



**SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
STAFF REPORT
INVESTMENT DIVISION**

DATE: December 23, 2016
TO: SDCERS' Investment Committee
FROM: Anders Norrman, Sr. Investment Officer, Investments
SUBJECT: Manager Monitoring Report - Public Markets

The following investment managers are considered "Under Review" per SDCERS' Manager Monitoring Guidelines.

(Performance data used is for the period ending September 30, 2016)

PIMCO: U.S. Fixed Income (4.9% strategic target allocation)

Date Hired into Portfolio: Dec 1988
Date Placed under review: November 2014

Reason Under Review: Performance

Concerns / Further Description:

After the abrupt departure of Bill Gross, which resulted in substantial net cash outflows from PIMCO's flagship strategies, staff and consultant feel that the outflows have slowed to a pace where it is manageable for PIMCO and does not constitute a business risk. The transition of Bill Gross' duties has been done in an efficient manner, and we feel comfortable with the current structure. PIMCO will however stay on the monitoring report due to performance concerns.

SDCERS Action and/or Recommendation:

PIMCO remains on the monitoring report due to under-performance during the most recent 3- and 5-year periods. Neither staff nor consultant recommends any action at this time.

GMO Foreign Small Companies: U.S. Intl Equity (0.7% strategic target allocation)

Date Hired into Portfolio: June 2002
Date Placed under review: May 2015

Reason Under Review: Performance

Concerns / Further Description:

The GMO Foreign Small Companies mandate has also been placed on the monitoring report as a result of being in the bottom half of their peer universe for the last 3- and 5-year period. This is mainly due to stock selection, but a portion can also be attributed to a larger allocation to European equities than the benchmark.

SDCERS Action and/or Recommendation:

Neither staff nor consultant recommends any action at this time.

GMO Global Equity: U.S. Equity (2.5% strategic target allocation)

Date Hired into Portfolio: March 2012

Date Placed under review: June 2016

Reason Under Review: Organizational changes

Concerns / Further Description:

GMO recently announced several organizational and personnel changes designed to streamline the organization and several of its investment strategies. The firm has eliminated the fundamental component for the global equity strategy and will focus its efforts on a quantitative strategy that was the original hallmark of the fund. The fundamental research function was added a few years ago in response to a forecasted future of low investment returns. GMO has reviewed the results of the addition and found that it had not added value, only complexity, and is therefore removing that component.

SDCERS Action and/or Recommendation:

Staff has been in close communication with GMO and the consultant regarding the implications of this action. At this point, neither staff nor the consultant, recommend any action be taken. Staff as well as the consultant performed an on-site due diligence visit to GMO in July. Aon Hewitt changed their rating from “in review” to “buy” following their visit to GMO. We will continue to monitor the strategy closely.

TCW Metwest: U.S. Fixed Income (6.8% strategic target allocation)

Date Hired into Portfolio: June 2001

Date Placed under review: June 2016

Reason Under Review: Performance

Concerns / Further Description:

TCW Metwest has been placed on the monitoring report as a result of being in the bottom half of their peer universe for the last 3- and 5-year period per the manager monitoring policy. Their performance shortfall is mainly due to a relative defensive duration position which has hurt performance as rates have gone lower.

SDCERS Action and/or Recommendation:

Neither staff nor consultant recommends any action at this time.

Stone Harbor: Emerging Market Debt (1.8% strategic target allocation)

Date Hired into Portfolio: June 2011
Date Placed under review: August 2016

Reason Under Review: Performance

Concerns / Further Description:

Stone Harbor has been placed on the monitoring report as a result of underperforming their benchmark and being in the bottom half of their peer universe for the last 3- and 5-year period per the manager monitoring policy. Their performance shortfall is due to a large allocation to local currency debt that has underperformed dollar denominated debt due to a strengthening dollar against most emerging market currencies.

SDCERS Action and/or Recommendation:

Neither staff nor consultant recommends any action at this time.