MEMORANDUM

Friday, February 26, 2021

From: ISAC Investment Staff

To: ISAC Investment Committee

Subject: Watch List

Investment Policy Watch List Procedure and Criteria

A number of factors may contribute to a manager's over- or under-performance at any given time - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. A Watch List will be utilized to identify managers of concern, due to performance or other issues.

At each quarterly meeting of the Investment Committee, Investment Staff shall recommend managers to be included on or removed from the Watch List. A manager may be recommended for the Watch List based on the qualitative or quantitative criteria described above or in the applicable guidelines or statement of work (SOW). Watch List managers will be closely monitored and scrutinized. Watch List managers may not receive new contributions (including rebalancing) without the approval of the Investment Committee.

General Comments

- Performance for the passive accounts (Rhumbline All Cap and SSgA Bond) is close to the relevant benchmark for all periods, as expected.
- Both Ativo (-0.71%) and DFA (+9.35%) lagged the MSCI ACWI ex US index (+11.02%) for the past year as the value premia underperformed significantly (by 23%) the growth factor. Please note, despite DFA's disappointing short- and longer-term performance, their strategy remains in line with their profile and staff has no concerns. Ativo Capital in evaluated in detail in the following pages.
- T.Rowe Price's recent underperformance (March 2020) was driven by the flight to quality seen during the COVID-19 pandemic as credit spreads widened. Although the manager has recovered strongly as anticipated by staff, the outperformance was not enough to outperform for calendar year 2020. T.Rowe Price, however, is outperforming for all other longer term trailing periods. Staff retains its conviction in T.Rowe Price's team and investment process. Garcia Hamilton also underperformed in 1Q20 and recovered in 2Q20 as they added fixed credit exposure when spreads widened in March 2020. Although the manager was slightly ahead of its benchmark for the 2H20, it was not enough to outperform for calendar year 2020. We continue to have conviction in the manager and investment process, but the ongoing duration management issue (since 4Q18) and poor relative performance in the medium term (last 3 years) continue to heighten investment staff concerns.
- DDJ (+5.27%) lagged the High Yield bond index (+6.17%) for the past year due to their higher than benchmark exposure to CCC bonds and leveraged/bank loans, both of which underperformed the index. We highlight that DDJ continues to outperform the index since inception, which the manager has accomplished with a lower volatility and drawdown profile. We retain strong conviction in the manager and investment process.
- The Security Capital Preferred Growth (PG) REIT fund (+6.97%) strongly outperformed the MSCI US REIT index (-7.57%) for the past year as the market experienced a flight to safety due to the COVID-19 pandemic. We highlight that the strategy has strongly outperformed the index for most trailing periods and since inception returns are in line with expectations. Staff retains

strong conviction in manager and investment process and expects PG to provide REIT-like returns over a market cycle with dampening volatility in periods of REIT distress.

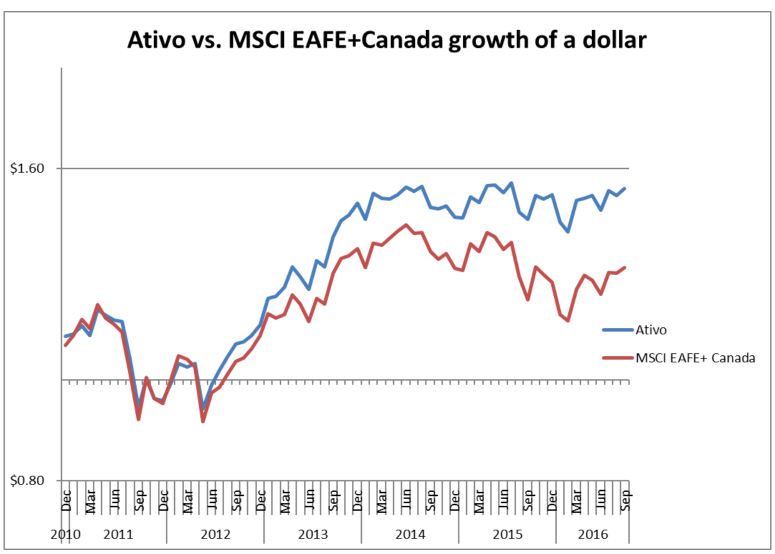
- Neuberger Berman (+2.20%) had a modest year as leveraged/bank loans struggled early in the year and its credit sensitivity hurt performance. For years now, we have noted to the Commission that Neuberger credit exposure may lead to underperformance in risk off environments, which is exactly what we saw in the first quarter of 2020. While staff was not pleased with the degree of underperformance, we note that this is roughly in line with their profile and the manager has fully recovered its drawdown as of December 2020. As of now long-term performance is roughly in line with expectations. Nevertheless, staff will reassess our absolute return allocation as part of the upcoming asset liability study we plan to conduct with the assistance of our consultant Callan LLC given the program runoff scenario.

<u>Ativo Capital Management LLC</u>

Ativo Capital Management, LLC (" Ativo") was founded in 2001 and is a registered investment advisor. From Ativo's inception, Ricardo Bekin has been its Chief Investment Officer and Principal Member. The firm is 100% employee owned, SEC registered, and has met the requirements for certification as a bona fide Minority Business Enterprise as defined by the National Minority Development Council.

Ativo employs a quantitative process utilizing a multi-factor model to identify global firms that are earning a return on investment, on a cash flow basis, above their cost of capital. Central to their approach is a proprietary model that scores stocks based on our assessment of their intrinsic value, price momentum and other important factors. They follow a rules-based process that combines quantitative methodologies with a fundamental overlay to build long-only, high active share portfolios. They invest globally, with an emphasis on international markets.

Ativo was hired by ISAC on December 2010 to manage an International Equity strategy which was benchmarked to the MSCI EAFE+Canada. Ativo managed such mandate successfully until September 30, 2016. Investment staff was very pleased with their investment process, model execution, team and firm growth, as well as their performance for that period which is shown in the graph below. Ativo generated an annualized rate of return of +7.55% which greatly exceeded (+3.17% excess return annualized) its MSCI EAFE+Canada benchmark which returned +4.38% for the same period.

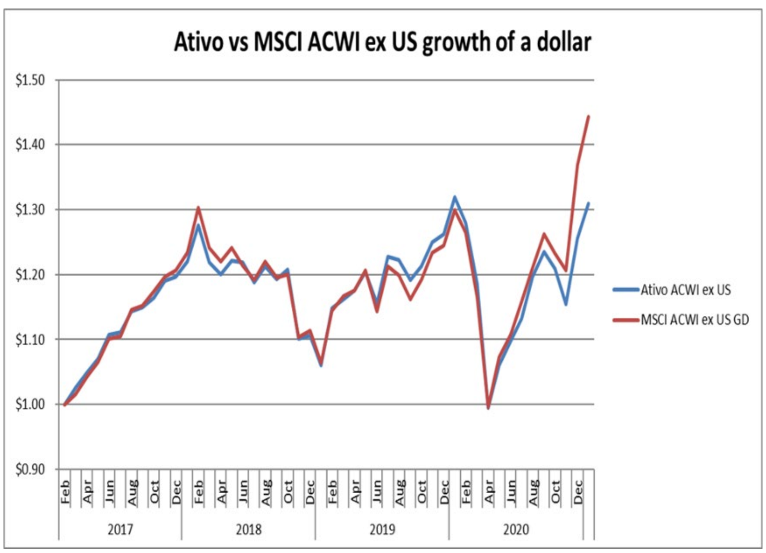


In 2016, the Commission made the decision to transition the international equity portfolio from the MSCI EAFE+Canada benchmark to the MSCI ACWI ex-US IMI benchmark in order to get broader exposure to the international markets. The MSCI ACWI-ex US IMI benchmark includes small cap and emerging markets securities. The transition of the Ativo mandate from MSCI EAFE+Canada to MSCI ACWI ex-US, was completed during the Dec. 2016 to Jan. 2017 period. The new strategy's objective is to add 400-500 basis points of cumulative excess performance over a full investment cycle as compared to the MSCI ACWI ex-US Index. Coincidentally, 4Q16 was a challenging quarter for Ativo as the market experienced a momentum crash. ISAC investment staff was not pleased with the factor rotations (reduce small cap and growth tilts) implemented by Ativo during such timeframe, since these rotations limited their potential for up market capture in case of a market recovery. Despite this challenging quarter, our history with Ativo had been very positive to that point since inception (Ativo +6.21% vs. benchmark +4.13% since inception thru 12/31/16) and therefore we monitored Ativo closely but did not place them on the Watch List.

From the inception date of the new ISAC Ativo strategy of 01/31/2017 through 09/30/20, the performance has been roughly in line with its benchmark. Unfortunately, the fourth quarter of 2020 took a turn for the worse. Ativo was up 8.32% for the period, but significantly underperformed (-8.76% excess return) the MSCI ACWI ex-US index which returned +17.08%. This represented the worst relative underperformance in the history of Ativo. Therefore, investment staff's concerns have increased as we anticipate challenges for the manager.

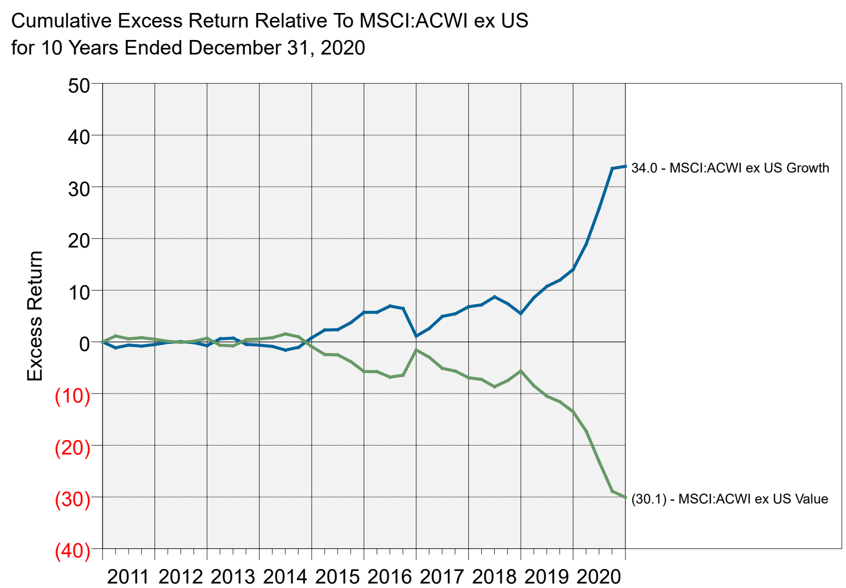
Performance

ISAC investment staff has not been pleased with this *benchmark-like performance* as we typically like to see active strategies outperform over long-term periods (see graph below).



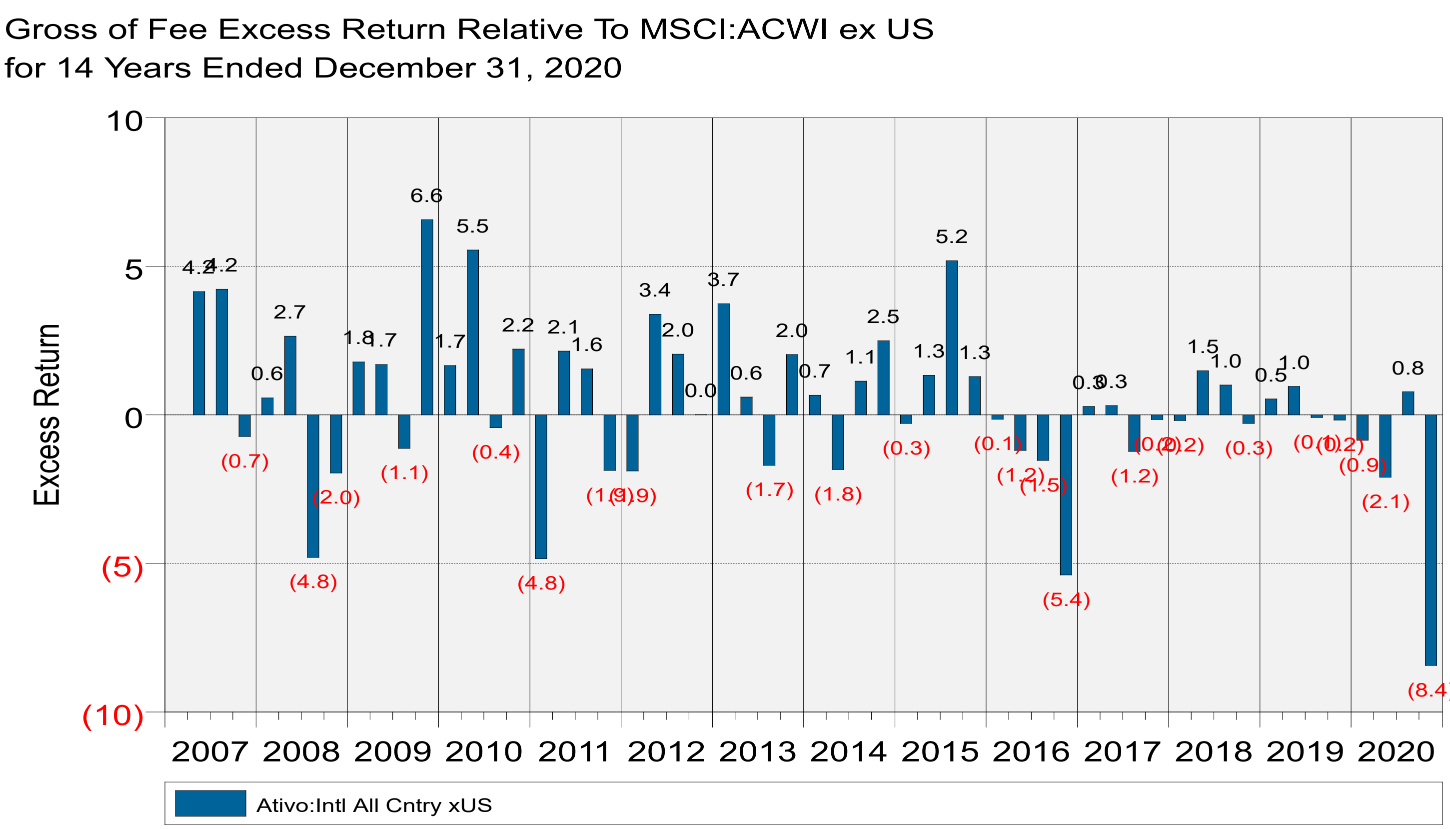
Ativo had previously generated strong relative performance on the EAFE+Canada strategy throughout time, therefore our expectation was for a similar outcome on the ACWI ex-US strategy. With that being said, the performance has not been outside the range of expectations as we know that quantitative managers (like Ativo) have been struggling in recent years due to the market volatility stirred up by exogenous factors (i.e. trade war, COVID-19, easing monetary policy by global central banks). Models like Ativo's tend to have the strongest predictive ability when medium- to long-term trends have been established, or when fundamentals are driving asset prices as opposed to liquidity or sentiment. The unusual events that occurred in 2020 led to extreme factor returns and quick reversals in factor leadership that made it difficult for multi-factor models to outperform. The historical spread dynamic between growth vs. value (value underperforming by the largest spread

ever) as well as other factors (like low volatility) being out of favor has added to Ativo's performance challenges. See Callan graph below for:
<u>Cumulative excess return for MSCI ACWI ex-US Growth and Value Indices vs. the MSCI ACWI ex-US Index for 10-yrs. ended Dec. 31, 2020.</u>

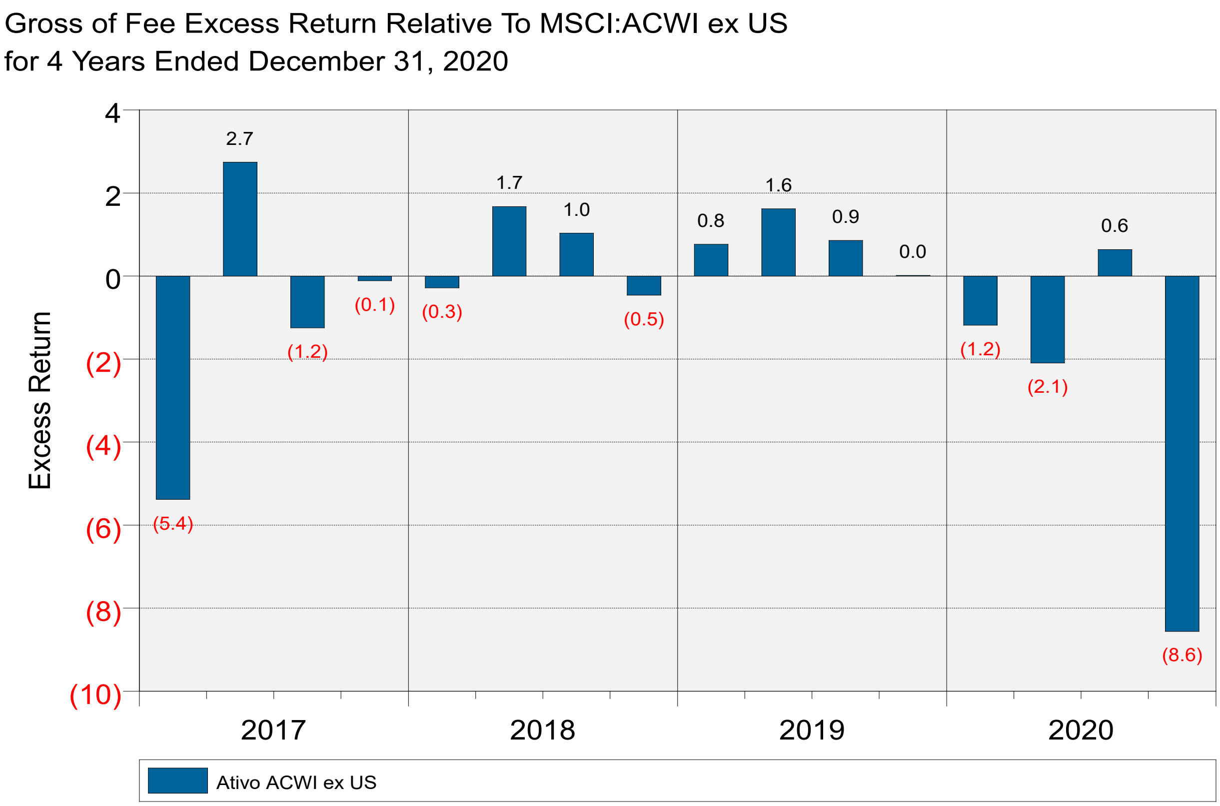


Moreover, the fourth quarter of 2020 represented the worst relative underperformance in the history of Ativo (see Callan graphs below).

<u>Ativo ACWI ex-US Composite quarterly relative performance chart since inception (2007)</u>

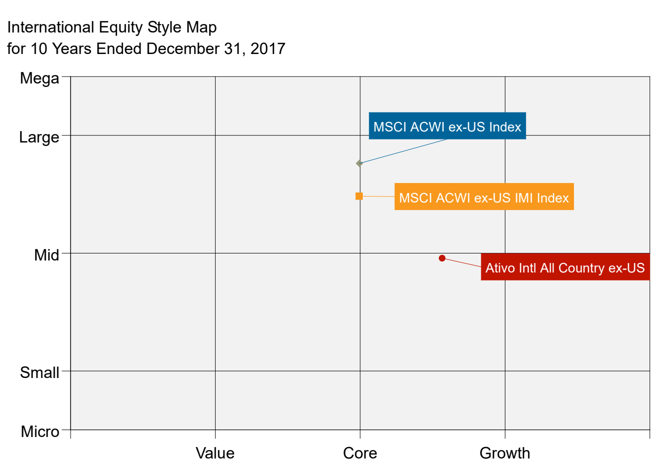


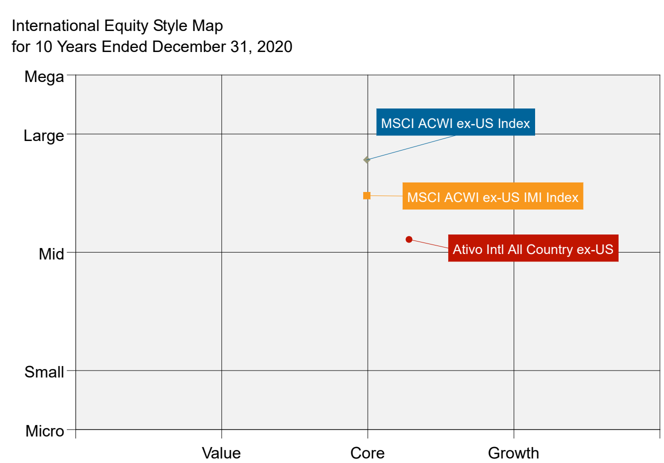
ISAC Inception (1/312007) to date for Ativo ACWI ex-US strategy quarterly relative performance



Investment Style

Like many quantitative managers, Ativo is constantly looking for ways to enhance their quantitative model and refine their investment process. Ativo started using the Axioma optimizer for the ACWI ex-US strategy in 2018 and subsequently built custom risk models. Axioma is a sophisticated suite of quantitative risk analytics and portfolio-construction tools. Since then we note that the growth tilt of the portfolio has lessened as shown in the Callan charts below.





It seems that the enhancements to Ativo's quantitative factor model in the Axioma system have shifted the model away from growth factors towards core which has not been as effective in the recent market experiences.

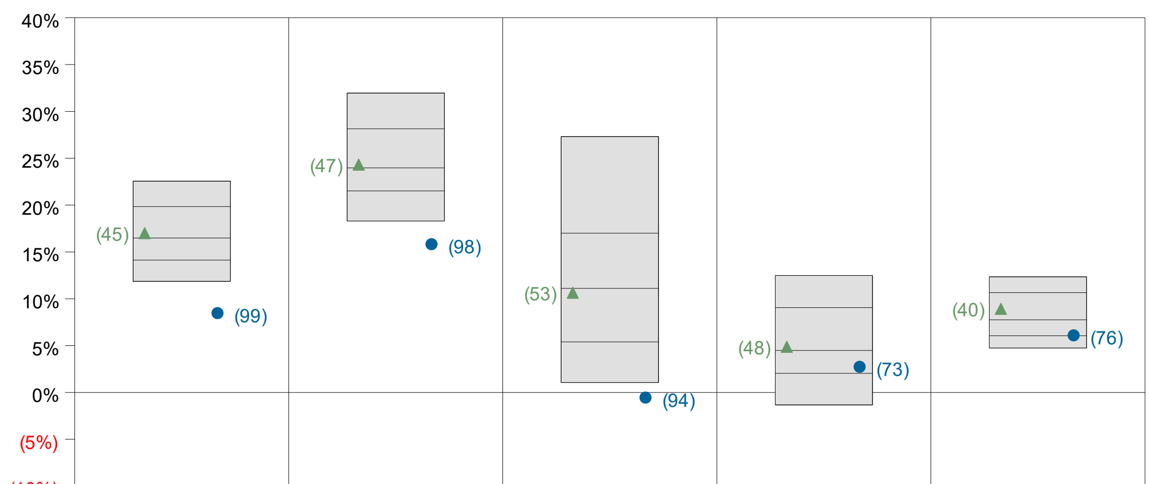
Peer Group

Below you can see the net-of-fees performance history of our new ISAC Ativo ACWI ex-US mandate since inception (01/31/2017).

	As of	Last 3 months	1-year	3-years	5-years	Inception to date	Inception date
Ativo ACWI ex US	12/31/20	8.32%	-0.71%	2.37%	*n/a*	7.12%	01/31/17
MSCI ACWI ex US GD	12/31/20	17.08%	11.02%	5.34%	*n/a*	9.81%	

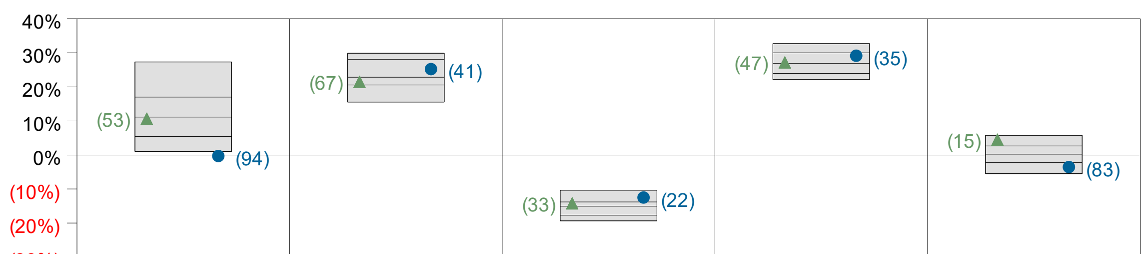
Additionally, in the peer comparison (gross-of-fees) vs. Callan's Non-US Equity Institutional Equity Mutual Funds, Ativo's percentile rankings have plummeted for periods ended Dec. 31, 2020. The 1-year performance ranks in the 94 percentile and the 3-year ranking is now in the 73 percentile (which translates into Ativo underperforming 73 percent of its peers in the past 3-years).

Performance vs Callan Non US Equity Mutual Funds (Institutional Net)



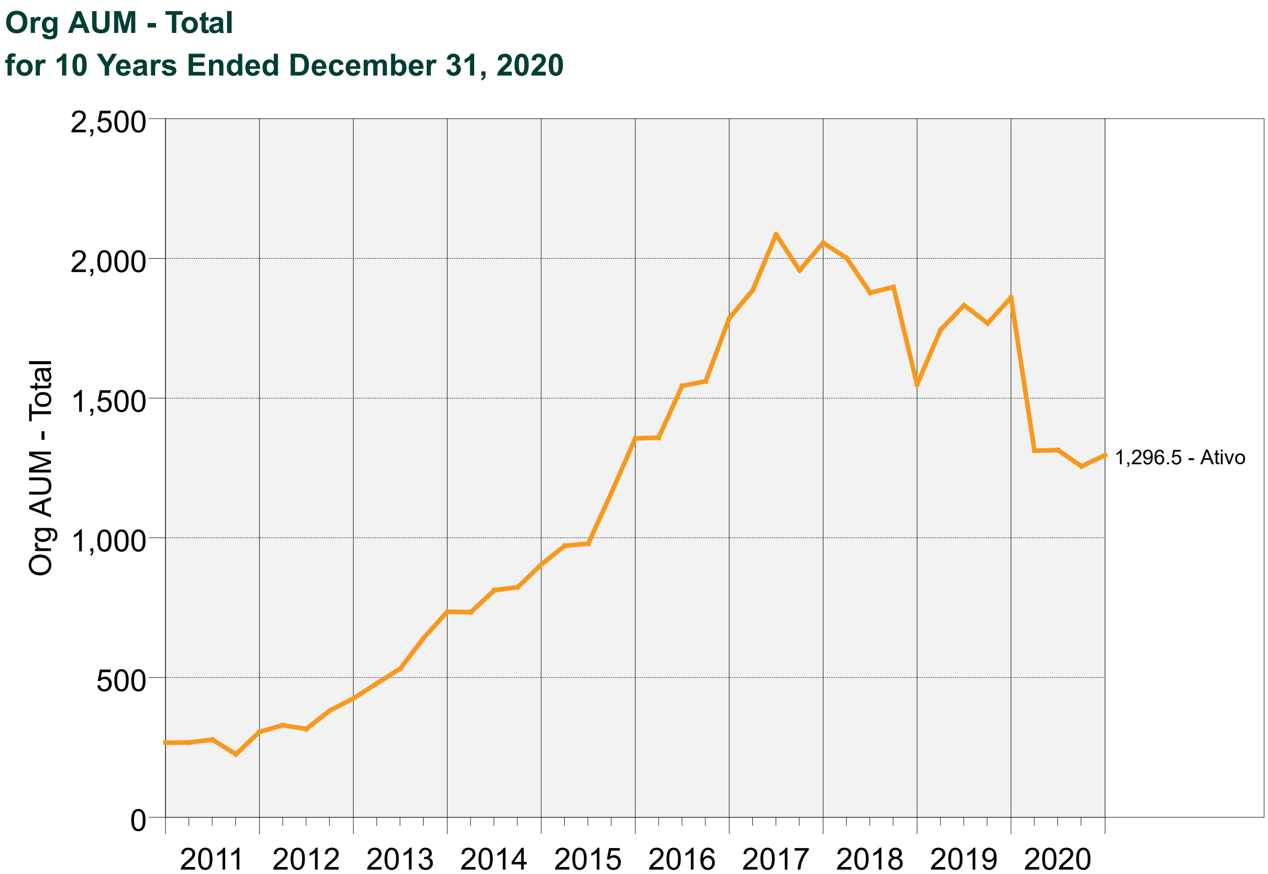
	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years
10th Percentile	22.55	31.96	27.31	12.48	12.33
25th Percentile	19.85	28.14	17.00	9.05	10.66
Median	16.48	23.97	11.12	4.48	7.75
75th Percentile	14.13	21.52	5.40	2.03	6.05
90th Percentile	11.85	18.29	1.05	(1.34)	4.73
Ativo ACWI ex US ●	8.32	15.66	(0.70)	2.57	5.94
MSCI ACWI ex US ▲	17.01	24.33	10.65	4.88	8.93

Performance vs Callan Non US Equity Mutual Funds (Institutional Net)



	2020	2019	2018	2017	2016
10th Percentile	27.31	29.86	(10.33)	32.71	5.78
25th Percentile	17.00	28.07	(13.79)	30.00	2.66
Median	11.12	22.83	(15.04)	26.90	0.23
75th Percentile	5.40	20.57	(17.67)	23.95	(2.25)
90th Percentile	1.05	15.53	(19.35)	22.13	(5.47)
Ativo ACWI ex US ●	(0.70)	24.83	(12.93)	28.73	(3.93)
MSCI ACWI ex US ▲	10.65	21.51	(14.20)	27.19	4.50

Firm status
We have seen firm assets decline by approximately 50% (from $2.4 billion to $1.2 billion) over the past 3 years which adds to our concerns.



As a quantitative manager; however, they have some flexibility in reducing costs. In recent calls, Ativo has noted that they have cash reserves, a line of credit, financial flexibility as their current lease expires this summer, and no debt. Furthermore, the team is cohesive and committed as the majority of the team experienced the global financial crisis together at Ativo.

Still, we think addition to the Watch List is appropriate while we continue to monitor their positioning and performance.

Recommendation
That the Investment Committee place Ativo Capital on the Watch List.

See following page for the Watch List performance evaluation grid.

ISAC Watch List Evaluation for periods ending 12/31/20

Excess Return vs. Benchmark (Gross of Fees)

Domestic Equity	1 year	3 year	5 year	ISAC start
Rhumbline All Cap	0.00%	0.01%	-0.01%	7/24/09

International Equity	1 year	3 year	5 year	ISAC start
Ativo ACWI ex US	-11.38%	-2.35%	*-3.89% **	1/31/17
DFA	-1.39%	-2.09%	*-0.47% **	1/31/17

Fixed Income	1 year	3 year	5 year	ISAC start
Garcia Hamilton	-0.25%	-0.09%	*0.09% **	9/30/16
SSgA BC US Agg Bond Index	0.10%	0.03%	0.01%	6/11/13
T.Rowe Price	0.09%	0.40%	0.95%	8/31/13

Active Manager Rank vs. Peer Group

International Equity	1 year	3 year	5 year	ISAC start
Ativo ACWI ex US	95	69	*90 **	1/31/17
DFA	57	69	*40 **	1/31/17

Fixed Income	1 year	3 year	5 year	ISAC start
Garcia Hamilton	85	81	*74 **	9/30/16
T.Rowe Price	91	82	71	8/31/13

Liquid LPs/LLCs (Absolute Return) - Net of Fees

	1 year	3 year	5 year	ISAC start
SCM Preferred Growth	6.97%	8.87%	8.15%	12/1/09
MSCI US REIT**	-7.57%	3.53%	4.83%	
NB Div. Arb.	2.20%	2.29%	3.62%	1/31/10
HFRI FoF Conservative Index**	6.47%	3.91%	3.54%	
DDJ	5.27%	4.17%	7.87%	6/30/10
MLHY**	6.17%	5.88%	8.43%	

**composite for periods before ISAC inception*

***Reference index*