



MEMORANDUM

To: Boards of Administration, San Jose Federated City Employees' Retirement System and San Jose Police & Fire Department Retirement Plan

From: Laura Wirick, Hannah Schriener, Chris Theodor, Gordon Latter, Meketa Investment Group

Date: March 20, 2019

Re: Insight Investment – Immunized Net Cash Flows

BACKGROUND

The San Jose Federated City Employees' Retirement System and San Jose Police & Fire Department Retirement Plan currently each have target allocations of 5% (approximately \$183 million for Police & Fire and \$111 million for Federated) to immunize Net Cash Flows. The primary objective of the allocation is to meet net projected liquidity requirements (benefit payments minus contributions), while minimizing the risk of forced selling during stressed market environments, over the upcoming five years. This type of mandate is not “set it and forget it” because variability of contributions, new actuarial valuations, and changes in the interest rate environment, among other things, will require ongoing modifications to the strategy. Therefore, it is important that the investment manager have specific expertise in cash flow immunization strategies.

Neither plan has funded the allocation yet, as the City of San Jose investment staff has collected information on appropriate investment managers and analyzed that information, with the assistance of Meketa Investment Group. Following this extensive process, Staff is now recommended hiring Insight Investment to manage the allocation.

INSIGHT INVESTMENT

Insight Investment has been delivery custom investment solutions for over 20 years, and currently manages \$612 billion in LDI (Liability-Driven Investment) fixed income solutions for a variety of institutional clients, of which 18 are public sector entities in California. These clients include Contra Costa County Employees Retirement System and Stanislaus County Employees Retirement System.

The Insight investment team is led by Shivin Kwatra, Head of LDI Portfolio Management – US. Mr. Kwatra was previously a senior portfolio manager at Goldman Sachs Asset Management and a member of JP Morgan's Structured Products and Derivatives team, and he is supported by the Insight's broader fixed income group, which includes four other individuals. Kevin McLaughlin, Head of Liability Risk Management – North America, will be responsible for the liability modeling and quantitative analysis side of the mandate. Mr. McLaughlin came to Insight from Deutsche Bank, and is supported by three individuals in the firm's solutions group.

M E K E T A I N V E S T M E N T G R O U P

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Insight has developed a proprietary system called Ayla, which they use to design, construct, and manage liability-based and cash flow-matched portfolios. Ayla combines an optimization engine with Insight's pricing library in order to create custom portfolios, and also incorporates the views of the firm's credit researchers and portfolio managers.

In their proposal to the City of San Jose, Insight has offered a choice of three possible portfolios in order to match net cash flows.

- Portfolio 1: Treasury/Agency Securities. Fee: 5 basis points (bps)
- Portfolio 2: 50% Treasury/Agency Securities, 50% Credit. Fee: 10 bps
- Portfolio 3: 100% Credit. Fee: 15 bps

SUMMARY

Meketa Investment Group concurs with Staff's recommendation to engage Insight to manage the Immunized Net Cash Flow allocations. Insight has deep experience in the liability-driven investing space, as well as an experienced team and customized resources. We believe that the fees they have proposed are competitive.

We look forward to discussing this recommendation in person at the upcoming Joint Investment Committee meeting. Please feel free to contact us at (760) 795-3450 with any questions.

LBW/HS/CT/TA/bmc