

Contact: Patrice Sayre

### FUND MANAGER ISSUES

**Action Requested:** Recommend that the Board approve the following fund manager strategies:

- ▶ AllianceBernstein Global-Plus Fixed Income
- ▶ Brandywine Global Opportunistic Fixed Income
- ▶ Dodge & Cox Global Bond Fund<sup>1</sup>

**Discussion:** The Board of Regents investment policy requires that the investment advisor (Wilshire Consulting) provide recommendations and advice on matters regarding investment manager selection, retention, and termination. (<http://www.regents.iowa.gov/Policies/Chapter%207/chapter7.04.htm>)

At the August 2014 Board meeting, allocations to the Global Fixed Income asset class were approved for the investment programs. Under the leadership of Regent Downer as Chairman of the Audit/Compliance and Investment Committee, a search was conducted to find fund manager alternatives in the global fixed income space.

With assistance from Wilshire Associates, the universe of global bond fund managers was screened resulting in six candidates for consideration. Qualitative and quantitative analysis was provided by Wilshire to support the selection process. Interviews were conducted with four candidates. Decision factors included but were not limited to strength of organization and investment team, merits of investment approach and process, risk management, performance trackrecord, and fees/expenses. The Chairman, institutional staff, Board Office staff, and Wilshire collectively arrived at the decision to move forward with fund manager strategies as described herein.

#### AllianceBernstein Global-Plus Fixed Income

AllianceBernstein represents an established institutional-quality organization managing a total of \$480.0 billion in overall assets and \$247.0 billion in fixed income assets. The investment approach leverages the firm's global research presence (68 dedicated research analysts; 54 portfolio managers; 21 traders) across offices in New York, London, Tokyo, Hong Kong, Melbourne, and Moscow. Global-Plus Fixed Income combines both top-down and bottom-up views as it seeks to add value through multiple fixed income decisions: security selection (25%), sector allocation (25%), currency (25%), and country/yield curve (25%). The strategy is benchmark-sensitive and is managed to a tracking error range of 1.50% to 2.75% relative to its benchmark index.

#### Brandywine Global Opportunistic Fixed Income

Brandywine represents a well-resourced specialty manager with 216 employees in global offices (Philadelphia, San Francisco, Montreal, Toronto, Singapore and London). The firm manages \$57.6 billion in overall assets and \$44.0 billion in fixed income assets. The investment approach is value-driven and focuses on countries that exhibit high real yields trading at attractive valuations combined with undervalued currencies. As such, this approach is top-down in nature with country and currency decisions accounting for the majority of return. Global Opportunistic Fixed Income is a benchmark-agnostic approach with no specified tracking error targets. Instead it seeks to provide an overall level of total return while managing overall risk.

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<sup>1</sup> The Dodge & Cox Income Fund is currently employed within the Intermediate Diversified Portfolio. The Global Bond Fund investment approach is closely related to that of the Income Fund. However, because it is a relatively new fund launch, the institutions will each limit their exposure such that holdings do not represent more than 5% of the Global Bond Fund's assets.

Dodge & Cox Global Bond Fund

Dodge & Cox represents an independent firm which is 100% owned by 77 active employees. The firm manages \$234.2 billion in overall assets and \$82.1 billion in fixed income assets. The investment approach demonstrates a strong fundamental research investment culture employing bottom-up analysis. The Fund focuses on a long-term (2-4 years) forecasting horizon in security analysis and evaluates credits using a detailed, proprietary financial model that considers economic trends and specific company and industry factors. Global Bond Fund seeks to generate excess returns through multiple sources as follows: 1) yield/carry (identify durable sources of yield), 2) credit (attractive valuations and improving fundamentals), 3) currency (undervalued currencies and/or solid economic scenarios), and 4) duration (develop and monitor interest rate expectations by markets).