



Memorandum

TO: Federated City Employees' Retirement Plan

FROM: Jay Kwon

SUBJECT: Recommendation on Albourne America, LLC.

DATE: June 5, 2020

This memorandum outlines Staff's recommendation for hiring Albourne America, LLC under new terms. Albourne is currently operating on a month-to-month basis under their existing contract as an Absolute Return Consultant, as defined in the Plan's IPS. Both Plans approved a one-year extension of Albourne's contract in August of 2019.

Background

Albourne has been an instrumental partner in the construction and oversight of the Plans' hedge fund exposures over the past 8 years. They were originally hired in 2012 in conjunction with an expected increased emphasis on absolute return strategies, in line with the Plans' increasing usage of alternatives coming out of the Great Financial Crisis. Albourne was relied upon to help construct and manage an exposure to absolute return strategies that at points reached 20% of plan for Federated, and nearly that number for Police & Fire. Their scope of services has been increased several times, including for current services like fee reconciliation.

Staff's reliance on Albourne has always been dependent on the Plans' usage of hedge fund strategies. In earlier times, when this usage was heavy, Albourne was an integral part of the Plans' support resources. However, the Plans' usage of hedge fund strategies has declined over the past several years, and is not forecasted to increase. In light of this declining exposure, Staff recommends that the Plans' relationship with Albourne be restructured to a more appropriate size.

New Terms

Albourne had served as a Specialty Absolute Return consultant, as defined in the Plans' IPS. Going forward, Staff recommends that Albourne's contract be restructured so that Albourne serves simply as information provider, not as a consultant making investment recommendations, and importantly, no longer serving as a fiduciary. The cost savings to the Plans would be significant, but more importantly, the new contract would still provide Staff with the necessary resources to continue managing the re-sized Absolute Return allocation. The smaller allocation will include a reduced number of strategies, with an emphasis on diversification. Under the new contract, Albourne will continue to provide the Plans with ongoing Investment and Operational Due Diligence reports covering the remaining strategies, as well as

portfolio level reporting. They will not be responsible for making recommendations should the Plans seek to add a new strategy, but as noted, an increase in Absolute Return exposure is unlikely.

Cost and Termination

Albourne's fee as the Plans' Absolute Return consultant was \$20,000 a month for each plan, for a total across both Plans of \$480,000 annually.

The new cost as an information provider is \$5,000 a month for each plan, for a total across both Plans of \$120,000 annually. The cost savings of moving to the new relationship will be \$180,000 annually for each Plan.

The contract allows the Plan to terminate the agreement with seven calendar days' notice.

Recommendation

Staff recommends that the Boards authorize the CIO to negotiate and enter into an agreement with Albourne America, LLC, commencing July 1, 2020.

Jay Kwon /s/

Jay Kwon, CFA CAIA
Investment Officer