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experienced a period of underperformance, with 3-year annual gross returns below the benchmark by 280 bps. Since that time, Weatherbie has been one of SCERS' best performing equity managers, with 3-year annual gross returns of 22.5%, as of June 30, 2018, outperforming their benchmark by 11.9% annually. Weatherbie's outperformance has benefited both SCERS and Weatherbie, as the manager has begun to earn the performance incentive fee implemented in 2016.

The proposed amendment to the IMA with Weatherbie includes the following modifications:

- Allows the manager to include SCERS on its representative list of clients and permits the manager to use SCERS as a reference.
- Updates investment guidelines, primarily around market capitalization range:
  - Includes a maximum allowable market capitalization for securities included in the portfolio
  - Amends the maximum allowable market capitalization range to be at the *initial* time of purchase (versus current language which states "at time of purchase").
- The change reduces the possibility of compliance violations occurring due to changing market conditions and market capitalizations, by allowing the manager additional flexibility at the time of purchase, while also implementing a maximum market capitalization, which was not previously established.

#### Future IMA Amendments

Upon Board approval to hire a public equity investment manager, the Board resolution typically contains language authorizing the "*President or Chief Executive Officer to execute an Investment Management Agreement and any other documents which may be reasonably necessary*" to complete the agreement. Recently, Staff has encountered situations where minor technical contractual amendments (i.e. fee reductions, permitting use of SCERS name for marketing purposes, amending market capitalization ranges) would improve our relationships between SCERS and its public equity managers. However, the language in the current enabling resolutions does not provide Staff the ability to execute future documents, such as minor amendments to the IMA, including changes to investment guidelines and/or reduction in management fees, without Board approval or consent.

Staff is seeking Board approval to allow the Chief Executive Officer to execute documents necessary to approve future amendments to Investment Management Agreements that are technical in nature, reduce management fees, or adjust investment guidelines to better suit the manager or current market conditions, but remain in compliance with the Board approved Public Equity IPS. The proposed changes will improve the process and make it more efficient to execute minor modifications to equity manager IMAs, but not change the overall nature or scope of the agreement with the investment manager. The following sentence will be added to Board resolutions pertaining to new or amended IMAs with public equity managers, including Weatherbie, going forward:

*The President or the Chief Executive Officer is authorized to execute an amendment to the Investment Management Agreement and any other documents that may be reasonably necessary. These documents may include future amendments to the Agreement that are*

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*technical in nature, reduce management fees (Exhibit B), or amend investment guidelines (Exhibit A) in conformity with the Investment Policy Statement for the Public Equity asset class.*

**ATTACHMENT**

None

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