



# ND STATE INVESTMENT BOARD MEETING

Thursday, December 13, 2012, 8:30 a.m.  
(Teleconference)

## AGENDA

### I. CALL TO ORDER AND ACCEPTANCE OF THE AGENDA

### II. INVESTMENTS

- A. Epoch Update - Mr. Schulz
- B. Bank of North Dakota Update - Mr. Schulz
- C. Discussion regarding additional FTE - Mr. Schulz
- D. Search Committee Update - Search Committee
- E. Westridge/WG Trading Update - Ms. Murtha  
Westridge/WG Trading Executive Session  
N.D.C.C. §44-04-19.1(2), N.D.C.C. §44-04-19.1(5) and N.D.C.C. §44-04-19.2 for attorney consultation

### III. OTHER

Next Meetings:

SIB meeting - January 25, 2013, 8:30 a.m. - Workforce Safety & Insurance

SIB Audit Committee meeting - February 22, 2013, 1:00 p.m. - Workforce Safety & Insurance

### IV. ADJOURNMENT

## **Manager Review Recommendation – Epoch Investment Partners**

### **Executive Summary**

#### **Recommendation**

Staff recommends placing Epoch Investment Partners under review due to a change in ownership. Epoch Holdings Corp., the publicly traded parent of Epoch Investment Partners, announced last week that it has entered into a merger agreement with TD Bank Group. Epoch manages an active global equity mandate on behalf of the Pension Trust. Total assets managed in the Global Choice strategy as of 9/30/2012: \$175.7 million.

#### **Rationale**

##### **Ownership Change**

Toronto-Dominion Bank (TD) Bank Group is acquiring Epoch Holdings Corp., the parent of Epoch Investment Partners, for approximately \$668 million in an all-cash transaction that is expected to close in the first half of 2013. Epoch Holding Corporation shareholders will receive \$28 in cash per share, a premium of approximately 30% to Epoch's closing price on the day prior to the announcement. Members of Epoch's management team and the Board currently hold about 35% of the company's outstanding share. A material amount of proceeds from the acquisition will be invested in Epoch products and the company's leadership has agreed to long-term employment agreements. Epoch will become a wholly owned subsidiary of TD Asset Management and will retain its brand name and operating structure. Epoch will manage U.S. and global equities on behalf of global clients and TD Asset Management will manage Canadian equities from its Toronto office.

Bill Priest will appear at the January 2013 State Investment Board meeting to discuss in greater detail the terms of the sale, organizational structure of the combined entity, the alignment of interests with clients, and future strategic goals.

Going forward, staff will continue to closely monitor the following developments:

1. Stability of existing staff
2. Any additional organizational changes
3. Investment performance



## Memorandum

**To:** North Dakota State Investment Board  
**From:** Paul Erendson  
**CC:** Darren Schulz, Interim Chief Investment Officer; Bill Howard, Callan  
**Date:** December 11, 2012  
**Subject:** Proposed transaction involving Epoch Investment Partners, Inc.

Late last week, Epoch Investment Partners, Inc. ("Epoch") announced that the firm will become a wholly owned subsidiary of TD Asset Management USA. Epoch will comprise the firm's U.S. and global equity platform for clients globally. Canadian equities will continue to be managed by TD Asset Management in Toronto. As of the day of this writing, we understand that Epoch will retain its firm name.

As a result of multiple communications with Epoch, Callan understands that key people within the firm will be contractually bound over three- to five-year periods. Bill Priest, Chief Executive Officer, Co-Chief Investment Officer & Portfolio Manager is a key person, both in terms of the firm's investment strategy formulation and as an external face of the firm. Priest has agreed to a five-year contract and will remain as Chief Executive Officer. While this is reassuring on paper, we would caution that it will be imperative that Priest's involvement with the firm be monitored over the next several years to make certain that his interests remain firmly aligned with those of the firm's investment clients.

All portfolio managers have agreed to sign longer-term (3+ years) contracts as well. Two non-investment professionals (Tim Taussig, President & Chief Operating Officer and the head of client service) will also sign longer-term contracts. As stated in the letter, a substantial portion of their proceeds will be deferred and invested in Epoch strategies. Brian Murdoch, head of TD Asset Management, will be joining Epoch's Policy Committee charged with the management of the firm. Kevin LeBlanc from TD Asset Management will join Epoch in a chief administrative officer role reporting to Tim Taussig.

The deal is anticipated to close in the first half of 2013. Currently, 35% of the shares are owned by Epoch employees and directors.

Epoch currently manages approximately \$175 million in a World equity strategy for the North Dakota State Investment Board's Pension Trust. While the firm's five-year blended history results (World equities since 12/31/11, Large Cap US equity before) ranks well, results over the trailing one-year period are below benchmark (MSCI World Index) by over 6% (19.9% versus 26.4%) as well as below median of its peer group, ranking in the 76<sup>th</sup> percentile.

### **Conclusion**

Callan firmly supports NDRIO's staff recommendation to place Epoch on watch status given the impending change in ownership and near-term underperformance. The manager's performance and organizational stability should be closely monitored; we also suggest that it may be worthwhile for the North Dakota State Investment Board to invite a senior management representative to appear before the Board (or staff) and explain the conditions of the sale; of the impending combined organization; and what actions are being taken going forward to achieve the SIB's investment objectives.

# # #



**EPOCH**

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December 6, 2012

To Epoch Clients, Consultants and Friends:

I am pleased to announce that Epoch Investment Partners has agreed to enter into a strategic business combination via a merger with TD Bank Group, wherein TD will acquire the common stock of Epoch Holding Corporation, the parent of Epoch Investment Partners. TD is a firm possessing a reputation for financial strength and outstanding client service. This combination will enhance Epoch's ability to serve clients and will preserve our independence and longevity.

The agreement between TD and Epoch establishes a more formidable North American asset management capability. In this arrangement, Epoch will become the platform for the combined entity's active U.S. and global equity strategies. Similar to Epoch, TD's asset management arm, TD Asset Management, is an experienced and established money manager led by buy-side professionals with a strong focus on investment excellence and process discipline. They very much understand and respect what Epoch has achieved and the need to preserve the culture that underpins our success.

I want to emphasize that our relationship with you will remain the same, as our arrangement with TD preserves Epoch's identity, culture, and operating autonomy. Our distinct investment philosophy and process remain unchanged. All Epoch associates— including our management, investment, client service, compliance and operations teams — remain the same and will continue to operate out of our office in New York.

We believe this arrangement is in the best interests of our clients, shareholders and employees. With greater resources, we will be able to accelerate our plan to deepen and expand our pool of talented investment professionals. Key personnel risk will be reduced, and our strong balance sheet will be further supported by being part of a larger group. We will be better able to withstand almost any storm in a troubled world.

The leadership team of Epoch, both investment and business personnel, have agreed to long-term employment agreements reinforcing our commitment to the firm, with myself continuing as CEO of Epoch Investment Partners. Our senior management will personally invest a substantial portion of their proceeds from the transaction and from long-term deferred compensation in Epoch's products, alongside our clients. This transformative event and the commitment of our senior team will allow us to accelerate the development of the firm by broadening our investment expertise for the benefit of our clients.

We thank you for the trust you have placed in us and we look forward to serving you in the years ahead.

Sincerely,

William W. Priest  
Chief Executive Officer