Oregon State Bar
Meeting of the Board of Governors
May 17, 2019
Oregon State Bar
Open Session Agenda

The Meeting of the Oregon State Bar Board of Governors will begin at 12:00 p.m. on May 17, 2019. Items on the agenda will not necessarily be discussed in the order as shown.

The mission of the OSB is to serve justice
by promoting respect for the rule of law,
by improving the quality of legal services, and
by increasing access to justice.

Friday, May 17, 2019

1. **Call to Order**

2.	**Adopt Amendments to OSB Bylaw 2.201** [Ms. Hierschbiel]	Action	Exhibit
3.	**Adopt PLF Policy 5.200(I)** [Ms. Bernick]	Action	Exhibit
4.	**Update on Client Security Fund Reserve Policy** [Mr. Wade]	Inform	Exhibit

OREGON STATE BAR
Board of Governors Agenda

Meeting Date: June 21, 2019
From: Policy & Governance Committee
Re: OSB Bylaw 2.201

Action Recommended

Approved proposed amendments to OSB Bylaw 2.201.

Background

The Policy & Governance Committee recommends that OSB Bylaw 2.201 be amended as follows:

(a) Time of Election
The President and President-elect are elected at the last regularly scheduled board meeting of the calendar year. The only candidate for President is the President-elect.

(b) President-Elect
Any lawyer member of the second-year class may be a candidate for the office of President-elect by notifying the Chief Executive Officer by September 1. Each candidate must submit with said notice a statement outlining the candidate's qualifications, reasons for seeking the position, and vision for the bar. A Nominating Committee, consisting of the fourth–year class and the current President-elect, will interview each candidate and <u>nominating committee members</u> will ~~meet~~ <u>confer</u> with the remaining board members to discuss their view about each candidate's respective qualifications. The Nominating Committee will announce its candidate for President-elect at least ~~15~~ <u>20</u> days prior to the last regularly scheduled board meeting of the calendar year. The Nominating Committee's selection will be the sole candidate for President–elect unless at least six members nominate another candidate by written petition delivered to the Chief Executive Officer not less than 10 days prior to the last regularly scheduled board meeting of the calendar year. If the Nominating Committee is unable to select a sole candidate for President-elect, the board will elect a President-elect at its last regularly scheduled board meeting of the calendar year, pursuant to Subsection 2.201(c).

(c) Voting
If there is only one candidate for an office, the candidate is deemed elected without a formal vote. When there are two nominees for President-elect, the candidate receiving the most votes will be elected. If there are three nominees for President-elect and no candidate receives more than 50 percent of the votes on the first vote, the candidate receiving the fewest votes is eliminated and another vote will be taken. Only board members present at the meeting may vote.

During the 2018 officer election process, there was some disagreement over whether the current bylaw requires the Nominating Committee to meet with the board as a whole to discuss the candidates for president-elect. Since the nominating committee process was adopted in April 2007, the practice has been for nominating committee members to talk with the remaining board members one-on-one. Regardless of the past practice, there was also some concern that this process could result in nominating committee members receiving an incomplete or inaccurate picture of the candidates.

The Policy & Governance Committee discussed the history of the election process and the concerns raised and recommends to continue the practice used since 2007. The addition of the phrase “nominating committee members” and replacement of the word “meet” with “confer” are intended to clarify that members of the nominating committee may confer with board members individually, rather than as a group, while still providing flexibility for committee members to hold a meeting with the board as a whole.

The purpose of changing 15 to 20 is to give board members more time to gather signatures for a written petition. When the current time frame was adopted in November 2018, it was done solely to allow the nominating committee to provide its recommended candidate to the board in time for its last scheduled meeting on November 17. At the same time, some members expressed concern that five days was insufficient to gather signatures for a written petition. The Policy & Governance Committee agrees that more time ought to be allowed for the petition process.

OSB Professional Liability Fund

OREGON STATE BAR
Board of Governors Agenda

Meeting Date: May 17, 2019
Memo Date: May 1, 2019
From: Carol J. Bernick, PLF CEO
Re: Proposed revision to PLF Policy 5.200(I) – Asset Allocation

Action Recommended

Approve proposed revision to PLF Policy 5.200(I) regarding asset allocation.

Background

The PLF's Investment Advisors, RVK, have recommended that the PLF withdraw from Westwood Income Opportunity. The PLF Board of Directors approved this change at a meeting on April 23, 2019.

In February 2019, at RVK's recommendation, we reduced our investment in the Westwood Fund to $4.7 million, bringing it to 8% of our portfolio, down from 14%. RVK has now recommended complete termination. There are several reasons for this recommendation:

1. The anticipated benefits of GTAA's (Westwood is the sole fund used for the PLF's GTAA allocation) in terms of diversification, downside protection and return enhancement have not materialized at a level that is sufficient to warrant the costs.

2. Over the past several months, Westwood unexpectedly announced several senior departures form the portfolio management team. The changes themselves are concerning, but RVK's concerns were amplified by Westwood's lack of transparency and poor communication.

If this change is approved, the asset allocation would be as follows:

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ASSET CLASS	MINIMUM PERCENT	TARGET PERCENT	MAXIMUM PERCENT
U.S. Equities	17%	~~24~~29%	~~31~~34%
International Equities	12%	~~21~~23%	30%
Fixed Income	20%	~~26~~33%	~~32~~36%
Real Estate	5.0%	10.0%	15.0%
~~Absolute Return~~	~~9.0%~~	~~14.0%~~	~~19.0%~~
~~Real Return Strategy~~	~~5%~~	~~0%~~	~~5%~~
Senior Bank Loans		5.0%	

Attached for your information is the complete memo from RVK.

CJB/clh

Attachment:
RVK Memo dated April 18, 2019

RVK

Memorandum

To Oregon State Bar Professional Liability Fund ("PLF")
From RVK, Inc.
Subject Westwood Income Opportunity – Recommendation to Terminate
Date April 18, 2019

Recommendation

In follow up to a previous memorandum describing the recent organizational developments at Westwood Holdings, RVK recommends terminating the Westwood Income Opportunity Fund (WHGIX). This fund is the sole fund used for the PLF's current GTAA allocation, which constitutes $4.7M (~8%) of the portfolio. In November 2018, RVK delivered a presentation to the Committee addressing the PLF's strategic asset allocation. The primary recommendation was to reduce the allocation to GTAA due to disappointing results relative to the stated objectives for the asset class. Specifically, RVK evaluated the benefits of GTAA in terms of diversification, tactical allocation, return enhancement, and downside protection. The evidence suggested that the benefits fell well short of stated expectations.

The Committee concurred with this assessment and voted to take an initial step to reduce the GTAA target allocation from 14% to 7%. However, given that the Investment Policy stated a minimum allocation to GTAA of 9%, the Committee sought Board approval for an investment policy change before reducing the allocation fully to 7%. As an interim measure, the allocation was reduced to the 9% target currently shown in the performance report.

Subsequent to this decision, Westwood announced several organization changes, which substantially increased our concerns about the future prospects of this strategy. These concerns (along with RVK's termination recommendation) are summarized in a memorandum that was issued on April 11, 2019. The content of this memorandum is also included in the Appendix of this document. In the interest of brevity, we have summarized below the rationale driving our recommendation to terminate Westwood and reallocate funds.

Termination and Reallocation Rationale

1. **Termination Rationale –** The rationale for terminating Westwood is based on an assessment of the asset class benefits relative to its costs, as well as specific concerns with the Westwood strategy itself. Each is detailed below.
    a. **Limited Benefits of GTAA Allocation** – As detailed in our November presentation, the anticipated benefits of GTAA in terms of diversification, downside protection, and return enhancement have not materialized at a level that is sufficient to warrant the costs. As such, we do not believe that the relatively high cost of such strategies provides sufficient benefits relative to a diversified portfolio of public equities and fixed income.

b. **Westwood Organizational Concerns** – Over the past several months, Westwood unexpectedly announced several senior departures from the portfolio management team. The changes themselves are concerning, but our concerns were amplified by Westwood's lack of transparency and poor communication.

2. **Reallocation Strategy** – The table below shows the current, interim, and proposed allocation target following the termination of Westwood. In short, we recommend allocating the proceeds from the sale of Westwood to the remainder of the portfolio such that the underlying exposures previously held by Westwood are largely maintained. Should the return and risk objectives of the PLF change materially as the Board concludes the analysis of the optimal net position, RVK may recommend future changes to the target allocation. However, at the current moment, we believe that the best course of action is to maintain the current exposures.

Asset Allocation Target Recommendation

Asset Class	Min	Max	Original Targets	Interim Targets	Proposed - No GTAA
Broad US Equity	5	35	24	26	29
Broad International Equity	5	35	21	22	23
Int. Duration Fixed Income	10	50	26	28	32
Bank Loans	0	8	5	5	6
Core Real Estate	0	12	10	10	10
GTAA	0	0	14	9	0
TOTAL			100	100	100
Key Risk/Return Statistics					
Expected Arithmetic Return			6.21	6.20	6.13
Risk (Standard Deviation)			10.62	10.68	10.59
Expected Compound Return			5.68	5.67	5.61
Risk Metrics					
Drawdown (1st percentile event - 1-year return)			-26.31%	-26.90%	-27.19%
Drawdown (5th percentile event - 1-year return)			-11.15%	-11.33%	-11.43%
RVK Expected Eq Beta (LC US Eq = 1)			0.55	0.56	0.56

In terms of timing, we recommend proceeding with the termination as soon as is feasible. However, this does not represent an immediate action. The underlying security holdings of the strategy are highly liquid, and we do not anticipate risk of selling into an illiquid market.

APPENDIX - Full background and Original Westwood Update Memo

Summary

Over the past year, RVK issued two memorandums that address changes to the portfolio management team of the Westwood Income Opportunity strategy. These discussed the planned departure of Mark Freeman and the firm's plans to re-assign his responsibilities, which we were comfortable with at the time -- although we did state we would continue to monitor the situation closely. Since that time, RVK has learned of additional significant developments and **recommends liquidation of the strategy** from client portfolios for the following reasons.

1. **Significant changes to the Portfolio Management Team –** In previous meetings with Westwood, Dan Barnes was identified as the planned successor to Mr. Freeman. Westwood indicated that Mr. Barnes would manage the portfolio alongside Todd Williams, a Co-Portfolio Manager since the strategy's inception. However in March, Mr. Barnes unexpectedly departed the firm shortly after Mr. Freeman. Westwood has named Adrian Helfert as Lead Portfolio Manager and has unexpectedly removed Mr. Williams. David Clott has been identified as Mr. Williams' replacement, however Mr. Clott is a convertible bonds expert with no previous experience with the strategy or team. Neither of the two new Portfolio Managers have worked together previously, nor do they have prior direct experience with the strategy. In addition, there are no other named Portfolio Managers working alongside them, who could provide valuable institutional knowledge and experience.

2. **Reorganization of multi-asset team –** At the time of Mr. Helfert's addition to the firm, Westwood indicated Mr. Helfert would serve in a management capacity and evaluate the structure of the multi-asset organization; but that portfolio management teams would remain unchanged. Despite these statements, the previously described reorganization occurred within six weeks of Mr. Helfert's arrival. In our experience, even when reorganizations are carefully deliberated over a long period of time, such changes can destabilize teams. The fact that this reorganization occurred in only six weeks amplifies our concerns regarding team stability.

3. **Inadequate transparency into portfolio management changes –** Perhaps more concerning than the changes themselves is the lack of transparency during our extensive discussions with Westwood in July, August and September of 2018. At no time did Westwood representatives hint that these changes were possible. This is of particular concern because RVK has since discovered that Mr. Helfert's hiring process occurred during this time period, yet these plans were never disclosed to RVK. The potential decision to remove Mr. Williams from the Portfolio Management team was also not disclosed.

4. **Doubling of stated capacity** – At RVK's recent onsite visit to meet with Westwood, Mr. Helfert stated that the maximum capacity of the strategy is $10 billion, whereas in the past Mr. Freeman consistently emphasized that $5 billion was the strategy's maximum capacity. Capacity is a key consideration because a strategy's alpha generation potential begins to deteriorate when it is beyond capacity. Amplifying this concern is the fact that Mr. Helfert and Mr. Casey (Westwood's CEO) communicated a plan to launch additional multi-asset products—an initiative that, all else being equal, should be expected to reduce, not increase, capacity.

In summary, any individual consideration stated above in isolation could provide sufficient grounds for liquidation of the Westwood Income Opportunity strategy, but the occurrence of all of these issues simultaneously strengthens our recommendation to terminate. While we suspect that these issues are isolated to Westwood's multi-asset product offerings, RVK's asset class teams are also conducting an independent analysis pertaining to other Westwood strategies.

Background & Timeline

In mid to late 2018, RVK was informed of the planned departure of Lead Portfolio Manager Mark Freeman, a development initially made public in July of 2018 and expected to culminate in his departure March 8, 2019. RVK met with Co-Portfolio Managers Dan Barnes and Todd Williams in August and visited Westwood's Dallas office in September to discuss the transition in greater depth. Several individuals participated, including Brian Casey, the firm's CEO. In September, Mr. Casey articulated a different approach to succession efforts for Mr. Freeman's responsibilities than what has materialized. Since the time Mr. Freeman's intention to depart was made public, Westwood has consistently named Mr. Barnes as Mr. Freeman's intended successor to managing the strategy.

On March 20, 2019, shortly after Mr. Freeman's final day in the office, RVK learned of several surprising developments not previously discussed with Westwood:

- Portfolio Manager Dan Barnes unexpectedly departed the firm with his final day in the office occurring March 18.
- Adrian Helfert was named Lead Portfolio Manager, however Mr. Helfert has no prior direct experience with the strategy.
- The firm decided to remove Todd Williams as Co-Portfolio Manager and a new Co-Portfolio Manager, David Clott, was added to the strategy.
- Westwood reorganized its multi-asset organization under Mr. Helfert.

- The firm now intends to introduce additional multi-asset products alongside the Income Opportunity strategy, while increasing the stated capacity of the Income Opportunity Strategy from $5 billion to $10 billion.

Despite ongoing conversations with Westwood, including an onsite visit in September with CEO Brian Casey, there was no discussion of whether any of these developments were planned until after the changes were implemented.

Conclusion

The unexpected developments that affect the Income Opportunity strategy, and lack of appropriate transparency are concerning. RVK has since learned that Mr. Helfert's hiring process would have been well underway during the September 2018 onsite visit, however this information was not discussed or disclosed by Westwood. **Given the considerations outlined above, RVK recommends ultimate liquidation of the strategy from client portfolios.**

At this time, we suspect these developments are not a firm-wide issue and are isolated to the multi-asset team. However, RVK's Investment Manager Research Department will continue to evaluate specific asset class exposures in light of these developments, and will continue to monitor the firm.

OREGON STATE BAR
Board of Governors Meeting

Meeting Date: May 17, 2019
From: Budget and Finance Committee
Subject: Client Security Fund – Reserve Policy

Background

In May of 2018 the Budget and Finance committee discussed changing the reserve policy for the Client Security Fund. However, a subsequent decision to change the policy was not approved by the BOG.

Consistent with the motion that was approved at the April 12, 2019 Budget and Finance committee meeting, this memo re-confirms that the current policy for the Client Security Fund is to maintain a reserve of $1,000,000 (one million dollars).