

## Public Agenda Item #29

### *Annual Review and Discussion of Global Equity*

December 8, 2021

John Streun, CFA, CPA Director of Internal Public Equity

Lauren Honza, CFA, Director of External Public Equity

# Global Public Equity Program



## *Agenda*

- Investment Objective
- Asset Class Mix
- Historical Performance
- Internal Structure
- Management Fees
- External Advisor Program Update
- 2022 Initiatives

# Global Public Equity Program



## *Investment Objective & Strategy*

**Investment Objective** – Outperform the Global Public Equity Program benchmark over rolling 5-year periods, while maintaining compliance with the active risk budget

### **Investment Strategy**

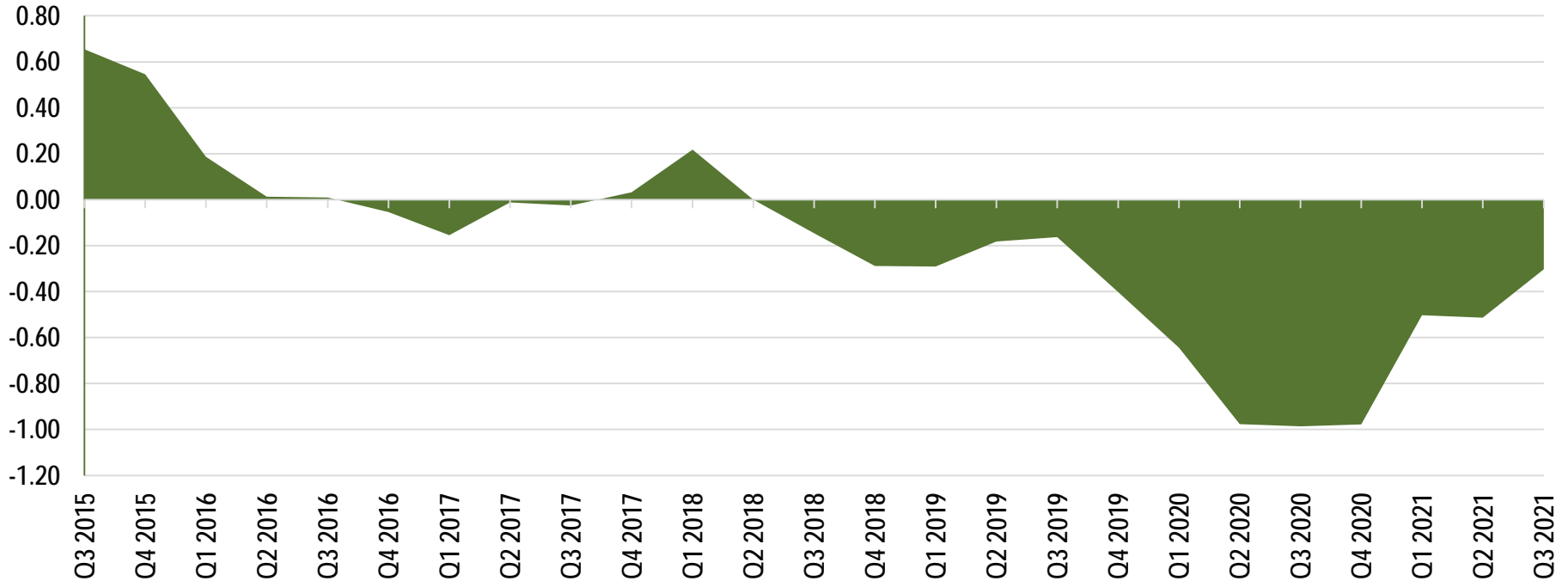
- Combine lower risk internal strategies with higher risk external strategies
- Target tracking error of 150 basis points
- Target excess return of 25 basis points or better

# Global Public Equity Program

## Rolling 5-Year Relative Return



Total Global Public Equities: Excess Returns - 5-Year Rolling



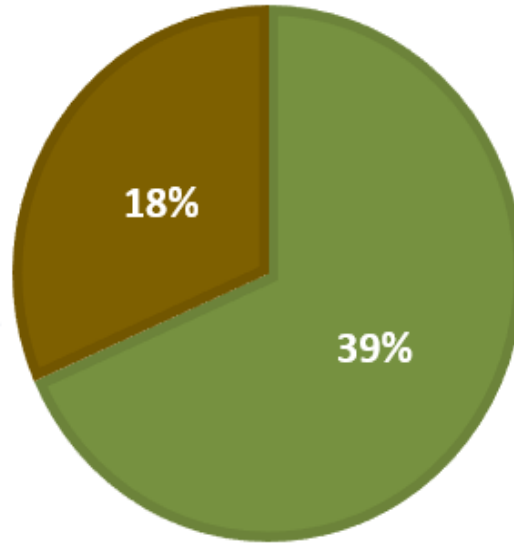
# Global Public Equity Program

## Role in the Trust

### GLOBAL EQUITY BREAKDOWN

■ Public Equity ■ Private Equity

Global Equity  
57%  
of the Trust



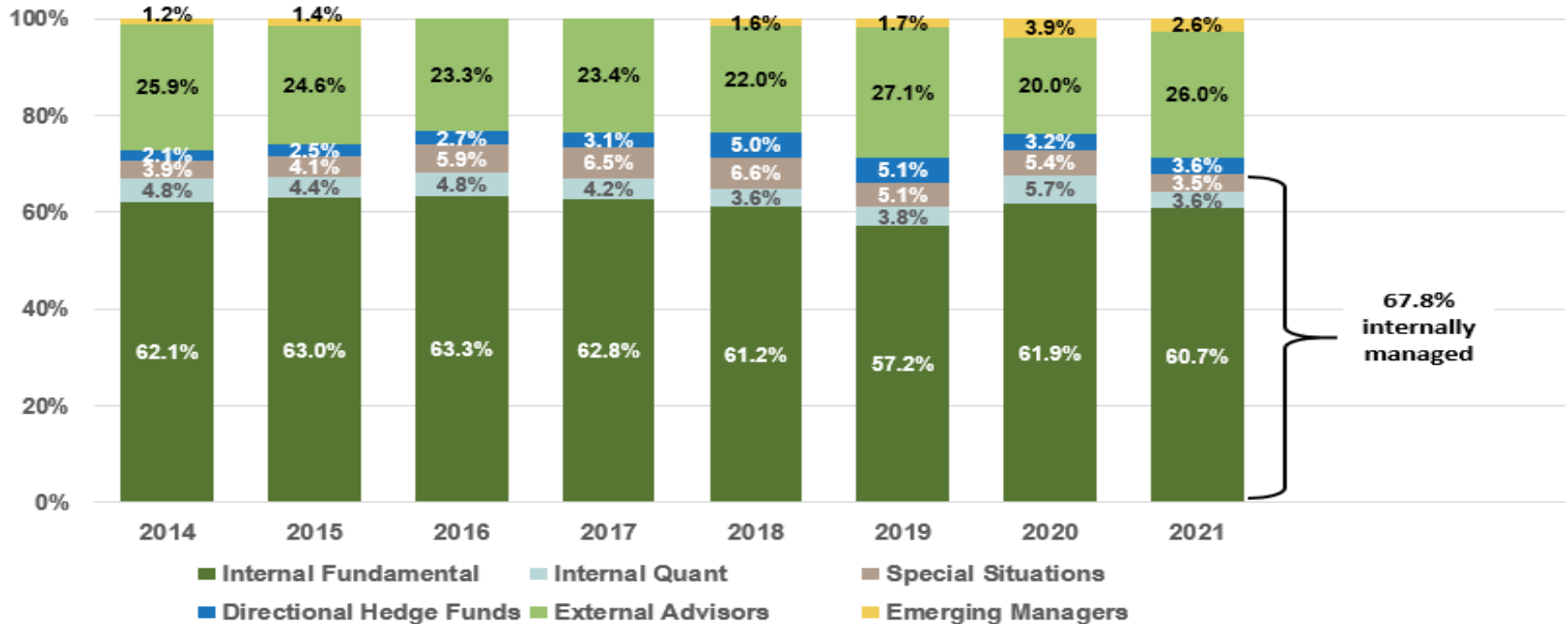
Public Equity Portfolio		
As of 08/31/21	Assets (in billions)	Assets (percent of trust)
Internally Managed	\$9.20	26.49%
Externally Managed	\$4.30	12.45%
<b>Total Public Equity</b>	<b>\$13.50</b>	<b>38.94%</b>

# Global Public Equity Program

## Historical Composition



Public Equity Group by Strategy Group

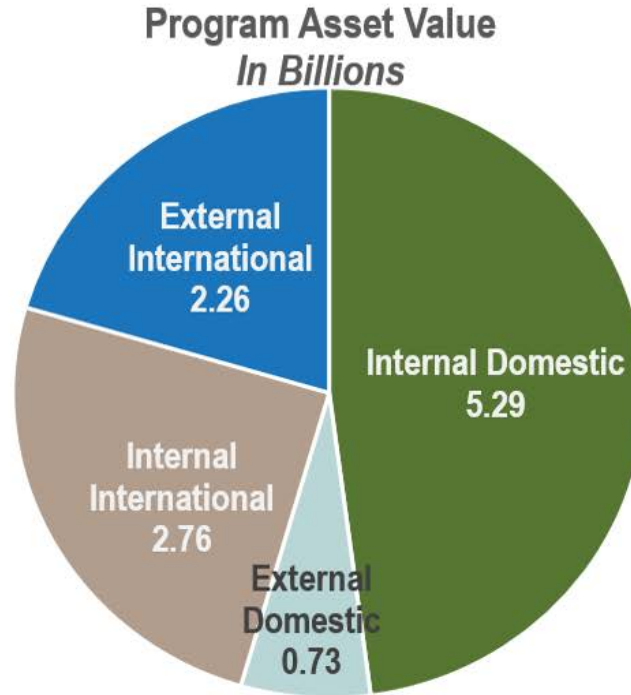


# Global Public Equity Program

*Portfolio Structure as of 9/30/2021*

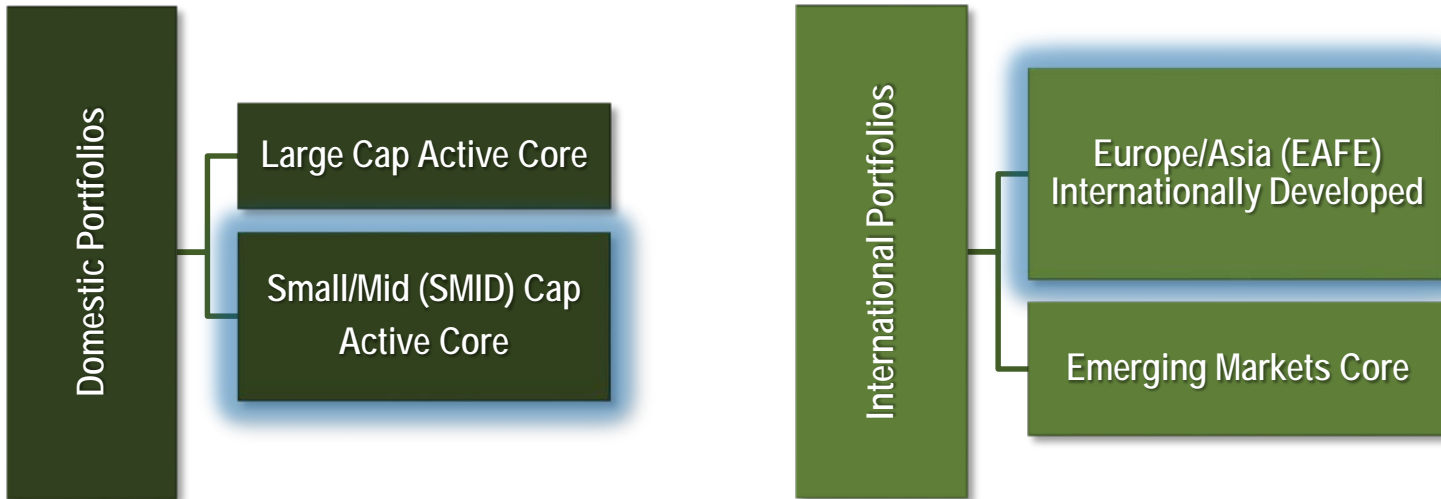


39% of Trust



# Global Public Equity Program

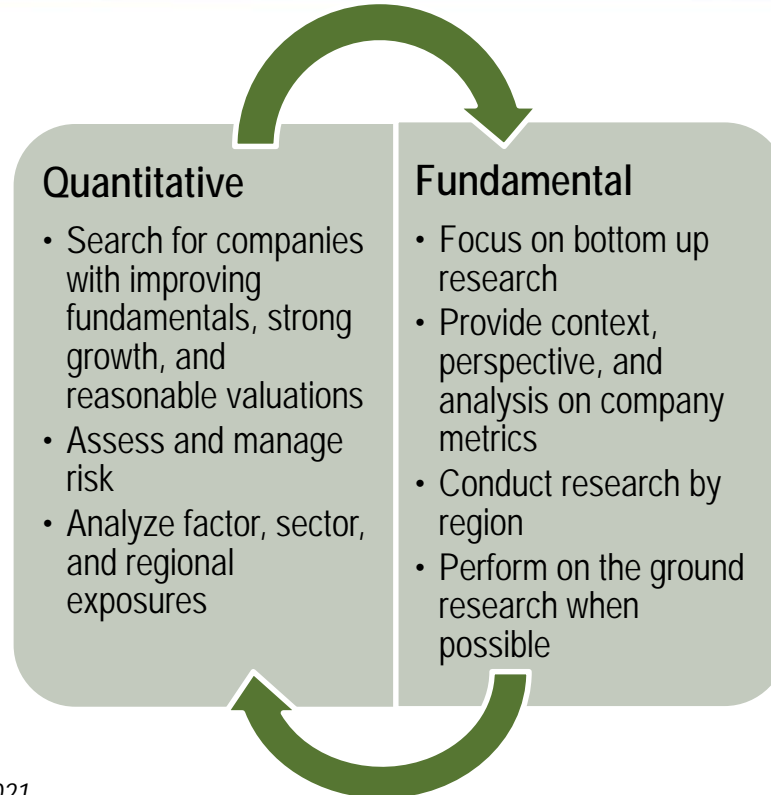
## *Internal Actively Managed Portfolios*





# Global Public Equity Program

## *Internal Emerging Market Process*



# Global Public Equity Program

Performance as of 9/30/2021



	<b>Assets</b> <b>(in \$millions)</b>	<b>Assets</b> <b>(percent of Trust)</b>	<u><b>1-Year</b></u> <b>Return (%)</b>	<u><b>3-Year</b></u> <b>Return (%)</b>	<u><b>5-Year</b></u> <b>Return (%)</b>
<b>Domestic Equity</b>	<b>7008.00</b>	<b>20.10</b>	<b>32.79</b>	<b>14.48</b>	<b>16.02</b>
Benchmark			32.29	16.79	17.02
Relative Return			<b>0.51</b>	<b>-1.79</b>	<b>-0.99</b>
<b>International Equity</b>	<b>5556.00</b>	<b>15.90</b>	<b>26.02</b>	9.14	9.81
Benchmark			23.92	8.03	8.94
Relative Return			<b>2.11</b>	<b>1.11</b>	<b>0.86</b>
<b>Public Equity Special Situations</b>	<b>480.00</b>	<b>1.40</b>	<b>30.21</b>	10.64	13.50
Benchmark			30.68	14.93	15.92
Relative Return			<b>-0.47</b>	<b>-4.29</b>	<b>-2.42</b>
<b>Directional Hedge Funds</b>	<b>521.00</b>	<b>1.50</b>	<b>36.39</b>	15.68	15.71
Benchmark			28.64	13.27	12.94
Relative Return			<b>7.75</b>	<b>2.41</b>	<b>2.77</b>
<hr/>					
<b>Total Public Equity</b>	<b>13564.00</b>	<b>38.80</b>	<b>30.00</b>	<b>12.03</b>	<b>13.09</b>
Benchmark			29.23	12.71	13.39
Relative Return			<b>0.77</b>	<b>-0.68</b>	<b>-0.30</b>

# Global Public Equity Program

## *Short-Term Performance Drivers*



1-year relative performance +77 basis points

### Contributors to Relative Performance

- Strong stock selection from both domestic and international portfolios
- Great performance from external advisors, including directional hedge fund manager
- Outperformance from internal International Developed and internal Large-Cap Active portfolios

### Detractors from Relative Performance

- Under performance from internal Emerging Markets and internal SMID cap portfolios
- Strategic overweight to international markets and an underweight to domestic markets
- Cash drag

# Global Public Equity Program

## *Long-Term Performance Drivers*



3-Year relative performance -68 basis points

5-Year relative performance -30 basis points

### Contributors to Relative Performance

- Positive stock selection in international and directional hedge fund portfolios
- All four fundamental internal portfolios outperformed their respective benchmarks

### Detractors from Relative Performance

- Strategic underweight to domestic large-caps, which significantly outperformed domestic SMID caps
- Allocations to domestic value advisors
- Strategic overweight to international markets and an underweight to domestic markets
- Cash drag

# Global Public Equity Program

*Performance as of 9/30/21*



	<b>Assets (in \$millions)</b>	<b>Assets (percent of Trust)</b>	<u>1-Year</u> <b>Return (%)</b>	<u>3-year</u> <b>Return (%)</b>	<u>5-Year</u> <b>Return (%)</b>
<b>Internal Public Equity</b>	<b>9155.00</b>	<b>26.20</b>	<b>29.45</b>	<b>12.92</b>	<b>13.93</b>
Benchmark			29.41	12.93	13.83
Relative Return			<b>0.04</b>	<b>0.00</b>	<b>0.10</b>
<b>External Public Equity</b>	<b>4409.00</b>	<b>12.60</b>	<b>31.92</b>	<b>10.31</b>	<b>11.31</b>
Benchmark			27.54	9.81	10.45
Relative Return			<b>4.38</b>	<b>0.50</b>	<b>0.86</b>

# Global Public Equity Program

## *Relative Performance for External and Internal Programs*

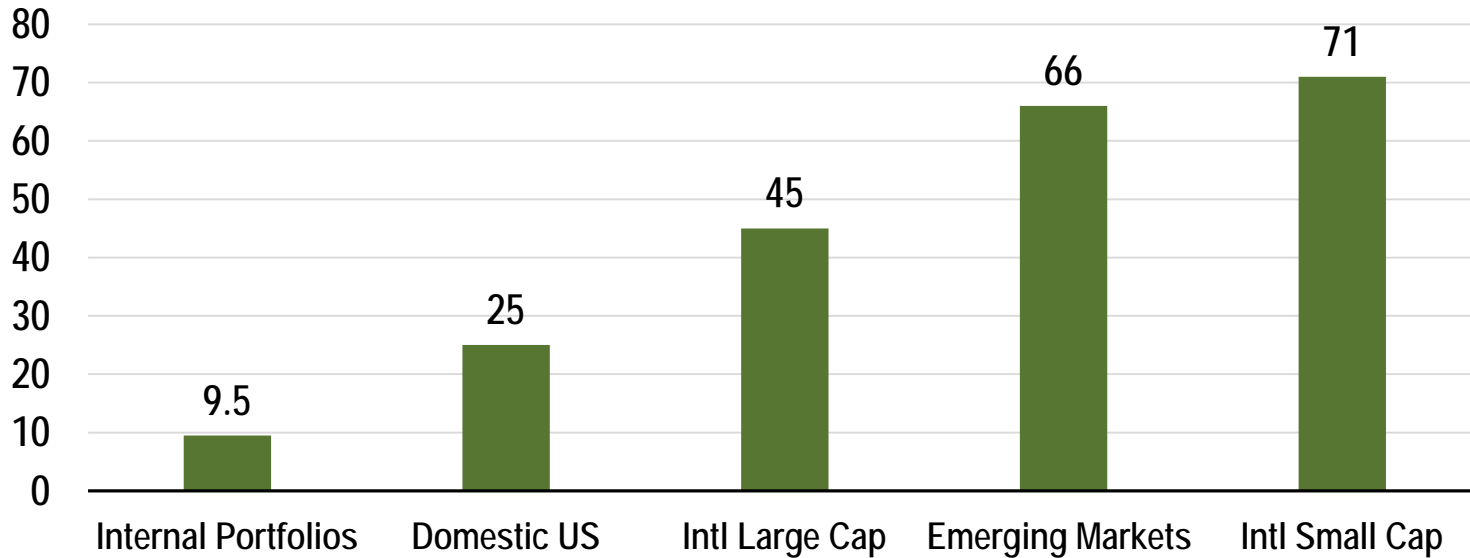


- Internal Program
  - Composite returns met or exceeded benchmarks over all time periods
- External Advisors
  - Strong 1-year returns improved 3-year and 5-year relative performance
  - Substantial majority of portfolios outperformed their benchmarks
  - Allianz and Templeton (both now defunded) detracted from 3- and 5-year periods

# Management Fees 9/30/2020 – 9/30/2021



Fees in Basis Points



# External Advisor Program

Lauren Honza, CFA, Director of External Public Equity



# External Advisor Program Update

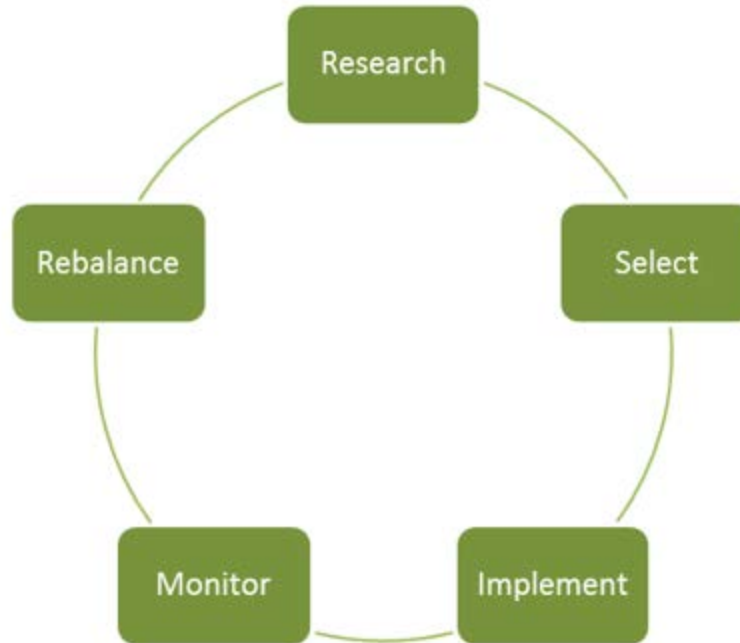


## *Agenda*

- Overview
- Investment Process
- Selection Process
- Current Allocation
- Funded External Advisors
- Select Pool
- Performance

# External Advisor Program Update

## *Investment Process*



# External Advisor Program Update

## *Selection Process: RFP*



- Phase I: Minimum Requirements and Short Form Review
- Phase II: Investment DDQ Review and Operational DDQ Review
- Phase III: Onsite Meetings and Reference Checks
- Phase IV: Committee Approval
- Phase V: Contract/Fund

# External Advisor Program Update

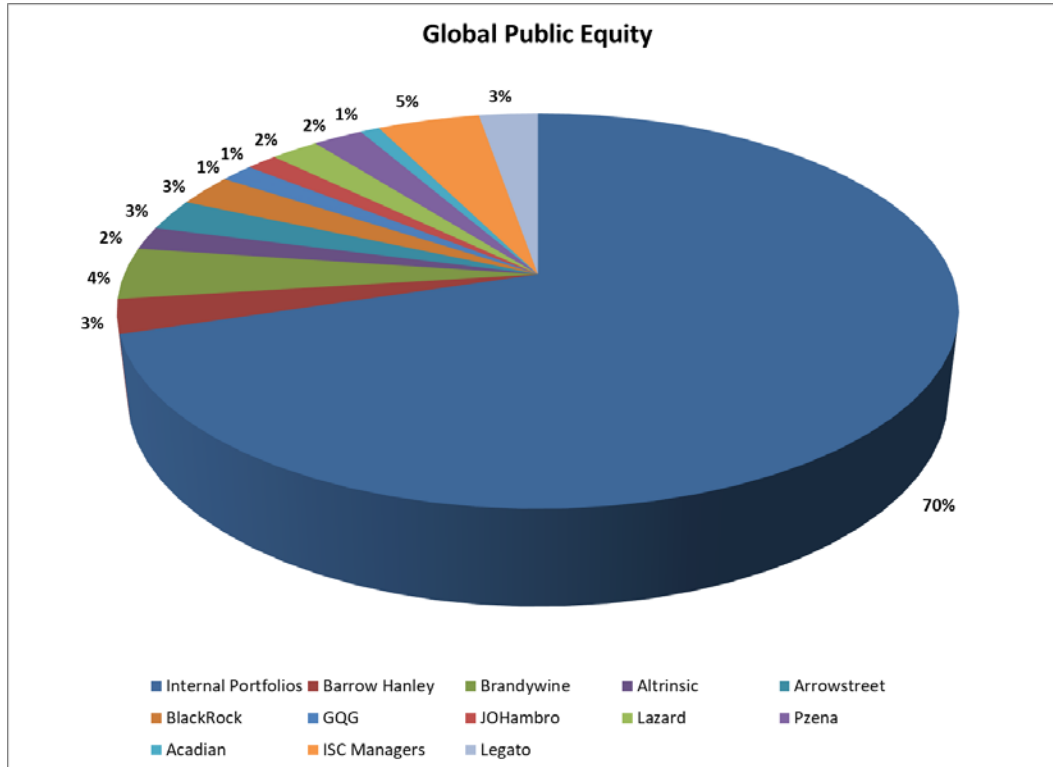
## *RFP Updates*



- International Investment Advisory Services
  - Published January 24, 2020
  - Benchmarks: *MSCI ACWI ex-US* and *MSCI EAFE*
- U.S. Large Cap Investment Advisory Services
  - Published March 15, 2021
  - Benchmarks: *MSCI Large Cap*, *Large Cap Value*, *Large Cap Growth*

# External Advisor Program Update

## Global Public Equity Current Allocation



# External Advisor Program Update

## *Funded External Advisors*



Firm	Strategy	Selection Date	Portfolio Inception
Acadian Assset Management	Emerging Markets	12/2/2011	11/1/2017
Altrinsic Global Advisors	International	2/10/2021	5/1/2021
Arrow street Capital	International	2/10/2021	8/1/2021
Axiom International Investors	International Small Cap Equity	12/20/2018	3/1/2019
Barrow , Hanley , Mew hinney & Strauss	Large Cap Value	12/2/2010	4/1/2011
BlackRock	International	12/2/2011	3/1/2015
Brandyw ine GIM	Large Cap Value	12/2/2010	4/1/2017
EAM Investors	International Small Cap	12/20/2018	3/1/2019
Global Alpha Capital Management	International Small Cap	12/20/2018	3/1/2019
GQG Partners	International	2/10/2021	6/1/2021
JO Hambro Capital Management	International	2/10/2021	7/1/2021
Kayne Anderson Rudnick	International Small Cap	12/20/2018	3/1/2019
Lazard Asset Management	International	8/23/2011	12/1/2011
Legato Capital Management	International Small Cap	5/25/2010	2/1/2017
Legato Capital Management	Emerging Markets	9/25/2019	11/1/2019
Pzena Investment Management	International	2/10/2021	5/1/2021
Quantitative Management Associates	Emerging Markets Small Cap	12/20/2018	3/1/2019

# External Advisor Program Update

## Select Pool



Firm	Strategy	Selection Date	Portfolio Inception
Algert Global	International Small Cap	12/20/2018	TBD
Arrow street Capital (Alpha)	International	2/10/2021	TBD
Ativo Capital Management	International Small Cap	12/20/2018	TBD
Axiom International Investors	International	2/10/2021	TBD
Fisher Investments*	International	1/24/2006	TBD
Neuberger Berman	International	2/10/2021	TBD
Rondure Global Advisors	International	2/10/2021	TBD
Schroders	International	2/10/2021	TBD
Strategic Global Advisors	International Small Cap Equity	12/20/2018	TBD
Templeton**	International	11/19/2002	TBD
TimesSquare Capital Management	International Small Cap	12/20/2018	TBD
William Blair	International	2/10/2021	TBD

\*Fisher Investments was defunded 10/2019.

\*\*Templeton was defunded 3/2021.

# External Advisor Program Update

## Performance



Global Public Equity (as of 09/30/21)	1-Year	3-Year	5-Year	Since Inception
Global Public Equity External Advisor Program	31.92%	10.31%	11.31%	6.81%
Blended Benchmark	27.54%	9.81%	10.45%	6.44%
<i>Excess Return</i>	4.38%	0.50%	0.85%	0.37%
<b>Barrow Hanley (Inception: April 1, 2011)</b>	40.55%	10.31%	12.45%	11.41%
MSCI USA Large Value Index	29.66%	9.36%	10.89%	10.63%
<i>Excess Return</i>	10.89%	0.95%	1.56%	0.78%
<b>Brandywine (Inception: April 1, 2017)</b>	46.34%	11.43%	n/a	11.79%
MSCI USA Large Value Index	29.66%	9.36%		9.62%
<i>Excess Return</i>	16.67%	2.07%		2.17%
<b>BlackRock (Inception: March 1, 2015)</b>	33.10%	15.09%	13.15%	9.35%
MSCI ACWI ex-US Index	23.92%	8.03%	8.94%	5.88%
<i>Excess Return</i>	9.19%	7.06%	4.21%	3.48%
<b>Lazard (Inception: December 1, 2011)</b>	24.42%	8.36%	9.39%	9.44%
MSCI EAFE Index	25.73%	7.62%	8.81%	7.78%
<i>Excess Return</i>	-1.31%	0.74%	0.58%	1.66%
<b>Acadian (Inception: November 1, 2017)</b>	26.99%	9.87%	n/a	7.56%
MSCI Emerging Markets Index	18.20%	8.58%		5.36%
<i>Excess Return</i>	8.78%	1.28%		2.20%



# External Advisor Program Update

## Performance



Global Public Equity (as of 09/30/21)	1-Year	3-Year	5-Year	Since Inception
<b>Axiom (Inception: March 1, 2019)</b>	29.58%	n/a	n/a	26.25%
MSCI ACWI ex-US Small Cap Index	33.06%			14.72%
<i>Excess Return</i>	-3.49%			11.54%
<b>EAM (Inception: March 1, 2019)</b>	27.83%	n/a	n/a	20.70%
MSCI ACWI ex-US Small Cap Index	33.06%			14.72%
<i>Excess Return</i>	-5.24%			5.98%
<b>Global Alpha (Inception: March 1, 2019)</b>	33.73%	n/a	n/a	14.81%
MSCI EAFE Small Cap Index	29.02%			13.85%
<i>Excess Return</i>	4.72%			0.96%
<b>Kayne Anderson (Inception: March 1, 2019)</b>	35.92%	n/a	n/a	19.80%
MSCI ACWI ex-US Small Cap Index	33.06%			14.72%
<i>Excess Return</i>	2.86%			5.08%
<b>QMA (Inception: March 1, 2019)</b>	40.22%	n/a	n/a	14.75%
MSCI Emerging Markets Small Cap Index	43.24%			15.78%
<i>Excess Return</i>	-3.02%			-1.03%
<b>Legato International Small Cap Portfolio (Inception: February 1, 2017)</b>	26.62%	8.38%	n/a	11.47%
MSCI EAFE Small Cap Index	29.02%	9.05%		11.03%
<i>Excess Return</i>	-2.40%	-0.67%		0.44%
<b>Legato Emerging Markets Portfolio (Inception: November 1, 2019)</b>	16.65%	n/a	n/a	9.86%
MSCI Emerging Markets Index	18.20%			12.52%
<i>Excess Return</i>	-1.55%			-2.67%

# Global Public Equity Program

## *2022 Initiatives*



- Continue to enhance the portfolio construction process
- Complete the U.S. Large-Cap Select Pool RFP
- Evaluate existing software tools and resources
- Examine Special Situations Portfolios
- Cultivate employee development and mentoring

Questions?