



Memorandum

Date: June 7, 2011
To: CCCERA
From: Timothy Price, Jeff Youngman, and Bob Helliesen
Subject: Update on Small Cap Value Search

MEETING DATE

JUN 15 2011

AGENDA ITEM

#7

Search Overview

At the February 23, 2011 meeting of the Board, CCCERA made the decision to terminate both Progress Asset Management and Rothschild Asset Management due to poor performance. The assets were temporarily transferred to a small-cap value index fund managed by State Street. Milliman was tasked with finding a permanent small-cap value replacement manager for assets formerly in the Progress and Rothschild Funds.

Manager Search Process

In our memo dated March 29, 2011, we outlined the initial stages of our search process. Our search began by screening the universe of fund in eVestment for the following factors:

- Product classified as small cap value equity;
- Product open to new investors;
- A portfolio management team that had been together for at least three years;
- Asset base of at least \$500 million as of December 31, 2010;
- At least \$300 million of institutional assets in the product;
- Returns above those of the Russell 2000 Value Index and an Information Ratio over the three year period ending December 31, 2010 that was above median in a small cap value peer group. (The information ratio is a measure of how efficiently a manager takes non-benchmark risks in order to achieve excess returns.)

This gave us a preliminary universe of 29 firms and 31 products.

We then looked at the performance patterns of each product and eliminated the products that had less-than-consistent performance. We specifically looked at the ability of the products to consistently deliver three-year rolling results in excess of the Russell 2000 Value Index. Additionally, we want this manager to reasonably resemble the Russell 200 Value Index, so we eliminated any products that had a large beta relative the index or that were defined as "deep" value strategies and that as a result would be likely to vary greatly from the index.

Finally, we reviewed the investment process and other portfolio characteristics of each remaining candidate. Three firms and three products were eliminated during this review, leaving us with a universe of 13 candidates (shown on the following page).



Parallel to our screening, we were contacted by large number of managers who wished to participate in the search, several of whom were already included in the final group of candidates. We reviewed our rationale for eliminating each manager that was not brought forward and in most cases we confirmed that the manager was eliminated for valid reasons.

Milliman allowed Security Global Investors (SGI) to provide a response for the search. SGI has a long, successful track record managing small/mid (“smid”) assets and has launched a small cap product that will have three years of history as of June 30, 2011.

Questionnaire Recipients

	Firm	Product
1	Brandywine Global	Institutional Small Cap Value Equity
2	Ceredex	Small Cap Value Equity Strategy
3	Chartwell	Small Cap Value
4	Cramer Rosenthal McGlynn	Small Cap Value
5	Federated Investors	Clover Small Cap Value
6	GAMCO	Small Cap Value
7	Lee Munder Capital Group	Small Cap Value
8	Opus Capital Management	Small Cap Value
9	Perkins Investment Management	Small Cap Value
10	Robeco Investment Management	Robeco Boston Partners Small Cap Value
11	Security Global Investors	Small Cap Value
12	Sterling Capital Management	Small Cap Value
13	Wellington Management Company	Small Cap Value
14	William Blair and Company	Small Cap Value Team

We distributed questionnaires to the group of 14 candidates on March 25, 2011. Responses were received by April 29, 2011. All but two of the candidates provided responses. Neither Goldman Sachs nor Cramer Rosenthal were able to accommodate a new account of \$150 million, and did not respond to the RFP.

Milliman is in the advanced stage of reviewing the responses, and will conduct additional due diligence over the next several weeks in order to narrow the field down to a semi-finalist list for review by the Board at the July 13, 2011 Board meeting.