Employees' Retirement Fund of the City of DALLAS

The Employees' Retirement Fund of the City of Dallas

Next Generation Small Cap Growth Equity

Manager Search Update

August 9, 2016

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Next Generation Small Cap Growth Equity allocation and manager search at ERF

- In December 2012 the board approved a 10.0% allocation to Next Generation Investment Managers
- Current 2.0% allocation to Small Cap Growth Equity needs to move from index fund to active manager
- Goal is to hire one or more Next Generation Investment managers to invest in the small cap growth equity market

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ERF Review process for Small Cap Growth Equity Managers

- Minimum qualifications:
  - Minimum three year track record as of December 31, 2015;
  - Product assets under management (AUM) greater than $25 million
  - Firm AUM less than $15B
  - Minimum information ratio of 0.24 over a three year period
- 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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Small Cap Growth Equity RFPs were submitted and reviewed by Wilshire and ERF staff

- 37 RFPs were requested by investment managers with 20 submissions to ERF by the May 13th deadline
- The 20 submissions included:

Apex Capital Management	Bridge City Capital	ClariVest Asset Management	EntrepreneurShares LLC	Essex Investment Management
Falcon Point Capital	Friess Associates	GlobeFlex Capital	Hood River Capital Management	Kayne Anderson Rudnick Investment Management
Kennedy Capital Management	Lebenthal Lisanti Capital Growth	LMCG Investments	McKinley Capital Management	New Amsterdam Partners
Nicholas Investment Partners	Pillar Pacific Capital Management	Ranger Investment Management	Redwood Investments	Rice Hall James & Associates

- The three firms that were recommended for on-site due diligence were: Nicholas Investment Partners, Redwood Investments, and Rice Hall James & Associates
- One firm is recommended for final presentations to the Board in September: **Redwood Investments**

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Two recommendations by Wilshire and ERF Staff

- Invite Redwood Investments to present to the Board in September as the finalist

- Expand on-site due diligence to include two additional firms: GlobeFlex Capital, and New Amsterdam Partners. Invite Redwood Investments and potentially one other manager for final presentations to the Board in October.

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One investment manager is currently recommend for a final presentation to the Board

Redwood Investments, LLC

- Established in 2004 and headquartered in Newton, MA, the firm is majority woman-owned with 10 employees and 5 investment professionals.
- Total firm AUM of $1 billion with $115M in the proposed product.
- The team utilizes both bottom-up fundamental and quantitative techniques to find disruptive business models that are creating new markets or taking market share from entrenched leaders; focus on high-quality businesses to provide alpha primarily from security selection.

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The two additional firms we recommend for due diligence after review by both ERF staff and Wilshire

GlobeFlex Capital, L.P.

- Founded in 1994, headquartered in San Diego, CA; 25 employees with four investment professionals; 11 employees own 91%.
- Total firm AUM of $3.4 billion with $102 million in the small cap growth product.
- The team utilizes a systematic, fundamentally driven bottom-up investment process. Emphasis is placed on business improvement, management quality, and relative value.

New Amsterdam Partners

- New York, NY based firm established in 1986, 100% employee and majority women owned; 17 firm employees with six investment professionals.
- Total firm AUM of $1.1 billion with $221 million in the small-mid cap product.
- The strategy combines quantitative and qualitative research to identify stock mis-pricings with better than average forecast growth and profitability – style is growth at a reasonable price (GARP).

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Proposed RFP process timeline & next steps

- ✓ April 12th – With Board approval, issued RFP
- ✓ May 13th – RFP responses returned from managers and were reviewed by Wilshire & staff
- ✓ June 14th – After review, submit list of managers recommended for further on site due diligence for Board approval
- ✓ June / July – On site manager due diligence visits with both ERF staff and Wilshire
- ▪ August 9th – Submit list of managers recommended for final presentations to the Board; or discussion of additional next steps, with potential due diligence completed during August/ September
- ▪ September 13th – Final presentations to the Board; final manager selection made; or recommendation made on final presentations to the Board on October 11th