MARCH MEETING MATERIALS

HOWARD COUNTY

March 28, 2019

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MANAGER RATINGS

NEPC, LLC

NEPC: PRODUCT RATINGS

Product Rating	Description
1 (Preferred)	A high conviction investment product. Product has a clear and economically-grounded investment thesis, and is managed by an investment team that is sufficiently resourced and incented to execute on the thesis.
2 (Positive)	NEPC has a positive view of the strategy. Strategy has a compelling and sound investment thesis. The manager is sufficiently resourced and incented to execute on the thesis. Strengths outweigh the weaknesses, but the strategy does not meet all requirements for a 1 rating.
3 (Neutral)	A satisfactory investment product. The strategy lacks a compelling investment thesis, however there are no significant concerns around the manager's viability.
4 (Negative)	The strategy may have an unclear or ambiguous investment thesis or the manager may lack the ability to execute on the stated thesis. The strategy likely has strengths and weaknesses and the weaknesses may outweigh the strengths.
5 (Not Recommended)	A strategy that lacks an investment thesis or NEPC has no confidence in the manager's ability to execute on the thesis, and/or the investment firm may not be viable. Serious issues have been identified with an investment manager or product. This rating aligns with a Terminate Due Diligence status for client-owned products.
Not Rated	Due diligence has not been sufficiently completed on the product or manager

NEPC: DUE DILIGENCE RATINGS

Due Diligence Status	Description
No Action	While an event has occurred, NEPC does not recommend any action needs to be taken by clients.
Watch	Issues have surfaced which may require increased monitoring, but which are not considered serious in the near-term. Close monitoring is appropriate until the issues are resolved.
On Hold	Serious issues have surfaced which require increased monitoring. These issues could have long-term implications on the investment team's ability to effectively execute the investment strategy. Strategy is unable to participate in searches unless a client specifically requests.
Client Review	Very serious issues have surfaced with an investment manager. For products that have been fully vetted, the issues may be significant enough to violate the original investment thesis. Clients are advised to review their relationship with the manager. Strategy is unable to participate in searches unless a client specifically requests.
Terminate	We have lost confidence in the firm or product. Following are examples of issues that may trigger a loss of confidence. Strategy is unable to participate in searches unless a client specifically requests.

HOWARD COUNTY: US EQUITY MANAGER LIST

Investment Firm	NEPC Rating (1-5)	Investment Thesis	Comments
LSV Asset Management: US Large Cap Value	1 (Preferred)	LSV's value-added is attributable to their proprietary stock-selection model designed to systematically exploit the judgmental biases and behavioral weaknesses that influence the decisions of many investors. Specifically what they are looking to capitalize on is the behavior by investors to: extrapolate the past too far into the future, wrongly equate a good company with a good investment irrespective of price, ignore statistical evidence, and develop a "mindset" about a company. Critical to the success of LSV and a differentiator amongst many of their quantitative peers, who rely on statistical significance of back-testing to tweak model factors, is LSV's additional effort to apply a pragmatic, fundamental understanding about factor nuances. For example, given their dependence on sell-side analyst forecasts, they tweaked their model in 2011 on how they use earnings forecasts - previously when analysts' views were varied, they would use the median value, now they emphasize the most pessimistic value because it has better predictive power.	
William Blair: US SMID Growth	1 (Preferred)	William Blair's value add is attributable to their experienced investment professionals, disciplined bottom up fundamental research, and a process that emphasizes distinguishing between an average growth company and a quality growth company. Their research-intensive approach to analyzing investment opportunities has helped them find companies that can achieve a higher growth rate for longer periods of time than the market expects. Their edge is in their ability to blend the portfolio with different types of quality growth companies to create alpha for their clients.	US SMID Growth is soft closed
Brown Capital Management: Small Company Fund	3 (Neutral)	N/A	
Invesco: US Large Cap	3 (Neutral)	N/A	
Investment Counselors of Maryland: US Small Cap Value	3 (Neutral)	N/A	
Westfield: US Large Cap Growth	3 (Neutral)	N/A	Westfield's SMID Cap strategy is 1 rated at NEPC

HOWARD COUNTY: INT'L EQUITY MANAGER LIST

Investment Firm	NEPC Rating (1-5)	Investment Thesis	Comments
Baillie Gifford: EAFE Plus Alpha Equities	1 (Preferred)	Baillie Gifford believes that they can add value through active management by making long-term investments in well researched and well managed quality businesses that enjoy sustainable, competitive advantages in the marketplace. The investment process is bottom-up, security decisions drive sector selection and portfolio construction.	
Mondrian: International Equity	1 (Preferred)	Mondrian is a value manager that believes there are significant inefficiencies throughout the international securities market. Through the use of the dividend discount model (DDM), Mondrian identifies stock level mispricings. Mondrian then gains an informational advantage over their peers by conducting detailed onsite company management evaluations. The Mondrian research process focuses on future real growth as well as preservation of capital which leads to an overall portfolio that should outperform the market at lower volatility levels.	
DFA: Emerging Markets All Cap Value Strategy	3 (Neutral)	N/A	
GQG Partners: Emerging Markets Equity	3 (Neutral)	N/A	GQG's Global Equity product is 1-rated at NEPC

HOWARD COUNTY: FIXED INCOME MANAGER LIST

Investment Firm	NEPC Rating (1-5)	Investment Thesis	Comments
Colchester: Local Markets Debt Fund	1 (Preferred)	Colchester is a value oriented manager, exclusively focused on global sovereign bond markets and looks to add value by investing in the sovereign debt of countries with high prospective real yields and currencies that are undervalued on a real exchange rate basis. Based on academic research and quantitative methods developed by Ian Sims, Colchester forecasts mid-term inflation for each government bond market and uses this forecast to determine which markets have the most attractive real yields. Currency exposures are based on a fundamental value analysis and are viewed as a separate allocation decision from the bond portfolio. This dual allocation approach provides Colchester the ability to add value through both active currency and bond selection.	
Dodge & Cox: Core Fixed Income	1 (Preferred)	Independent credit research and sector over/under weights to credit are a key driver of Dodge & Cox's investment performance. The investment process blurs the distinction between high yield and investment grade, with the objective of enhancing yield by purchasing below investment grade credits that the firm believes will be upgraded to investment grade.	
PIMCO: Core Plus Total Return Full Authority	1 (Preferred)	PIMCO gathers and analyzes information on economic and market trends. By doing this, they can develop long-term secular views and apply these views to their portfolios. Input from internal talent as well as prominent figures in academia and the government factor into their investment process. The source of their expected alpha comes from their well-informed long-term secular outlook, the periodic refinements of short-term views, their ability to capture the benefits associated with the size and depth of their organization, and their global reach and influence within the fixed income markets. Their investment in non-benchmark securities is less of a source of expected alpha than with other top fixed income managers due to the size of PIMCO's assets under management.	
SSgA: U.S. TIPS Index	1 (Preferred)	State Street offers a wide range of products across equity and fixed income. Notably, in the fixed income space, it has broken core bonds into 10 core segments with fund offerings that have been in existence long enough to be "seasoned" and are now fully replicated. State Street favors full replication as an approach to indexing, but it will utilize sampling or optimized portfolio where it makes sense.	

HOWARD COUNTY: HEDGE FUND MANAGER LIST

Investment Firm	NEPC Rating (1-5)	Investment Thesis	Comments
Magnitude: International	3 (Neutral)	N/A	Going to NEPC Due Diligence Committee for 1 or 2 rating on 3.25.19. Fee discount is likely to be negotiated but cannot yet be confirmed
Blackstone: Offshore Fund	NR	N/A	The Blackstone Partners Fund is 1-rated at NEPC. Need more info regarding their Offshore Fund.

WORK PLAN

NEPC, LLC

TRANSITION PLAN

NEPC estimates that the transfer of information from the custodian, investment managers, and prior consultant should take 6-8 weeks*

- NEPC will transfer this info to our performance system to produce monthly flash reports and more detailed quarterly performance analysis
- NEPC will provide quarterly alternative reports focused on your real assets and private equity managers which will likely take longer to complete

While the estimated timeline is subject to how cooperative each party is, NEPC has worked on these transitions before and doesn't foresee any issues

- NEPC has managed transitions before involved with the prior consultant, your custodian, and some of your investment managers

While the transition is on-going, NEPC Research and your Consulting team will monitor your investment managers for due diligence issues

- NEPC has worked with Staff to receive a list of your investment managers and will actively track them while the transition is in progress

*The 6-8 week estimate is as of the first Board meeting (3.28.19)

PROPOSED WORK PLAN (Q2)

Board/Committee Items

Behind the Scenes

April

- Investment Policy Statement Review
- Asset Allocation Discussion/Modeling (Part I)
- NEPC Developing Performance Reports
- Discuss Cash Needs & Rebalancing Strategy

May

- Asset Allocation Discussion/Modeling (Part II)
- April Flash Report & Q1 IPA

June

- NEPC's Existing Manager Review (Part I)
- Manager Fee Study
- May Flash Report

PROPOSED WORK PLAN (Q3)

Board/Committee Items

Behind the Scenes

July

- NEPC's Existing Manager Review (Part II)
- June Flash Report
- NEPC Developing Private Markets Pacing Plan

August

- July Flash Report & Q2 IPA
- Initiate Manager Searches (if necessary)
- NEPC To Assist With CAFR

September

- Private Markets Pacing Plan

WORK PLAN

Board/Committee Items

Behind the Scenes

Longer Term Goals

Education on New Asset Classes or Strategies (if necessary)

Additional Manager Searches/Reviews/ Interviews

Asset/Liability Study

Learn How Staff Wants to Interact With NEPC

Bring NEPC Research to Board as Needed

APPENDIX

HOWARD COUNTY'S ASSET ALLOCATION: *A FIRST GLANCE*

	Current Target
Large Cap Equities	15%
Small/Mid Cap Equities	5%
Int'l Equities (Unhedged)	13%
Emerging Int'l Equities	7%
Private Equity	10%
Total Equity	**50%**
Core Bonds	25%
EMD (Local Currency)	5%
Total Fixed Income	**30%**
Real Assets	2.5%
Core Real Estate	5%
Total Real Assets	**7.5%**
Hedge Funds	12.5%
Total Multi Asset	**12.5%**

Expected Return 5-7 yrs	**6.1%**
Expected Return 30 yrs	**7.2%**
Standard Dev	**11.7%**

SAVE THE DATE

NEPC's 24th Annual Investment Conference

- Gradual or dramatic, the economic and political worlds around us are going through major transition. Whether it be global resources, climate, political power, technology, demographics or personal habits, adapting and advancing through these shifts has become a regularity. Most importantly, as we transition our daily processes, so do we transition our investment approaches. Please join us for **NEPC's 24th Annual Investment Conference on May 7-8, 2019** at the Boston Park Plaza Hotel, as we address the 'Transitions' we are experiencing and what lies ahead.

- Please reach out to Sarah Winrow at swinrow@nepc.com if you have any questions.