

Date: May 15, 2024
To: Board of Retirement
From: Doris L. Rentschler, Executive Director
Subject: Callan Fees from Investment Managers

Recommended Action:

Receive and file.

Fiscal and Financial Impacts:

There is no financial impact to receiving this informational item.

Strategic Plan Importance and Risk Assessment:

While this item does not directly relate to MCERA's strategic plan, the Board should be aware of any items that could cause a potential conflict of interest relating to its service providers.

Background and Discussion:

At the request of Trustee Gjerde at the April meeting, staff requested information on the fees Callan receives from services provided to investment managers.

MCERA's contract with Callan requires that it act as a fiduciary with respect to MCERA, which holds Callan to the highest legal and ethical standards. Our contract states Callan will discharge its duties and exercise its powers solely in the best interest of MCERA, and with competence, care, skill, prudence, and diligence under the circumstances then prevailing and that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and aims.

Callan discloses potential conflicts of interest in the quarterly list of investment manager advisory clients. MCERA acknowledges that Callan provides services to investment managers and our contract states that "nothing herein shall prevent CONSULTANT from providing research and education services to investment managers or providing advisory service to an investment manager's plan and receiving compensation from such investment managers for those services, subject to CONSULTANT's policies and procedures designed to ensure CONSULTANT's employees carry out their duties solely in the best interests of its advisory clients, and free from all compromising influences and loyalties."

Understanding the fiduciary duty that Callan owes to MCERA and in recognition of the potential conflicts of interest, they disclose the list of investment management firms that receive educational, consulting, software, database, or reporting products or services from Callan. This list is provided to the Retirement Board in the quarterly investment report (excerpt attached for your reference).

Because Callan does not want the amount of fees an investment manager pays to influence the consultant's recommendations in any way, Callan does not share investment manager fee information with plan consultants (our consulting team). To keep this information from Callan consultants, the investment manager fee information has been summarized for this report.

Callan employs a robust process to identify, manage, monitor, and disclose potential conflicts of interest. At last month's meeting, Mr. Reveles reported on his experience with Callan's process when he participated in reviewing funds for a SMID allocation.

Of MCERA's seventeen (17) funds, the following nine (9) investment managers obtained educational or analytic services from Callan in 2023: Alliance Bernstein, Barings, Fidelity, Janus, JP Morgan, Mondrian, PIMCO, T. Rowe Price, and Vanguard. MCERA hired five of the firms before Callan became MCERA's investment consultant. Individual fees paid varied greatly. In 2023, those nine investment managers paid a total of \$611,095 in fees to Callan.

The firms receiving services from Callan are updated quarterly and change overtime. In the most recent manager search for an infrastructure fund, MCERA hired two infrastructure managers – one manager is a Callan client and the other is not.

In 2021, Callan recommended eliminating active management in the US large cap market segment. The recommendation highlights the independence of MCERA's consultant, as both actively managed funds that were eliminated are run by firms that were, and are, Callan clients on the investment management side.

Finally, Trustee Cromer asked whether the practice of advising both pension funds and investment managers was a common practice in the industry. Mr. Reveles researched the largest ten investment consulting firms in North America and found that five of the ten provide advice to both plans and investment managers.

Attachment(s):

1. List of Callan's Investment Manager Clients

List of Callan's Investment Manager Clients

Confidential – For Callan Client Use Only

Callan takes its fiduciary and disclosure responsibilities to clients very seriously. We recognize that there are numerous potential conflicts of interest encountered in the investment consulting industry, and that it is our responsibility to manage those conflicts effectively and in the best interest of our clients. At Callan, we employ a robust process to identify, manage, monitor, and disclose potential conflicts on an ongoing basis.

The list below is an important component of our conflicts management and disclosure process. It identifies those investment managers that pay Callan fees for educational, consulting, software, database, or reporting products and services. We update the list quarterly because we believe that our fund sponsor clients should know the investment managers that do business with Callan, particularly those investment manager clients that the fund sponsor clients may be using or considering using. Please note that if an investment manager receives a product or service on a complimentary basis (e.g., attending an educational event), they are not included in the list below. Callan is committed to ensuring that we do not consider an investment manager's business relationship with Callan, or lack thereof, in performing evaluations for or making suggestions or recommendations to its other clients. Please refer to Callan's ADV Part 2A for a more detailed description of the services and products that Callan makes available to investment manager clients through our Institutional Consulting Group, Independent Adviser Group, and Fund Sponsor Consulting Group. Due to the complex corporate and organizational ownership structures of many investment management firms, parent and affiliate firm relationships are not indicated on our list.

Fund sponsor clients may request a copy of the most currently available list at any time. Fund sponsor clients may also request specific information regarding the fees paid to Callan by particular fund manager clients. Per company policy, information requests regarding fees are handled exclusively by Callan's Compliance department.

Manager Name

abrdn
 ABS Global Investments
 Acadian Asset Management LLC
 Adams Street Partners, LLC
 Aegon Asset Management
 AEW Capital Management, L.P.
 AllianceBernstein
 Allspring Global Investments, LLC
 Altrinsic Global Advisors, LLC
 American Century Investments
 Amundi US, Inc.
 Antares Capital LP
 Apollo Global Management, Inc.
 AQR Capital Management
 Ares Management LLC
 Ariel Investments, LLC
 Aristotle Capital Management, LLC
 Atlanta Capital Management Co., LLC

Manager Name

AXA Investment Managers
 Baillie Gifford International, LLC
 Baird Advisors
 Barings LLC
 Baron Capital Management, Inc.
 Barrow, Hanley, Mewhinney & Strauss, LLC
 Belle Haven Investments L.P.
 BentallGreenOak
 Beutel, Goodman & Company Ltd.
 BlackRock
 Blackstone Group (The)
 Blue Owl Capital, Inc.
 BNY Mellon Asset Management
 Boston Partners
 Brandes Investment Partners, L.P.
 Brandywine Global Investment Management, LLC
 Brookfield Asset Management Inc.
 Brown Brothers Harriman & Company

Manager Name

Brown Investment Advisory & Trust Company

Capital Group

CastleArk Management, LLC

CIBC Asset Management Inc.

ClearBridge Investments, LLC

Cohen & Steers Capital Management, Inc.

Columbia Threadneedle Investments NA

Comvest Partners

Covenant Capital Group

CQS

Credit Suisse Asset Management, LLC

D.E. Shaw Investment Management, LLC

DePrince, Race & Zollo, Inc.

Diamond Hill Capital Management, Inc.

Dimensional Fund Advisors L.P.

Doubleline

DWS

EARNEST Partners, LLC

Fayez Sarofim & Company

Federated Hermes, Inc.

Fidelity Institutional Asset Management

Fiera Capital Corporation

First Eagle Investment Management, LLC

First Hawaiian Bank Wealth Management Division

First Sentier Investors

Fisher Investments

Franklin Templeton

Fred Alger Management, LLC

GAM (USA) Inc.

GlobeFlex Capital, L.P.

GoldenTree Asset Management, LP

Goldman Sachs

Golub Capital

Guggenheim Investments

GW&K Investment Management

Harbor Capital Advisors

Harding Loevner LP

Hardman Johnston Global Advisors LLC

Heitman LLC

Hotchkis & Wiley Capital Management, LLC

Manager Name

Impax Asset Management LLC

Income Research + Management

Insight Investment

Intech Investment Management LLC

Intercontinental Real Estate Corporation

Invesco

J.P. Morgan

Janus

Jennison Associates LLC

Jobs Peak Advisors

KeyCorp

Kohlberg Kravis Roberts & Co. L.P. (KKR)

Lazard Asset Management

LGIM America

Lincoln National Corporation

Longview Partners

Loomis, Sayles & Company, L.P.

Lord, Abbett & Company

LSV Asset Management

MacKay Shields LLC

Macquarie Asset Management (MAM)

Manulife Investment Management

Marathon Asset Management, L.P.

MetLife Investment Management

MFS Investment Management

MidFirst Bank

Mondrian Investment Partners Limited

Montag & Caldwell, LLC

Morgan Stanley Investment Management

MUFG Union Bank, N.A.

Natixis Investment Managers

Neuberger Berman

Newton Investment Management

Northern Trust Asset Management

Nuveen

Oaktree Capital Management, L.P.

P/E Investments

Pacific Investment Management Company

Pantheon Ventures

Parametric Portfolio Associates LLC

Manager Name

Partners Group (USA) Inc.

Pathway Capital Management, LP

PFM Asset Management LLC

PGIM DC Solutions

PGIM Fixed Income

PGIM Quantitative Solutions LLC

Pictet Asset Management

PineBridge Investments

Polen Capital Management, LLC

Pretium Partners, LLC

Principal Asset Management

Putnam Investments, LLC

Raymond James Investment Management

RBC Global Asset Management

Regions Financial Corporation

Robeco Institutional Asset Management, US Inc.

Rockpoint

S&P Dow Jones Indices

Sands Capital Management

Schroder Investment Management North America Inc.

Segall Bryant & Hamill

SLC Management

Smith Graham & Co. Investment Advisors, L.P.

State Street Global Advisors

Manager Name

Strategic Global Advisors, LLC

T. Rowe Price Associates, Inc.

TD Global Investment Solutions – TD Epoch

The Carlyle Group

The TCW Group, Inc.

Thompson, Siegel & Walmsley LLC

Top Tier Capital Partners

Tri-Star Trust Bank

Turning Rock Partners, L.P.

UBS Asset Management

VanEck

Versus Capital Group

Victory Capital Management Inc.

Virtus Investment Partners, Inc.

Vontobel Asset Management

Voya

Walter Scott & Partners Limited

WCM Investment Management

Wellington Management Company, LLP

Western Asset Management Company LLC

Westfield Capital Management Company, LP

William Blair & Company LLC

Xponance, Inc.