

MEMORANDUM

To: Board of Trustees, Fresno County Employees' Retirement Association
From: Manager Research Group
CC: Jeffrey MacLean, CEO and Senior Consultant
Date: July 31, 2013
RE: Update to Winslow Capital Management Recommendation

Wurts & Associates is recommending clients terminate Winslow Capital Management's Large Cap Growth Strategy (Strategy) due to continued organizational changes. This memo updates our previous memo from March 29, 2013 and incorporates our conclusions from the May 9, 2013 on-site visit. Wurts & Associates believes the original thesis for recommending the Strategy in 2010 is seriously challenged by three significant developments: changes to leadership and decision making, additions to the research team, and rapid growth of assets under management.

Background

Winslow Capital Management (Winslow) was founded in 1992 and operates as a boutique large cap growth manager. In 2008, Winslow became a wholly-owned subsidiary of Nuveen Investments (Nuveen), a firm focused on investment management services. Winslow retained full authority over the management of its business, as well as full discretion over its investment process.

In 2010, our recommendation of Winslow was based on a favorable view of the investment team, the alignment of the firm's interests with that of its clients, the firm's decision to maintain its "boutique" culture as a single product shop, and the product's portfolio characteristics:

- I. The analytic rigor and cohesiveness of the team, led by Justin Kelly and Bart Wear, who had worked together for about a decade, was well-regarded, and we believed these were instrumental in the Strategy's past success. The collaborative working relationship between Messrs. Kelly and Wear, who together were responsible for identifying 80% of the stocks in the portfolio, along with their complimentary skills were key considerations in our recommendation of this strategy to clients. Wurts & Associates also believed that as CIO and architect of the strategy, Clark Winslow played an instrumental role in providing input into the decisions made by Kelly and Wear.

2. The investment team and other key professionals had significant equity-based incentives to align their interests with clients, as well as employment contracts and non-compete clauses. Despite the change in ownership, this alignment of interest along with the firm's boutique culture and entrepreneurial spirit mitigated the integration concerns at that time.
3. Winslow's decision to remain a "boutique" focused on a single product, the firm's self-imposed limit on the number of relationships it would undertake to maintain its focus on the investment process, and high level of client service were also important in our evaluation.
4. The Strategy's assets under management of \$9.6 billion on March 31, 2010, did not interfere with the execution of the strategy and its ability to generate strong returns.

Changes to Leadership, Team and Decision Making

Winslow announced major changes to the leadership of its research team on March 13, 2013. Following a number of conversations with members of Winslow's investment team regarding these announced changes, Wurts & Associates has concluded that the decision making process which was the basis for our original recommendation is no longer in place. The announced changes include:

1. **Clark Winslow** will continue in his role as CEO and remains a member of the Operating Committee but will step down from his position as CIO. Mr. Winslow stated that his primary functions at the firm include insuring adherence to the consistent and disciplined investment process, enhancing company culture, and contributing to public relations and marketing initiatives.
2. **Justin Kelly** will assume Mr. Winslow's position as Chief Investment Officer effective March 31, 2013 and become the sole portfolio manager and decision maker for the Large Cap Growth strategy.
3. **Bart Wear**, currently Senior Managing Director and Portfolio Manager, will retire effective July 1, 2013 to focus on philanthropic activities. Mr. Wear will leave after sixteen years with the firm and in doing so leave behind considerable unvested equity. In our original recommendation, Mr. Wear was identified as instrumental to the success of the strategy over the years. Wurts & Associates believes that the collaborative, co-portfolio manager approach led to more robust evaluations of stocks. He was responsible for approximately 40% of portfolio decisions in leading research in the Consumer and Financials sectors. The interpersonal dynamics of our on-site meeting lead us to question the voluntary nature of Mr. Wear's decision to leave.

4. **Expansion of Research Team** Mr. Kelly stated that the decision to build out the research team is a reflection of a changing market environment that requires a different skill set to identify stocks that will outperform than earlier in the strategy's history. According to Mr. Kelly, it was easier to outperform the benchmark before the 2008 financial market crisis. At that time there were large pockets of inefficiently priced securities outside of the benchmark that could be exploited to generate alpha. Our own analysis has shown that in the past, Winslow outperformed its benchmark by taking style bets, especially toward size and value (see appendix). Mr. Kelly believes that as the economy and markets normalize, the market will reward fundamentals and that managers must identify idiosyncratic opportunities to capture alpha. To successfully identify these companies will require a deeper team of analysts with domain expertise in sectors such as energy, healthcare, and consumer discretionary.

The research team responsible for security selection has grown from four to eight over a three-year period. Patrick Burton (2010) was hired to cover Technology and Consumer Staples; Mitchel Kaiser (2011) and Michael Hoover (2011) to cover the Consumer Discretionary and Energy sectors; and Stephan Petersen (2013) to cover the Financials sector. Kelly Flynn will join the team in September 2013 to focus on Business Services.

We note that the additional hires have sell-side research backgrounds rather than buy-side.

5. **Changes to Decision Making Process** In addition to the changes in leadership and team size, Winslow has made a number of changes to how decisions are made. Specifically, Winslow has moved to a larger investment team with decisions overseen by under a sole decision-maker, a change to the original process of shared decision making with the majority of research carried out by the two decision makers.

Rapid growth in assets under management (AUM)

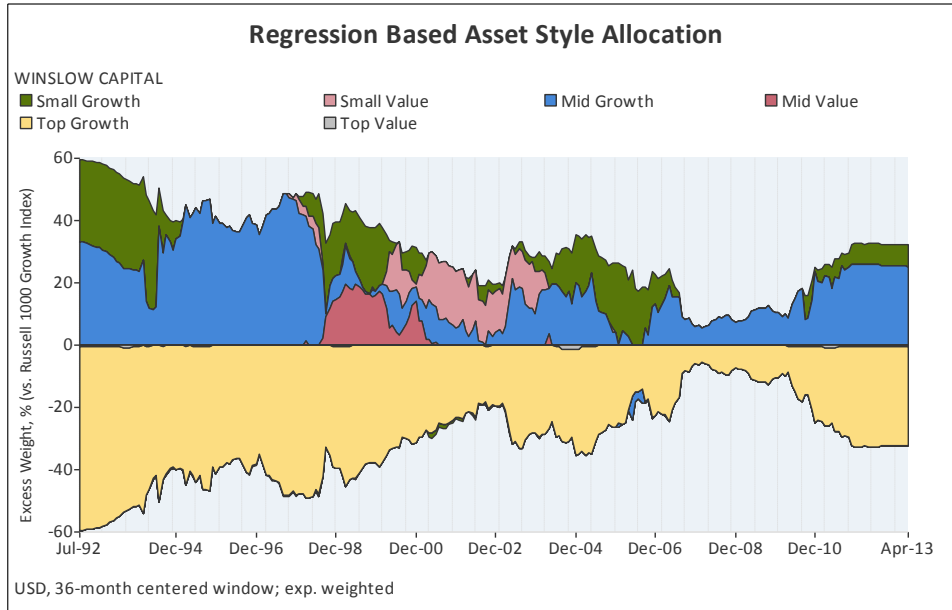
Following Nuveen's acquisition of Winslow, the strategy's AUM almost doubled from March 2010 levels to \$17 billion by year-end 2010, increased again to \$29.4 billion by year-end 2011, and finished 2012 at \$34.7 billion after several soft-closes during the year. With this rapid and substantial asset growth, we are concerned about the firm's trading agility and ability to appropriately size their investments in the same capitalization range that they have historically underwritten and invested. Winslow is no longer accepting new sub-advised mandates or retail SMA/Model account sponsors. Three pooled vehicles sub-advised by Winslow remain open to new institutional investors on a limited basis. To address trading capacity, Winslow recently announced the hiring of an additional senior trader to lead its trading operations.

Conclusion

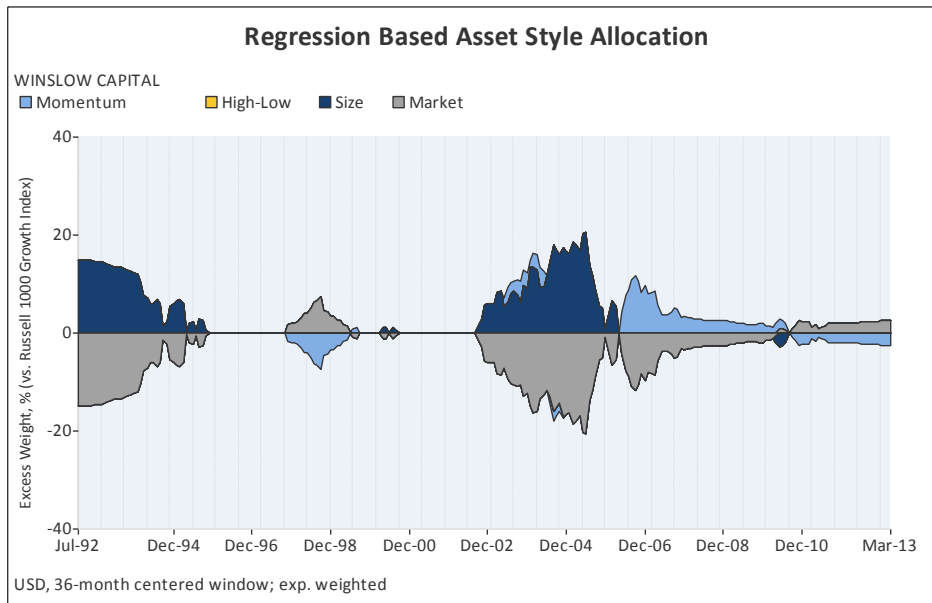
Wurts & Associates original basis for recommending Winslow's U.S. Large Cap Growth strategy was based on a number of criteria including our confidence in the collaborative decision-making of the co-portfolio managers, Justin Kelly and Bart Wear, under the engaged oversight of the strategy's architect, Clark Winslow. With Clark Winslow stepping down from his role as CIO to focus on business operations and marketing, the departure of Bart Wear, the promotion of Justin Kelly to sole decision maker, and the expansion of the analyst group, it is clear that the team dynamic responsible for earlier performance is no longer in place. In addition, Mr. Kelly has acknowledged that the factors responsible for earlier outperformance are unlikely to hold going forward and will require additional resources and a change in the decision making process. While in general, adding resources (analysts) to a research team is a positive event, the expanded team has been in place a relatively short time. We also question Winslow's decision to only hire analysts with sell-side experience rather than buy-side backgrounds and its implications for idea generation. Only time will tell how effective Mr. Kelly will be as sole decision maker and how successful the expanded research team will be in identifying companies that meet the strategy's investment criteria.

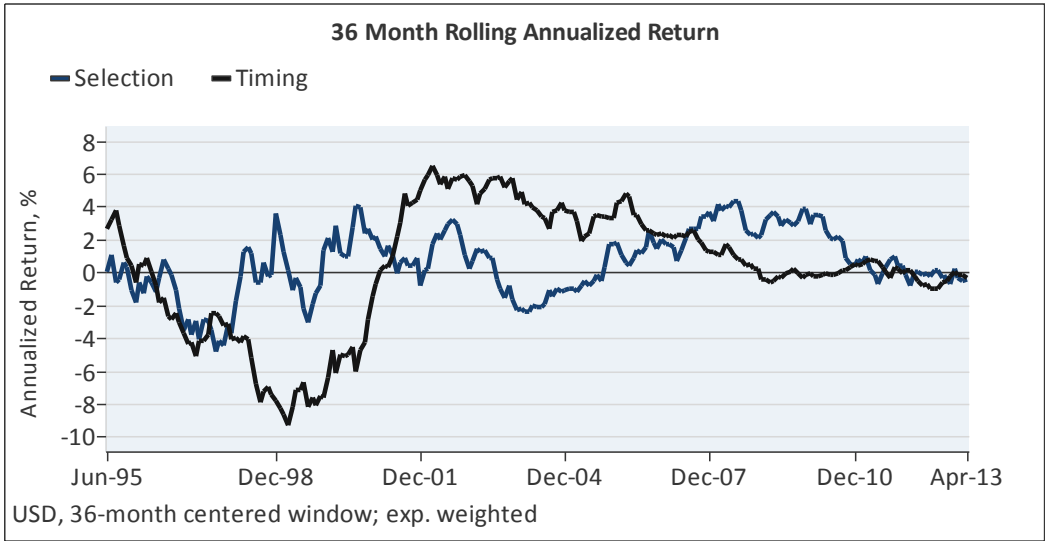
The growth in assets under management, expansion of the investment team, and changing leadership dynamics make Winslow a different firm from three years ago and create uncertainty about the future. As a result, Wurts & Associates recommends clients seek replacement managers. We stress that Winslow's past performance relative to the large cap growth peer group is acceptable (see appendix), and our recommendation is not based on performance issues.

Appendix



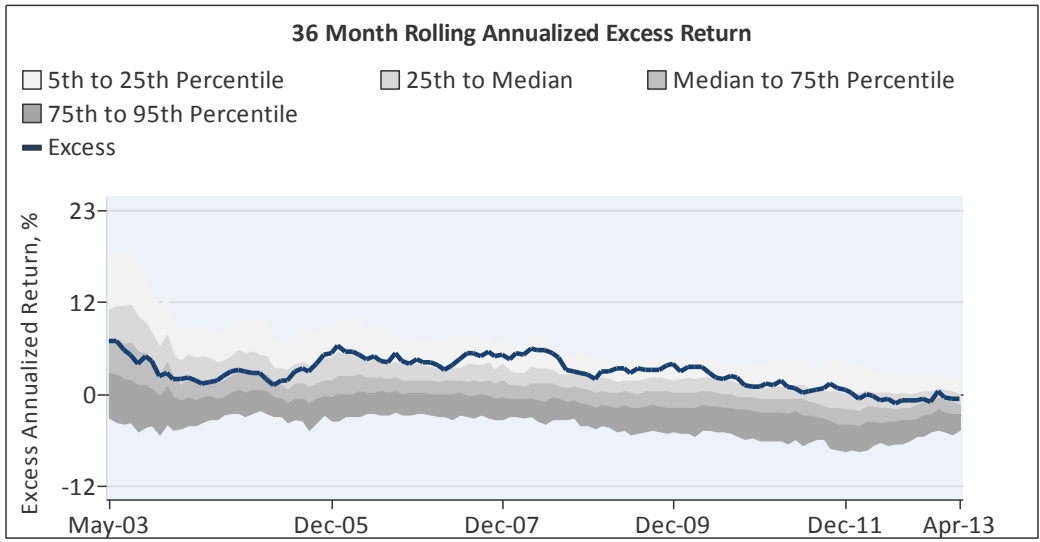
A style based analysis of Winslow’s historical performance suggests that the strategy’s tendency to underweight mega cap growth companies has diminished. The data does not allow us to assess whether the changing allocation to mega cap stocks reflects a rotating opportunity set or a movement driven by rising assets under management.



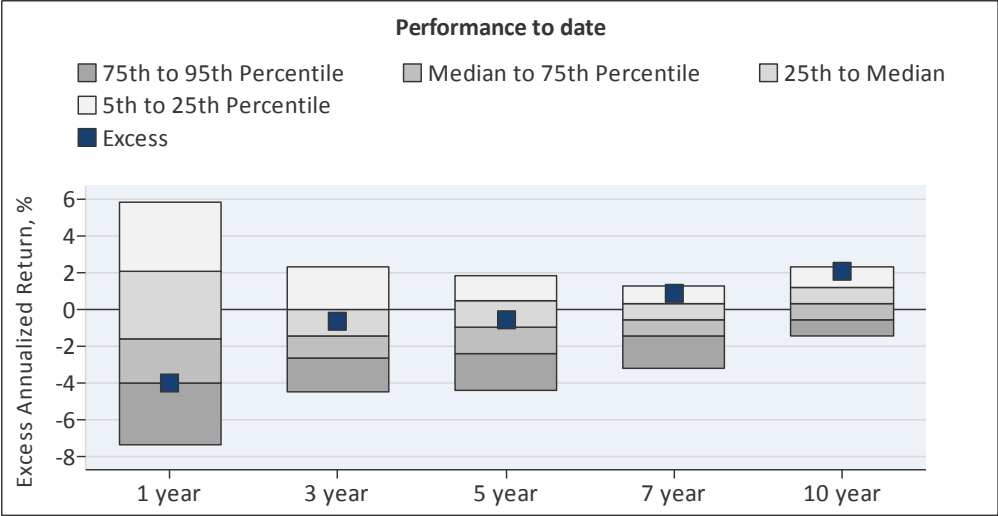


Selection: return attribution in excess of the style (stock selection)
Timing: return attribution to style timing decisions (Russell 6)

The strategy's ability to add value through security selection and style timing has fallen over time.



Excess returns have fallen over time, a period over which assets under management grew significantly.



Winslow's recent performance has been average relative to peers. While the strategy has demonstrated strong 7- and 10-year performance, much of that outperformance is attributable to a couple of years of exceptional relative performance, like 2002 and 2003. As those years "roll off", Winslow will need strong short-term performance to maintain their above average long-term performance