

# 140.011 Policy for Investment Manager Selection, Monitoring and Retention

Bd. Min. 12-6-91, Amended Bd. Min. 12-9-93; Amended Bd. Min. 11-14-94; Mended Bd. Min. 12-13-96; Amended Bd. Min. 9-26-97; 1-21-98; Revised 2-1-00; Amended Bd. Min. 7-13-00; Amended Bd. Min. 9-27-02; Amended Bd. Min. 11-22-02; Revised 1-5-04; Amended Bd. Min. 9-9-04; Amended Bd. Min. 1-26-07; Amended Bd. Min. 2-6-09; Amended Bd. Min. 12-11-09; Amended 6-17-11 ; Revised in entirety, Bd. Min. 6-26-12; (Note: Board approval on 6-26-12 replaced previous rules 140.010, 140.011, 140.012 and 140.013 with new language and reissued new rules 140.010 through 140.016.) Revised 6-25-15. Amended Bd. Min. 9-28-17; Amended Bd. Min. 6-29-23; ~~Amended Bd. Min. 6-26-25.~~

A. **Introduction** - This policy establishes general guidelines for selecting external investment managers, monitoring investment manager effectiveness, identifying issues of concern, and for making decisions concerning investment manager retention. The external investment managers can be broadly grouped into public and private market investments. Public market investments are widely held, generally liquid in nature, most often traded on exchanges, and typically disclose certain financial information to the public on a regular basis. Private market investments are longer-term, often illiquid investment strategies that are privately held by a limited number of owners and investors. The University shall utilize an Investment Consultant for assistance with the application of this policy. This policy applies to the following investment pools:

- 140.012 General Pool
- 140.013 Endowment Pool
- 140.014 Fixed Income Pool
- 140.015 Retirement, Disability and Death Benefit Plan
- 140.016 Other Postemployment Benefits Plan Trust Fund

B. **Responsibilities and Authorities** - See CRR 140.010 “Policy for Management and Oversight of Selected University Investment Pools.”

C. **Active vs. Passive Management** – Active managers are used most often, with an expectation of value added in excess of passive implementation. In markets that are generally considered efficient, passive strategies may be used to promote a diversified portfolio, while controlling risk and minimizing costs.

D. **Manager Selection** – The manager selection process requires the evaluation of all aspects of a firm’s organization and investment process to assess the probability that the identified firm’s product will successfully meet the objectives of a given investment mandate going forward. A series of quantitative and qualitative factors should be analyzed when evaluating

prospective firms. When possible, a suitable manager universe for a given mandate should be screened for potential manager candidates. The following, as applicable, should be considered in the manager selection process:

1. Organizational Factors
  - a. Structure: Does the ownership structure align the employees' interests with those of clients?
  - b. Stability: Has the firm been able to retain investment professionals and senior management over time?
  - c. Strategic direction: Is the firm's growth rate in assets and personnel appropriate? Is there a clear focus on investment management?
  - d. Business viability: Are the firm's growth prospects, assets under management and capital base sufficient to maintain a healthy business?
  - e. Assets under management: Are assets sufficient at the product level to accommodate the University's portfolio and, at the other extreme, has excessive asset growth impeded the firm's ability to add value in a given mandate? Generally, the University's combined assets under management across all pools of funds should not exceed 25% of a particular product's total assets under management.
2. Investment Philosophy
  - a. Well Defined: Is the investment philosophy clearly defined and consistently applied?
  - b. Competitive advantages: Are there any aspects to the investment philosophy that provide a competitive advantage such as information/data sources, unique modeling capabilities, unusual perspectives, depth/quality of analytical resources, and/or experience of investment professionals?
  - c. Persistence: Is there something about the investment philosophy that provides conviction that successful performance can be achieved in future markets?
3. Investment Professionals
  - a. Relevant experience: Are the investment professionals experienced in managing this type of mandate?
  - b. Team experience: Is there significant experience among the professionals as a team?
  - c. Skills: Do the investment and research professionals bring complementary skills to the portfolio management process?
  - d. Resources: Has the firm given the team the proper resources to succeed? Are the investment professionals distracted by other responsibilities including other products, firm management, sales, client service, etc.?
4. Historical Performance (Public Markets)
  - a. Performance vs. relevant benchmarks: Has the firm added value on a net basis to the benchmark over market cycles? How much value has been added relative to the risk taken?
  - b. Performance vs. peers: Has the firm exhibited an ability to outperform peers over market cycles?

- c. Consistency: Has the level of performance been consistent and within expectations for the mandate?
  - d. Risk metrics: Is the level of absolute and relative volatility appropriate given the mandate? Are the risk metrics of the portfolio over time consistent with expectations given the mandate?
  - e. Performance attribution: What are the sources of over or under-performance (e.g. industry bets, stock selection, style biases) and do they match the manager's investment process and philosophy?
5. Historical Performance (Private Markets)
- a. Performance vs. relevant benchmarks/peers: Has the firm or investment team's prior funds performed at or above expectations?
  - b. Consistency: Has the level of performance of the firm or investment team's prior funds been consistent and within expectations for the investment strategy? Has the investment strategy evolved over time and are the reasons for the evolution logical?
  - c. Risk: Has the firm or investment team's prior funds effectively mitigated real and anticipated risk?
  - d. Performance attribution: What are the sources of over- and under-performance across investment cycles?
6. Other
- a. Fees: Are fees competitive and appropriate for the mandate?
  - b. Fit: How does the manager fit within the overall portfolio and, when applicable, within the asset class or sector?
  - c. Compliance/Back office: Are compliance and back office systems adequate?

E. **Manager Concentration** - Careful consideration should be given to concentrations of assets under management across all products with a single asset management firm within an individual investment pool as well as in aggregate across all investment pools. Each circumstance should generally be evaluated on an individual basis, taking into account the asset sectors, type of investment vehicles, custody of underlying assets and the overall size and strength of the investment management firm being considered. Additionally, it is recognized that larger concentrations of assets under management with a single investment management firm can often result in lower negotiated management fees, which benefit the investment pools. In all cases, any such fee savings shall be secondary to the consideration of the safety and soundness of invested assets.

F. **Manager Monitoring / Termination** - Each manager should be analyzed on an individual basis, taking into account any specific circumstances affecting the particular relationship. At minimum, the University and Investment Consultant shall review all managers on a quarterly basis. The review process should include, while not being limited to, the following factors:

1. Performance:

**Deleted:** Missouri location and/or minority status: The University has an active and ongoing interest in doing business with firms that are owned, controlled, and operated by citizens of the state of Missouri. In addition, the University is committed to supporting the participation of minority and women-owned and controlled asset management firms (as defined in Section 33.750 (3), (4), and (5), RSMo 2000) in the management of its funds. All potential qualified Missouri and/or minority and women-owned candidates under consideration for investment mandates shall meet the University's threshold manager selection criteria.

- a. Public Markets: An evaluation of performance should focus primarily on trailing three and five year periods, taking into account the manager's expected tracking error versus the agreed-upon benchmark. Over these time horizons, active manager performance, net of fees, is generally expected to outperform the agreed upon benchmark and fall within the top two quartiles of an appropriate peer group.
  - b. Private Markets: Performance is measured on an ongoing basis and is evaluated using several different performance calculation metrics. Funds are monitored for progress of acquisitions, asset management, and disposition of assets. The appropriate time horizon for evaluating private market investments is generally the full term of the fund. At the end of a fund's term, it is expected that it will achieve or exceed its initial performance targets, and fall within the top two quartiles of an appropriate peer group. Investment in subsequent fund offerings will be based, in large part, on actual versus expected performance of existing fund investments at the time consideration is being given to subsequent fund offerings.
2. Adherence to Stated Philosophy, Process and Style: The default expectation would be continued adherence to the manager's stated philosophy, process, and style in existence at the time of hiring.
3. Organizational Matters: Stability is the basic expectation. Any material change in the manager's organizational structure, ownership or personnel should be carefully considered. Ongoing oversight by regulatory agencies should also be monitored, as well as any indications of illegal or unethical behavior.
4. Guidelines: Managers are expected to maintain compliance with guidelines established by the University; exceptions may be granted by the University and Investment Consultant on a case-by-case basis. As circumstances warrant, the manager may provide recommended revisions to the guidelines in writing to the University and Investment Consultant; however, the University and Investment Consultant shall be under no obligation to accept such recommendations.
5. Service and Responsiveness: Managers are expected to be reasonably responsive to the needs of the University and Investment Consultant, including requests for information and/or analysis, requests for periodic meetings to review performance, etc.

To the extent that any significant issues or concerns are identified as part of the review process or at any other time, considering factors including, but not limited to, those noted above, a public markets manager may be terminated based solely on the determination of the University and Investment Consultant. The legal structure of most private markets investments makes it impracticable to attempt an early termination.

Managers may also be terminated from time to time based solely on strategic or operational changes with respect to the overall University portfolio including, but not limited to, changes in asset sectors or changes in portfolio allocations among asset sectors.

Nothing in this policy shall be construed to be for the benefit of any manager or other person or to derogate from or affect the University's right to terminate an investment manager as permitted by the terms of their applicable investment management agreement.