



Report to Investment Committee

Agenda of: **MARCH 14, 2017**

From: Thomas Moutes, General Manager

ITEM: **V**

SUBJECT: INVESTMENT MANAGER CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE CORE DOMESTIC FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION

Recommendation:

That the Committee recommend to the Board a two-year contract renewal with Loomis, Sayles & Company, L.P. for management of an active core domestic fixed income portfolio.

Discussion:

Background

Loomis, Sayles & Company, L.P. (Loomis Sayles) manages an active core domestic fixed income portfolio for LACERS benchmarked against the Bloomberg Barclays U.S. Aggregate Bond Index. Loomis Sayles' investment approach seeks to add value through sector rotation and security selection based on macroeconomic analysis and fundamental research. The lead portfolio manager, John Hyll, has been with the firm for 30 years and has over 33 years of industry experience. LACERS' portfolio was valued at approximately \$678 million as of January 31, 2017.

Loomis Sayles has managed a fixed income mandate for LACERS since July 1980. The most recent three-year contract renewal was authorized by the Board on June 10, 2014, and the current contract expires on July 31, 2017.

As requested by the Board at the meeting of May 24, 2016, a request for proposal (RFP) search process is planned to evaluate the marketplace of active core fixed income managers. LACERS currently contracts with Loomis Sayles; LM Capital Group, LLC; Neuberger Berman Investment Advisers LLC; and Robert W. Baird & Co. Incorporated for this mandate. Accordingly, staff recommends a two-year contract renewal for Loomis Sayles to allow time to conduct this RFP.

Organization

Loomis Sayles, a wholly owned subsidiary of Natixis Global Asset Management, L.P., is headquartered in Boston and has 644 employees. As of January 31, 2017, Loomis Sayles managed \$244 billion in total assets, with \$25 billion in the core fixed income strategy.

Due Diligence

Loomis Sayles' organizational structure, key personnel, investment philosophy, strategy, and process have not changed over the contract period.

Performance

On an annualized basis, as of January 31, 2017, Loomis Sayles has outperformed its benchmark, net-of-fees, over all time periods as presented in the table below.

Annualized Performance as of 1/31/17 (Net-of-Fees)									
	3-Month	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	Since Inception ^{1,2}
Loomis Sayles	-1.56	5.34	1.59	3.56	2.85	3.49	4.68	5.40	9.38
BB BC U.S. Aggregate Bond Index ³	-2.04	1.45	0.64	2.59	1.97	2.34	3.67	4.45	7.86
<i>% of Excess Return</i>	<i>0.48</i>	<i>3.89</i>	<i>0.95</i>	<i>0.97</i>	<i>0.88</i>	<i>1.15</i>	<i>1.01</i>	<i>0.95</i>	<i>1.52</i>

¹ Inception date: 7/31/80

² Indicates gross returns

³ The benchmark has changed several times since inception due to mandate changes: 7/31/1980 – 8/31/1993: Lehman Brothers Government Credit Bond Index; 8/31/1993 – 6/30/2000: Lehman Brothers Long Term Government Credit Bond Index; 6/30/2000 – 6/30/2013: Barclays U.S. Universal Bond Index; 6/30/2013 – Present: Bloomberg Barclays U.S. Aggregate Bond Index.

On a calendar year basis, Loomis Sayles has outperformed its benchmark, net-of-fees, in seven of 10 periods as presented in the table below.

Calendar Year Performance (Net-of-Fees)										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Loomis Sayles	5.58	-0.53	6.89	-1.08	8.28	6.63	8.69	19.67	-5.00	6.55
BB BC U.S. Aggregate Bond Index ⁴	2.65	0.55	5.97	-1.87	5.53	7.40	7.16	8.60	2.38	6.50
<i>% of Excess Return</i>	<i>2.93</i>	<i>-1.08</i>	<i>0.92</i>	<i>0.79</i>	<i>2.75</i>	<i>-0.77</i>	<i>1.53</i>	<i>11.07</i>	<i>-7.38</i>	<i>0.05</i>

⁴ The benchmark has changed several times since inception due to mandate changes: 7/31/1980 – 8/31/1993: Lehman Brothers Government Credit Bond Index; 8/31/1993 – 6/30/2000: Lehman Brothers Long Term Government Credit Bond Index; 6/30/2000 – 6/30/2013: Barclays U.S. Universal Bond Index; 6/30/2013 – Present: Bloomberg Barclays U.S. Aggregate Bond Index.

Loomis Sayles is in compliance with the LACERS Manager Monitoring Policy.

Fees

LACERS pays Loomis Sayles an effective fee of 13 basis points (0.13%), which is approximately \$881,400 annually based on the value of LACERS' assets as of January 31, 2017.

General Fund Consultant Opinion

Wilshire Associates Incorporated, LACERS' General Fund Consultant, concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with Loomis Sayles & Company, L.P. will allow the fund to maintain a diversified exposure to core fixed income, which is expected to help achieve satisfactory long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Barbara Sandoval, Investment Officer II, Investment Division.

RJ:BF:BS:ag

Attachments: A) Consultant Recommendation – Wilshire Associates Incorporated
B) Workforce Composition