



## INVESTMENT MANAGEMENT

### MEMORANDUM

TO: North Carolina Supplemental Retirement Board of Trustees

FROM: Kristopher Byrd, Portfolio Manager

DATE: Nov 30, 2023

SUBJECT: Discussion / Action: 401k and 457b Plans – SMID Cap Value Active Manager Search Recommendation

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As directed by the Supplemental Retirement Board of Trustees, Investment Management Division (IMD) staff and Callan have conducted a search for an active manager as a potential replacement for Wedge Capital in the NC Small/Mid Cap (SMID) Core Fund. Following a comprehensive search process, Staff and Callan recommend the Board approve AllianceBernstein as the SMID Cap Value manager in the SMID Cap Core Fund.

The key reasons supporting AllianceBernstein as the manager recommendation include:

1. Disciplined investment process - AllianceBernstein utilizes a disciplined, bottom-up research process combining quantitative screens with fundamental analysis to identify the most attractive SMID cap opportunities. Ideas are vetted by the broader research team.
2. Experienced team and strong track record - The portfolio managers have worked together for decades and manage over \$5.5 billion in US SMID cap strategies. They have produced attractive long-term returns through full market cycles.
3. Strong risk management - Risk management is embedded throughout the process, with a focus on incremental portfolio construction, systematic rebalancing, and proactive management of risk exposures.
4. Backing of AB - AllianceBernstein has over \$600 billion in AUM and some of the largest research resources in asset management. This provides ample resources and platform support for the SMID franchise.
5. Competitive fees - AB has significant scale advantages that allow them to offer competitive fees versus peers for active SMID cap strategies. The fees are reasonable given the experience, resources, and track record and below median for the peer group.

#### Due Diligence Search Process

Callan worked with IMD to screen the universe of over 70 SMID cap value managers, evaluating factors such as assets under management, performance net of fees, multiple measures of risk, style fit with other managers in the fund, and investment philosophy/process. The IMD also participated in the Callan Search Committee meeting, reviewing eight candidates and selecting five semi-finalists. The five candidates were then further reviewed with staff and a thorough analysis conducted of Callan's detailed search report, including quantitative and qualitative analysis and virtual interviews



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with each candidate. As a result, three finalists were selected. Staff conducted in person meetings with the finalists in Raleigh. AllianceBernstein was ultimately selected given the strength of its investment team, disciplined process, and robust risk management. Consistent with policy, staff and Callan conducted on-site due diligence with AllianceBernstein's investment team in New York, further validating conviction in the manager

### Organization

AllianceBernstein L.P., structured as a limited partnership, is an independent, research-driven investment management firm. AllianceBernstein is employee-owned and heads its own research, portfolio management, and client service teams. The firm offers a diversified set of investment services globally to institutional clients, individuals and private clients. AllianceBernstein has offices in 26 countries worldwide and manages over \$660 billion in client assets. The firm employs over 4,500 employees, including more than 1,000 investment professionals. AllianceBernstein applies a disciplined, bottom-up investment approach across equity, fixed income, and multi-asset strategies. The firm's long-term track record of active management is built on collaborative research, prudent risk management, and a shared commitment to help clients achieve their investment objectives. AllianceBernstein's partnership structure aligns the firm's interests with those of its clients.

### Investment Team

The AllianceBernstein SMID Cap Value strategy is led by Chief Investment Officer James MacGregor and Portfolio Manager Erik Turenchalk. They are supported by a team of experienced research analysts dedicated to small- and mid-cap companies.

The research team includes Gayle Baldwin covering Healthcare & Consumer Discretionary with 9 years at AB, Ryan Thorpe covering Industrials with 4 years at AB, Ruchira Amin covering Technology with 1 year at AB, and Jonathan Wing covering Financials & Consumer Staples with 12 years at AB. The team also includes Brandon Lew covering Communication Services who joined AB in the past year.

In total, the AB SMID Cap Value team leverages 38 fundamental analysts and 11 quantitative analysts focused on the US small- and mid-cap universe. The team further benefits from insights and collaboration with AB's global research resources across equity strategies.

The specialized SMID Cap Value research team, seasoned portfolio managers, and robust global research capabilities provide ample support and expertise for AllianceBernstein's active management approach in the US small- and mid-cap space.

### SMID Cap Value Strategy - Investment Philosophy and Process

The AllianceBernstein SMID Cap Value investment process begins by screening an investment universe of approximately 2,500 stocks. The team identifies an average of 150-200 research candidates and 75-100 potential portfolio candidates each year through a combination of quantitative screens and fundamental perspective focused on inflection points, catalysts, industry cycles, and various value and quality factors. The research team conducts deep dive analysis on the most promising ideas including detailed industry and competitive analysis, proprietary earnings forecasts, identification of potential catalysts, risk/return assessments, and examination of potential short cases. Portfolio construction involves building a focused portfolio of AllianceBernstein's highest conviction ideas, typically 60-125 stocks, with 30%-60% annual turnover.



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The investment philosophy for the strategy focuses on utilizing rigorous fundamental research to identify attractively valued companies relative to their future cash earnings power that also offer a compelling investment catalyst. The core philosophy is that buying value stocks with catalysts can outperform the broader market over time. Long-term valuation frameworks oriented around normalized cash earnings and five-year proprietary forecasts are emphasized. Management quality and business strength are viewed as key elements. Differentiated insights and conviction stem from independent and contrarian thinking. The philosophy applies a long-term lens focused on sustainable free-cash-flow yield.

### **Risk Management**

AllianceBernstein employs a comprehensive framework to effectively manage risk within their SMID Cap Value portfolio:

- Fundamental risks are thoroughly assessed for each security including probability-weighted return scenarios, asymmetry of outcomes, regulations, short-term vs long-term focus, and understanding bear cases.
- Portfolio risks are managed by identifying common risks, evaluating through multiple lenses using quantitative tools and qualitative review, analyzing both absolute and relative risk, stress testing under different scenarios, and proportioning risk to opportunity.
- Earnings forecasts are assigned probabilities and return expectations are tied to valuation, momentum and other factors.
- Concentration risk is examined through industry, country, market cap, beta and other dimensions.

AllianceBernstein leverages both internal and external risk tools, constantly expanding their toolkit to incorporate new approaches like macro scenarios, behavioral concepts, crowding, correlation asymmetry, dispersion monitoring.

### **Expected Performance in Different Market Environments**

The team favors quality companies with differentiated value opportunities that they believe are positioned to benefit from longer-term, secular value drivers. The AllianceBernstein SMID Cap Value strategy would be expected to outperform in markets where returns are driven primarily by quality, value fundamentals.

The strategy may underperform relative to the benchmark in markets where returns are driven by low-quality stocks and in narrow markets where a sector or small group of industries drive returns.

### **Investment Management Fee**

AllianceBernstein is offering NCSRP a fee of 42 basis points, or 0.42%. This fee is a 22% discount from the firm's standard fee schedule, realizing savings of approximately \$354,000 per year



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**Performance** (net of fees ending September 30, 2023):

	<b>Q3 2023</b>	<b>1 YR</b>	<b>3 YR</b>	<b>5 YR</b>	<b>10 YR</b>	<b>Since Inception (1/1/2001)</b>
<b>AllianceBernstein SMID</b>	-4.8%	11.7%	15.1%	3.9%	7.5%	10.0%
<b>R2500 Value</b>	-3.7%	11.3%	13.3%	4.0%	7.0%	8.4%
<b>Excess</b>	-1.1%	+0.4%	+1.8%	-0.1%	+0.5%	+1.6%

**Risk Statistics** (versus the Russell 2500 Value Index for 5 years ending September 30, 2023)

	<b>Strategy</b>	<b>Benchmark</b>
<b>Standard Deviation</b>	29.1%	27.6%
<b>Sharpe Ratio</b>	0.09	0.08
<b>Information Ratio</b>	0.16	0.00
<b>Upside Capture</b>	115.0%	100.0%
<b>Downside Capture</b>	101.6%	100.0%
<b>Tracking Error</b>	3.14%	



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### Appendix A: Biographies

*Chief Investment Officer, Small  
and Mid Cap Value Equities,  
Head—US Value Equities*

#### **James MacGregor, CFA**

James MacGregor was appointed Chief Investment Officer of US Small and Mid Cap Value Equities in 2009. In this role, he acts as the lead portfolio manager for AB's US Small and Mid Cap Value strategies. MacGregor was appointed Head of US Value Equities in 2019, responsible for all US Value portfolios in the areas of business management and talent development. From 2009 to 2012, he also served as CIO of Canadian Value Equities. From 2004 to 2009, MacGregor was director of research for Small and Mid Cap Value Equities, overseeing coverage of companies for the Small Cap and Small/Mid Cap Value services. He started as a research analyst covering a wide number of sectors for those same services. Prior to joining the firm in 1998, MacGregor was a sell-side research analyst at Morgan Stanley, where he covered US packaging and Canadian paper stocks. He also serves as a board member and volunteer for Xavier Mission, a charitable organization that provides basic services and opportunities for empowerment and self-sufficiency to New Yorkers in need. MacGregor holds a BA in economics from McGill University, an MSc in economics from the London School of Economics and an MBA from the University of Chicago. He is a CFA charterholder. Location: New York

*Portfolio Manager—US Small  
and Mid Cap Value Equities*

#### **Erik Turechalk, CFA**

Erik Turechalk was appointed Portfolio Manager for US Small and Mid Cap Value Equities in January 2020. From 2012 to 2019, he was a senior research analyst on the Small and Mid Cap Value team, responsible for covering industrial companies. Turechalk was also the global industrials sector leader from 2017 to 2019. He joined the firm in 1999, and was promoted to research analyst in 2005. From 1999 to 2007, Turechalk worked on the Advanced Value hedge-fund team, primarily researching short-position ideas with an emphasis on the consumer-cyclicals sector. In 2007, he relocated to London to support the firm's international hedge-fund offerings. In 2010, Turechalk returned to New York to oversee the research of short positions for the domestic hedge-fund portfolios. In 2012, he joined the Small and Mid Cap Value team. Prior to joining the firm, Turechalk was a business analyst at Pratt & Whitney, a United Technologies company. He holds a BS in business administration with a concentration in finance from the University of Connecticut, and is a CFA charterholder. Location: New York

*Research Analyst—Value  
Equities*

#### **Gayle Baldwin**

*Gayle Baldwin is a research analyst on the Small and Mid Cap Value team and is responsible for covering US consumer-discretionary and healthcare stocks. In her prior roles at AB between 2011 and 2016, she covered telecom, industrials and utilities for the Emerging-markets Value Equities team, as well as telecom and cable for the US Large-Cap Value Equities team. Before rejoining the firm in 2019, Baldwin was a research analyst covering global emerging-market equities at Schafer Cullen Capital Management. She has also worked in M&A advisory and private equity investing at Greenhill & Co. Baldwin holds a BS in economics from the Wharton School, a BA in international studies from the University of Pennsylvania and an MBA from Harvard Business School. Location: New York*



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*Research Analyst—Value*

*Equities*

**Ryan Thorpe**

Ryan Thorpe is a Research Analyst on the US Small and Mid Cap Value Equities team, responsible for covering industrials companies. He joined the firm in 2019. Prior to joining AB he was a Partner at RTC Partners, a private equity firm, where he led the acquisition, integration and operational improvement of a number of companies held in the firm's business services portfolio. Prior to that he was an Engagement Manager at McKinsey & Company where he consulted on strategy and corporate finance for healthcare and industrial clients. He has also worked at First Manhattan Consulting group where he consulted on growth strategy and risk for financials firms. Thorpe holds an AB in Social Studies from Harvard University and an MBA from the Columbia Business School.

Location: New York

*Research Analyst—Value*

*Research*

**Brandon Lew**

Brandon Lew is a Research Analyst on the Small and Mid Cap Value team, responsible for the coverage of communication services. He joined the firm in 2023. Prior to joining AB, he was an Associate Partner with McKinsey in New York, focusing on serving private equity and technology clients. Prior to McKinsey, Brandon was a Captain in the 101st Airborne Division of the United States Army and a Ranger School graduate. Brandon holds a Bachelor's of Science in Materials Science and Engineering from the Massachusetts Institute of Technology and an MBA from the London Business School. Location: New York

*Research Analyst—Value*

*Equities*

**Jonathan Wing**

Jonathan Wing is a Research Analyst on the Small and Mid Cap Value team, responsible for the coverage of financial and consumer-staples companies. He originally joined the firm in 2010 as a sell side equity research associate covering the US restaurant and the US gaming, lodging and leisure industries. Wing has also held investment-analyst roles at Venetus Partners and Bridgewater Associates. He holds an AB in applied mathematics-economics and an AB in international relations from Brown University. Location: New York

*Research Analyst—Value*

*Equities*

**Ruchira Amin, CFA**

Ruchira Amin is a Research Analyst on the Small and Mid Cap Value team, responsible for the coverage of technology companies. She joined the firm in 2022. Prior to joining AB, she was a Senior Financial Analyst at Amazon where she led revenue forecasting and managed business planning processes for Amazon Advertising. Prior to Amazon, Amin was an Investment Banking Associate at J.P. Morgan, covering industrials. Before that, she was an Associate Relationship Manager, Corporate Banking with HSBC. Earlier in her career, she was a Process Engineer for India Oil Corporation. Amin holds a Bachelor of Technology, Chemical Engineering, from the National Institute of Technology, a Post Graduate Diploma in Management from the Indian Institute of Management, and an MBA from the University of Chicago Booth School of Business. She is a CFA charterholder.

Location: New York