



State of Rhode Island
Office of the General Treasurer

SSGA INDEXING
TIPS, Public Equities, OPEB Core Fixed Income
September-2020

RECOMMENDATION

Defined Benefit Plan

- 1) Terminate Brown Brothers Harriman active TIPS mandate → Replace with passive SSGA TIPS Indexed implementation
- 2) Consolidate investments in SSGA MSCI EAFE and SSGA MSCI Canada Index Funds → Replace with passive SSGA MSCI World Ex-US Index Fund

SSGA has also agreed to reduce our SSGA MSCI EM Index Fund fee from 10bps to 8bps.

OPEB

- 3) Terminate MacKay Shields active Core Fixed Income mandate → Replace with passive SSGA Agg Index Fund

These recommendations are driven by:

- **Cost Savings:** In aggregate, these changes would result in approximately \$500k of cost savings, annually
- **Active Risk Budgeting:** Active risk is not sufficiently rewarded within these allocations. Passive management is a better fit
 - TIPS – we believe it makes sense to seek active return elsewhere in the portfolio rather than hire a TIPS manager to express views via duration/curve positioning
 - OPEB – The MacKay account (35% of OPEB) had produced minimal excess returns and is the only actively managed account in the ~\$400mm Trust. We believe the cost of active management in the current low rate environment for investment grade fixed income is a significant hurdle and prefer passive strategies for the OPEB asset pool.

SUMMARY OF CHANGES

PUBLIC GROWTH	MV as of 8/31 (\$mm)	MV w/ proposed changes (\$mm)	Current Fee	Proposed Fee	Cost Savings (\$)
SSGA QVM	\$1,337.7	\$1,337.7	6 bps	6 bps	-
SSGA R3000	\$1,563.7	\$1,563.7	1.25 bps	1.25 bps	-
SSGA MSCI EM	\$473.0	\$473.0	10 bps	8 bps	\$94,600
SSGA MSCI EAFE	\$654.8	\$-	3 bps	-	-
SSGA MSCI Canada	\$49.4	\$-	3 bps	-	\$35,209
MSCI World Ex-US	\$-	\$704.2	-	2.5 bps	-
TOTAL PUBLIC GROWTH	\$4,078.6	\$4,078.6	4.1 bps	3.8 bps	\$129,809

TIPS	MV as of 8/31 (\$mm)	MV w/ proposed changes (\$mm)	Current Fee	Proposed Fee	Cost Savings (\$)
BBH Active TIPS → SSGA Indexed TIPS	\$156.2	\$156.2	15 bps	1.5 bps	\$210,897

OPEB CORE FIXED INCOME	MV as of 8/31 (\$mm)	MV w/ proposed changes (\$mm)	Current Fee	Proposed Fee	Cost Savings (\$)
Mackay Shields Active Core Bonds → SSGA Indexed Agg	\$147.8	\$147.8	14.5 bps	1.5 bps	\$192,184

Total Annual Savings	\$532,890
-----------------------------	------------------

APPENDIX (PERFORMANCE)

as of 8/31/2020	1 Year	3 Years (Ann.)	5 Years (Ann.)	ITD (Ann.)	Inception
BROWN BROTHERS HARR	7.05%	4.62%	3.68%	2.19%	Nov-2012
BBH Inflation-Linked Custom BM*	7.24%	4.51%	3.68%	2.18%	Nov-2012
Net of Fee Excess Return vs BM	-0.19%	+0.11%	0.00%	+0.01%	
<i>Annualized Realized Tracking Error</i>	0.31%	0.26%	0.26%	0.34%	
Mackay Shields OPEB	7.03%	5.24%	4.34%	3.42%	May-2013
Bloomberg Barclays U.S. Aggregate Bond Index	6.47%	5.09%	4.33%	3.40%	May-2013
Net of Fee Excess Return vs BM	+0.56%	+0.15%	+0.01%	+0.02%	
<i>Annualized Realized Tracking Error</i>	1.21%	0.73%	0.58%	0.51%	

*Inflation Linked Index as of Apr-2015 is the Barc US TIPS 1-10 Year Index; Barc Wld Gov IL 1-10Y USD Sep-2013 through Mar-2015; Barc Wld IL USD prior to Sep-2013

