

Memorandum

MEETING DATE

MAR 28 2012

AGENDA ITEM

#9

Date: March 22, 2012
To: CCCERA
From: Timothy Price and Bob Helliesen
Subject: Recommendation on Tradewinds Global All Cap Portfolio

Overview and Recommendation

On March 13, 2012, Tradewinds announced that Dave Iben, the firm's founder and CIO and the lead portfolio manager of the Global All Cap strategy will be leaving the firm. CCCERA uses the Global All Cap strategy as the "high conviction" portion of the global equity program. Subsequent to the initial announcement of Mr. Iben's departure, three analysts have indicated their intentions to follow Dave to his new firm, Vinik Asset Management, a hedge fund manager. All four individuals will remain with Tradewinds during a transition period extending to June 30, 2012 at the latest.

Milliman recommends terminating the Tradewinds relationship immediately and placing the funds in an index strategy on a temporary basis.

On-Site Visit

Marilyn Leedom, Terry Buck, Jerry Telles and Timothy Price visited Tradewinds on March 21, 2012. We reviewed the personnel reassignments post-announcement and the backgrounds and capabilities of the team that will remain after Mr. Iben's departure. While it was clear that the firm is responding prudently and forcefully to the situation, it was also clear that Emily Alejos and Andrew Thelen have not been closely aligned with the portfolio construction of the Global All Cap strategy, though they have managed other strategy's using the same approved list of stocks.

Options

Based upon the impending departure of Mr. Iben and others, the Board needs to determine if it will keep the existing mandate with Tradewinds and work with the remaining team members or terminate the relationship. If the Board opts to leave Tradewinds, it will need to determine where the assets will be held pending a search for a permanent replacement. The Board has two options to choose from:

1. Leave the assets with Tradewinds while a search for a permanent replacement is conducted.
2. Liquidate the holdings as of May 1, 2012 (earliest possible liquidity date under the commingled fund structure) and invest the cash in an MSCI World index strategy, either a futures plus cash synthetic portfolio (the least expensive option) or a portfolio of stocks chosen to track the index.

If the Boards opts to terminate Tradewinds, it will also need to determine how to find a permanent replacement, choosing between:



1. Updating the 2010 search in which Tradewinds was selected. Milliman would only update our due diligence on the most promising candidates from that search. As the Board might recall, Aberdeen Asset Management was a close second in the consideration for the high conviction mandate. This option would take approximately one month.
2. Conducting a comprehensive search for a new manager, with the possibility of identifying a broader array of compelling strategies. This would take approximately four months.

Tradewinds Developments

Dave Iben, Chief Investment Officer and Co-President, is leaving Tradewinds to join Vinik Asset Management (a hedge fund manager). At least three analysts will leave with him: Alberto Crespo, Greg Padilla and Isabel Satra. Effective immediately, Emily Alejos and Drew Thelen have assumed investment leadership and oversight, serving as Co-Chief Investment Officers of Tradewinds. They will take over day to day portfolio management of the Global All Cap strategy on April 1, 2012. Emily and Drew have worked together for more than five years. Ms. Alejos has been an analyst on the team as well as the co-portfolio manager with Mr. Iben of the firm's Global ADR strategy. Mr. Thelen is also an analyst on the team and is the sole portfolio manager of the firm's Global Small Cap strategy.

After Mr. Iben and the three analysts leave the firm, Tradewinds will have a team of 12 analysts (down from 16 currently, including Iben). The firm will likely promote one or more Senior Associates to Analysts. The firm is also actively searching for additional analysts to bolster its ranks.

The current research process will continue, though with some different analysts. As a reminder, the Tradewinds investment process is as follows:

- Analysts are accountable for global sector research, recommending investment ideas for the Approved List and vetting proposed investment ideas in daily investment team meetings.
- Portfolio managers are also accountable for vetting proposed investment candidates, building portfolios from the Approved List and driving performance of their strategies.
- Rowe Michels, Director of Research, remains accountable for the integrity of the overall research effort and has the final say on including a new stock idea on the Approved List.

Tradewinds has announced the implementation of an equity participation program, which enables a broad group of the team to participate in the long-term success of the firm. Nearly half of Tradewinds' more than 80 team members, including our entire investment team, are participants.



Milliman Recommendation

We believe that the future success of this strategy has been clouded by the departure of Dave Iben and the three analysts. The firm certainly has other talented investors on the team who are stepping up to take the reins, but the loss of its founder and CIO is certain to have an impact on the portfolio construction process. At the very least, we would need to fully vet the new team structure, which would only be possible after a period of months or years.

As noted earlier, we recommend terminating Tradewinds and investing the funds passively on a temporary basis. We seek the Boards guidance to determine how best to find a permanent replacement, either by updating our due diligence on the leading contenders from the prior search or by conducting a full, comprehensive search.