



Yoder/Thurber

RESOLUTION NO. 6448

WHEREAS, Retirement Fund investment manager, AQR Capital, has not met the retention criteria of earning a net rate of return that exceeds the MSCI EAFE Index and achieving performance in the top 40th percentile of actively managed international developed markets equity portfolios in a three and five-year period; and

WHEREAS, in June 2021, the Trust Selection Committee, assisted by Segal Marco Advisors, initiated a search for an international large capitalization equity manager for the Retirement Plan using criteria set by the Board of Directors; and

WHEREAS, the Trust Selection Committee reviewed the three leading candidates in this asset class resulting in interviews with all three investment managers; and

WHEREAS, MFS Investment Management met all of the Statement of Investment Policy consideration criteria for an investment manager; and

WHEREAS, the Trust Selection Committee recommends the appointment of MFS Investment Management as international large capitalization equity investment manager for the OPPD Retirement Plan.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Omaha Public Power District as follows:

1. That MFS Investment Management is hereby appointed as an investment manager for the OPPD Retirement Plan, subject to the execution of an acceptable contract.
2. That District officers are hereby authorized and directed to execute and attest all documents that are necessary and proper to complete the appointment of the new investment manager.



BOARD OF DIRECTORS

Board Action

August 17, 2021

ITEM

Retirement Plan – Appointment of Investment Manager

PURPOSE

Approve the appointment of an Investment Manager for the OPPD Retirement Plan

FACTS

- a. In March 2020, Retirement Fund investment manager, AQR, was placed on “watch” and have failed to meet the retention criteria of ranking in the top 40% of MSCI EAFE index managers and exceeding the MSCI EAFE index net of fees. Due to the failure to meet the retention criteria, the Trust Selection Committee (TSC), assisted by Segal Marco Advisors, initiated a search for a new international large capitalization equity manager to replace AQR using criteria established by the Board of Directors (Board).
- b. The TSC reviewed the three leading candidates and held interviews with Arrowstreet Capital, MFS Investment Management, and Wellington Management, which are all headquartered in Boston, Massachusetts.
- c. After the interviews, MFS Investment Management was selected for recommendation to the Board. MFS Investment Management exceeds all of the Policy consideration criteria for an investment manager, and their performance ranks competitively in the international large capitalization equity universe.
- d. The TSC recommends that the Board appoint MFS Investment Management as an international large capitalization equity manager for OPPD’s Retirement Plan.
- e. Attached is a letter from Segal Marco Advisors outlining the manager search process and concurring with the TSC’s recommendation in the selection of MFS Investment Management as an OPPD Retirement Plan investment manager.

ACTION

Board’s consideration of a resolution appointing MFS Investment Management as an investment manager for OPPD’s Retirement Plan.

RECOMMENDED:

DocuSigned by:

 BA3998CC33CC4D3
 John W. Thurber
 Director – Treasury & Financial Operations
 Interim Chief Financial Officer

APPROVED FOR BOARD CONSIDERATION:

DocuSigned by:

 AC399FDC56247E
 L. Javier Fernandez
 President & Chief Executive Officer

JWT: jap

Attachments: Segal Marco Advisors Letter
Resolution

July 26, 2021

Omaha Public Power District Board of Directors
Omaha Public Power District
444 South 16th Street
Omaha, Nebraska 68102

Subject: Research Process for OPPD's Actively Managed International Large-Cap Core Equity Manager Search.

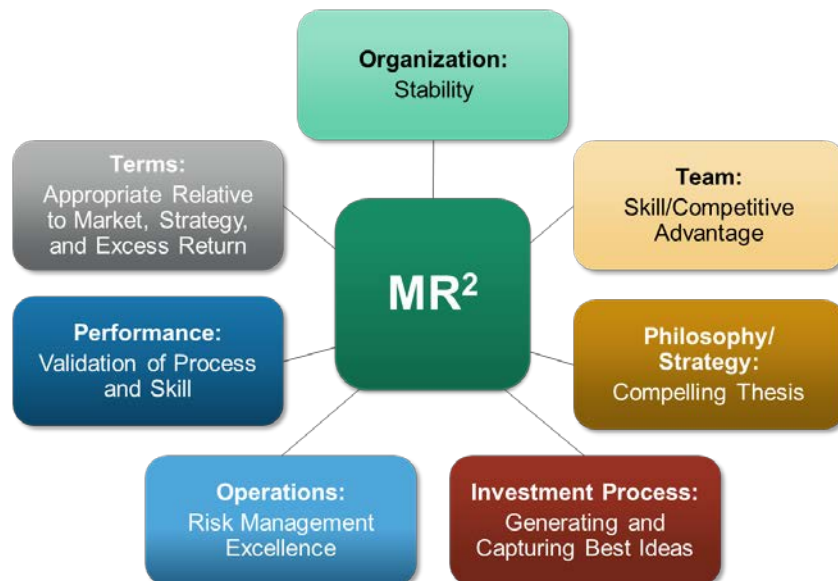
Dear Board of Directors:

We have detailed a description of the research process utilized by Segal Marco Advisors in the recommendation of MFS Investment Management.

The process used was as follows:

1. Our research specialists employed a highly formalized process – Manager Research and Ranking Process (MR²) – to evaluate and select managers that were the “best in class”. Our process, consisting of three primary steps:
 - Identify managers from referrals, database screens, and publications
 - Meet with current and prospective managers
 - Perform in-depth due diligence on firms and their products
2. We reviewed the investment process of various managers’ products as well as the organization of the firms to determine the long-term viability of their products and to detect the possibility of underperformance. MR² defines 34 success and risk factors within 7 categories.

Each manager was evaluated and scored based on these broad categories:



3. During each step, we applied a ranking system to measure and monitor a manager's history of adding value and the potential to add value in the future. We also looked at performance over time to determine whether objectives of risk and return had been met relative to peers/investment managers. Critical to our process was our evaluation of the three fundamental steps of investment management.
 - Collecting, processing, and refining information
 - Constructing portfolios
 - Analyzing trading costs
4. Using MR^2 , we focused on the qualitative and quantitative evaluation of managers. Critical components of our qualitative assessment were: the quality of the investment professionals, the potential of the philosophy to deliver value-added results, the integrity and rigor of the investment management process, long-term performance record, and the potential fit of the products being recommended for OPPD's Retirement Plan. We used quantitative tools to identify a manager's risk profile, value, and returns attribution. Our rigorous quantitative assessment of managers also included performance relative to appropriate benchmarks and peers, risk-adjusted performance, and risk relative to benchmarks.
5. In the ranking process, we assessed the firms and products' long-term viability, to determine the sources of value-added and to detect factors that could result in consistent future out-performance or under-performance. Each manager was evaluated and scored based on these categories to ensure consistency across firms and products.

The following ratings were officially assigned to each manager:

- Recommended,
- Under Consideration,
- Not Recommended and
- Sell.

Segal Marco Advisors considers the manager rankings to be an evolving and dynamic process. Additionally, we are constantly evaluating new managers and reevaluating established ones with changes in rankings by our research staff made when appropriate.

6. Before selecting the three candidates for each OPPD manager search, Segal Marco Advisors proposed the following criteria for the manager search. All candidates needed to exhibit the following characteristics:

Organization

- Firms that have been managing assets for at least five years.
- Firms with a minimum of \$500 million under management.
- Firms with a relatively low level of personnel turnover.
- Firms with a relatively low level of client turnover and evidence of controlled business growth.
- Firms with competitive fees.

Management Styles

- An investment process that derives the majority of its value-added from security selection and portfolio construction.
- An investment style that exhibits a high correlation with the appropriate index and an investment focus consistent with the investment mandate.

Performance

- Verifiable track record that demonstrates adherence to the stated investment approach.
 - Historical risk and return data consistent with each investment mandate.
 - Firms with a performance history that is competitive over time when compared to appropriate peer groups and asset class benchmarks.
7. Based on the criteria, Segal Marco Advisors proposed three candidates for this mandate all of which were rated "Recommended". Segal Marco Advisors reviewed the candidates with the Trust Selection Committee and the following firms were selected to provide in-person presentations on July 8th.

International Large-Cap Core Equity

Arrowstreet Capital, Limited Partnership
MFS Investment Management
Wellington Management Company, LLP

8. Following the interviews, the Trust Selection Committee selected MFS Investment Management to replace AQR Capital Management as the manager of the actively managed international large-cap core equity mandate for the OPPD Retirement Plan.
9. Based on the research process, Segal Marco Advisors supports the decision of the Trust Selection Committee in their recommendation to hire MFS Investment Management.

If you have any questions about the research process for the selection of this manager, please feel free to call me at 770-541-4825.

Sincerely,



Jeffrey C. Boucek, CFA

cc: John Thurber

Retirement Fund Investment Manager Replacement International Large Capitalization

John W. Thurber

Director of Treasury & Financial Operations and Interim Chief Financial Officer

August 4, 2021

Current International Large Cap Manager

- Current international large cap equity manager, AQR, placed on ‘watch’ in March 2020
- As of March 31, 2021, AQR failed to maintain the minimum performance to retain
- Performance measured by:
 - Rank in the top 40% of MSCI EAFE index managers
 - Exceed MSCI EAFE benchmark net of fees
- AQR was in the 85th percentile of MSCI EAFE index managers for the three-year period and in the 83rd percentile for the five-year period
- AQR three-year return was 2.4%, net of fees, versus the index return of 6.0% and its five-year return was 7.2% (gross) versus the index return of 8.8%

Potential Replacement Managers and Process

- Retirement Fund investment advisor, Segal Marco, recommended three potential replacement managers:
 - Arrowstreet Capital
 - MFS Investment Management
 - Wellington Management
- All candidates were “Recommended” by Segal Marco and meet the new manager criteria set by the Board
- Segal Marco provided a search book that included detailed information on each candidate
 - Manager overviews and assessments, portfolio characteristics, performance, risk factors, and fees
- The Trust Selection Committee (TSC) interviewed each of the candidates

Candidate Assessments

- Arrowstreet Capital
 - Quantitative research process that attempts to create excess returns by identifying investment signals that are relevant to price and less obvious to investors
 - Fees are slightly more expensive than peers
 - Has consistently delivered returns in top quartile of peer group while limiting downside risk
 - Greater exposure to emerging markets than MSCI EAFE index
 - As a quantitative manager, they have not identified any explicit ESG related factors that contribute to alpha generation but are committed to researching the field of ESG for future development of ESG factors

Candidate Assessments

- MFS Investment Management
 - Fundamental bottom-up research process that has slight growth bias
 - Risk adjusted returns are impressive versus peers while limiting downside risk
 - Less exposure to emerging markets than other candidates
 - Fees below median of peers
 - ESG is integrated throughout their investment process
 - Portfolio managers are located in London and Singapore

Candidate Assessments

- Wellington Management
 - Fundamental bottom-up research process and clear understanding of industry and macroeconomic trends
 - Fees below median of peers
 - Performance has generally been strong especially since 2019 but they did have a period of underperformance in 2016-2018
 - Risk adjusted returns are not as strong as other candidates
 - Greater exposure to emerging markets than MFS but less than Arrowstreet
 - Has seven ESG research analysts and has integrated ESG into investment process

Retirement Fund Manager Recommendation

- Recommend MFS Investment Management
 - Strong risk adjusted return metrics
 - Outperformed during all down markets in last ten years
 - Good upside capture and avoids downside risk
 - ESG is integrated throughout their investment process
 - Diverse Portfolio Manager Team
 - Lower fees than Arrowstreet and also below peer group median
 - Impressed with MFS team and investment process that is easily understandable