations after due diligence by both ERF staff and Wilshire

MacKay Shields LLC

- Established in 1938 and headquartered in New York City, the firm is owned by New York Life Insurance Company with 160 employees, and 52 investment professionals;
- Total firm AUM of $92 billion with $4.4 billion in the product; proposed Unconstrained Bond strategy is managed by their 28 person Global Fixed Income team in New York; four senior portfolio managers have been working together for an average of 26 years.
- The strategy invests across global fixed income markets with a focus on credit creating a diversified portfolio of debt-related securities in sovereign, securitized, and credit assets to mitigate risk based on specific client guidelines.
- Four step investment process includes top-down analysis, security assessment, sector assessment, and risk assessment; 32 factor credit screen includes quantitative and qualitative analysis.

Two firms are recommended for final presentations after due diligence by both ERF staff and Wilshire (continued)

Neuberger Berman Inc.

- Founded in 1939, headquartered in New York City as a private, independent, employee-owned firm with 2,155 employees and over 500 investment professionals. The proposed strategy called Opportunistic Credit Fixed Income is managed by their team in Chicago.
- Total firm AUM is $251 billion with $2.3 billion in the proposed strategy; firm has a team of six portfolio managers in the product and is also supported by 55 research analysts and 11 traders. Portfolio managers have over 17 years of investment experience.
- The strategy's investment philosophy centers around a relative value fixed income approach that seeks to extract mispricing in the market without exposing the portfolio to unnecessary risk.
- Five major components to the investment process include sector research & valuation, portfolio strategy and risk budgeting, issue selection, risk management, and portfolio construction; the company's sector research & valuation component includes a proprietary framework to seek consistent risk-adjusted excess returns.

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Proposed RFP process timeline & next steps

- ✓ July 14th – With Board approval, issued RFP
- ✓ August 7th – RFP responses returned from managers and were reviewed by Wilshire & staff
- ✓ September 8th – After review, submitted list of managers recommended for further on site due diligence for Board approval
- ✓ September/ October – On site manager due diligence with both ERF staff and Wilshire
- ▪ November 10th – Submit list of managers recommended for final presentations to the Board
- ▪ December 8th – Final presentations to the Board; final manager selection made