
MEMORANDUM

TO: NORTH CAROLINA SUPPLEMENTAL RETIREMENT
INVESTMENT SUBCOMMITTEE
FROM: MARY BUONFIGLIO, DEPUTY DIRECTOR
SUBJECT: GALLIARD DUE DILIGENCE SITE VISIT
DATE: JULY 25, 2014

Kelly Henson (Mercer), Tim Viezer (NC Department of State Treasurer, IMD), and I met with the Galliard team in their Minneapolis offices on June 5, 2014. The purpose of the trip was to meet the Galliard team and gain a better understanding of their organization. Specifically, we reviewed the Fixed Income Approach, Contract Review Process, Compliance Process, and External Manager Oversight program.

Galliard is growing, with \$2.4 billion in new assets year-to-date through the first week of June 2014, and has gained seven new clients. This growth is due to their leadership position in the marketplace more so than an expansion of the market itself. It appears that this growth is being managed appropriately and is not placing an overabundance of stress on firm resources. Galliard is a highly stable firm with no change in their ownership, management, or investment philosophy since its inception in 1995.

Galliard has a conservative approach to Stable Value, utilizing a “lender’s approach” to investing. Hallmarks of this approach include: a focus on high quality securities, diversification, value investing, and risk control. Typically, portfolios are structured to be yield-driven and maintain a duration-neutral position. Galliard offers a client-focused approach to portfolio management with a high level of understanding of the participant base and associated cash flows.

David Lui, Principal, provided a detailed update on Galliard’s Wrap Contract Review process. Within the industry, wrap providers have utilized highly-customized contracts that vary in their mandatory clauses and terminology. Galliard has more than 400 contracts with 15+ providers. David is leading the effort at Galliard to secure the most favorable terms based upon requirements set by the Contract Review Committee, and to bring process to a complex area. Primary areas of concern include: change in

control, and terms of default clauses within the contracts. This contract review effort is conducted with a cross-functional team of senior management, including Andy Apostol.

Jennifer Lammers, Chief Compliance Officer, provided an overview of the compliance structure within Galliard, which included monitoring of client specific guidelines, personal conduct policies (Code of Ethics, Pay to Play, and Gift Policies), reporting to regulators, and oversight from their corporate parent, Wells Fargo (Wells Fargo Operational Risk Group). Risk is managed through four primary processes: the investment process, trading compliance, portfolio compliance, and firm-level risk management.

Erol Sonderegger, Principal, and Jennifer Hopper, Senior Associate, discussed their external manager program. The program was established in 1998 and currently has oversight for 18 managers and approximately \$23 billion in assets. The assessment of money managers includes the team structure and investment process, portfolio characteristics and performance, and risk management and compliance. In addition, specific external managers are selected for the diversification they may bring to a portfolio.

In summary, our team has a highly favorable view of Galliard as a firm, and the manner in which Andy Apostol and the team is managing the portfolios for the North Carolina Supplemental Retirement Plans. A better understanding of the firm, its organization, resource level, and internal processes was gained through this site visit.