



**To: Howard County Retirement Board**

**From: Search Sub-Committee**

**Date: June 4, 2021**

**Subject: High Yield Fixed Income Search**

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### Summary

In February 2021, the Howard County Full Joint Committee approved a new investment policy that included a 4% allocation to High Yield Fixed Income. Subsequently, NEPC conducted an investment manager search to fulfill the new mandate. In April, the Committee had reviewed NEPC's search book and agreed to interview a short list of 3 managers. On June 4, NEPC and a sub-Committee held a virtual meeting to listen to the following 3 firms' capabilities:

Firm	Strategy	NEPC Rating
Artisan Partners Limited Partnership	Artisan High Income	NEPC Rated 1
Mesirow Financial Investment Management, Inc.	Mesirow Financial High Yield Fixed Income	Non-rated strategy (Included at Client Request)
Wellington Management Company LLP	Wellington Core High Yield Bond	NEPC Rated 1

**After the interviews and a discussion between NEPC and the sub-Committee, Artisan High Income strategy was selected to put forward as a recommendation to the full Joint Committee for the following reasons:**

- Artisan's High Income strategy will invest in their highest conviction ideas across issuers with **high-quality business models** that have compelling risk-adjusted return characteristics.
- The team's process has demonstrated **repeatability** with a **long-standing track record of strong performance**.
- Bryan Krug, the head of Artisan's Credit Committee and lead portfolio manager, demonstrated their team's modeling capabilities that include a **data scientist role in which data is collected, screened, and automatically programmed** to help them maintain an edge on data.
- In addition to high yield debt, the strategy will also **invest in senior floating rate bank loans** that can help provide **downside protection**.

- The **investment management fee for the Collective Investment Trust (CIT) is 68 basis points**. While their fee is slightly higher than the other 2 candidates, their edge has translated into a higher performance, net of fees.

## Recommendation

The sub-Committee recommends hiring the Artisan High Income strategy at a \$55 million commitment. The funding for Artisan should be sourced by from PIMCO Total Return and Dodge & Cox Fixed Income Strategies.

## Supporting Charts

### Performance through March 31, 2021

Strategy	YTD	Rank	1 Year	Rank	3 Year	Rank	5 Year	Rank	7 Year	Rank	10 Year	Rank
Artisan	2.42	15	31.53	8	8.90	3	10.26	4	8.13	1	---	---
Mesirow	4.44	3	36.74	3	8.30	9	9.26	9	6.75	8	7.53	5
Wellington	0.81	62	24.44	35	7.46	21	8.08	36	5.68	37	6.56	48
Benchmark	0.85	61	23.72	41	6.84	44	8.06	37	5.42	49	6.48	51

## Credit Quality

Firm/Product	AAA/Aaa (%)	AA/Aa (%)	A (%)	BBB/Baa (%)	BB/Ba (%)	B (%)	CCC/Caa and Below (%)	Other (%)
Artisan - Artisan High Income	0.0	0.0	0.0	18.3	11.6	42.9	24.3	2.9
Mesirow - HY	0.0	0.0	0.0	0.0	7.3	58.0	30.0	5.0
Wellington - High Yield Bond	0.0	0.0	0.0	3.0	43.0	38.0	11.0	5.0

## Largest Sector Allocations

Firm/Product	Bank Loan/Leveraged Loan (%)	Investment Grade Corporate (%)	High Yield Corporate (%)
Artisan - Artisan High Income	25.6	13.0	52.7
Mesirow - HY	0.0	0.0	98.1
Wellington - High Yield Bond	1.0	1.0	78.0

# Excess Monthly Returns Histogram – Net of Fees

