



Memorandum

To: Rhode Island State Investment Commission

From: Capital Cities, L.L.C.

Date: November 27, 2017

Re: Stable Value Onsite Meeting

Capital Cities conducted an onsite meeting with the Invesco Stable Value Team on October 26, 2017 in Louisville, Kentucky. During the onsite visit, Capital Cities confirmed that the Invesco Stable Value Portfolio continues to exhibit favorable portfolio characteristics and performance, making it an attractive capital preservation option for the CollegeBound Program's account owners. Capital Cities also believes upcoming enhancements to fees, wrap coverage and portfolio construction are prudent steps to further increase the competitiveness of the product.

The Stable Value Portfolio represents \$502.7 million (or 8.4% of Plan assets) in Individual Portfolio assets within CollegeBound 529 (Advisor Plan) and \$13.1 million (or 5.7% of Plan assets) within CollegeBound Saver (Direct Plan), as of September 30, 2017. Additionally, the Stable Value Portfolio serves as one of the underlying capital preservation components of CollegeBound 529's Age-Based Portfolios, representing \$690.8 million in assets. In total, the Program has \$1.2 billion in the Stable Value Portfolio.

A summary of the onsite meeting and findings can be found below and in the subsequent pages.

Stable Value Team Overview:

George Baumann, Head of Invesco Stable Value, highlighted the experience and depth of the Stable Value Team with Capital Cities, including the following key distinctions:

- Established—1985 in Louisville, Kentucky
- Focus—Thirty-year history of managing capital preservation options
- Leadership—Senior management team together since 1989
- Experience—Seasoned professionals across Stable Value Team (28 Stable Value professionals and 71 investment professionals)
- Offering—Comprehensive Stable Value management and reporting services

In total, Invesco manages \$311.3 billion in assets across its fixed income complex (as of September 30, 2017). Nearly one-fifth of the fixed income assets resides in Invesco's Stable Value products. The Stable Value Team currently manages \$54.2 billion in assets, which represents an increase of approximately \$2 billion in assets since the last onsite meeting in September, 2016. The Stable Value assets under management are diverse in terms of market segments, including private plans (62%), pooled plans (20%), public plans (13%), and 529 plans (5%).

Invesco's Stable Value assets and experience within the 529 space is a key differentiator relative to its peers. Capital Cities believes Invesco's depth will continue to prove beneficial for the CollegeBound Program, particularly the Team's ability to leverage its asset base and experience, to secure wrap coverage and favorable wrap contract provisions for the Program.

It is also important to note that the Invesco's Stable Value Executive Management Team has remained stable since the CollegeBound Program inception, with the exception of the recent appointment of Jessica Cole as Head of the Stable Value Contract Group (a new position). Ms. Cole brings 15 years of experience to the team, rejoining the firm following the retirement of Vicki Jared, Contract Manager. She serves as the lead in the negotiation of wrap contracts as well as client and sub-advisor investment management agreements.

Stable Value Portfolio Overview:

Jennifer Gilmore, Head of Stable Value Portfolio Management, and Matt Straub, Portfolio Manager, highlighted the Stable Value Strategy and CollegeBound portfolio construction during the onsite meeting. As the capital preservation option for the CollegeBound Program, the Stable Value Portfolio is designed to achieve the following objectives:

- Preservation of principal and accumulated earnings
- Consistent investment performance
- Book value liquidity for participant-directed withdrawals/transfers
- Competitive crediting rates that track market rates

Portfolio Construction and Characteristics:

Invesco uses a "building block" approach to portfolio construction for the CollegeBound Program. This approach allows the CollegeBound Program to follow best practices in terms of transparency and diversification, which Capital Cities believes is particularly prudent given the size of the mandate. Specifically, the Stable Value Portfolio provides full transparency with each "block" managed to a measurable fixed income benchmark.

The building block approach also allows for a multi-manager construction that provides style diversification. In particular, Invesco has a dedicated external manager team who provides advice, analysis and recommendations regarding the underlying fixed income strategies and manager selection/retention. For instance, external managers, Jennison and Voya, are utilized within the CollegeBound Program given their low correlation to Invesco's Short Duration and Core mandates. These external managers currently represent 37% of the Stable Value Portfolio assets, while Invesco manages the remaining 63% (as shown in the following table).

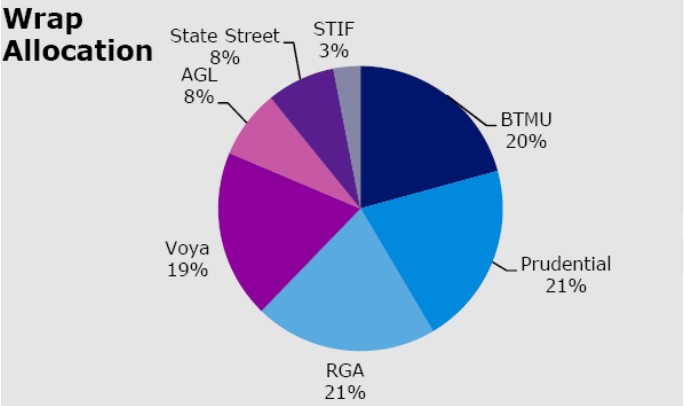
Strategy	Cash Buffer		Short Duration		Intermediate		Core	
Typical Range	1% - 5%		35% - 55%		30% - 40%		10% - 20%	
Managers / Subadvisors	STIF	3.1%	Invesco	45.2%	Jennison	18.2%	Voya	18.8%
							Invesco	14.7%

The Stable Value Portfolio continues to meet its capital preservation objectives for the CollegeBound Program’s account owners and exhibits favorable portfolio characteristics (as of September 30, 2017), including:

- Portfolio Yield: 2.04%
- Crediting Rate: 1.74% (Direct Share Class RI), 1.23% (Advisor Share Class A)
- Duration: 3.47 years
- Average Quality: Aa1/AA+
- Market-to-Book Ratio: 100.30%

Wrap Coverage:

An important component of the Stable Value Portfolio is security backed investment contracts (“wrap contracts”), which are issued by banks and insurance companies. These contracts “wrap” a Stable Value Fund’s underlying bond portfolio to insure participants can transact at book value (principal plus accrued interest). The Invesco Stable Value Portfolio within the CollegeBound Program currently has six wrap providers, which positions the Program well relative to peers and in terms of diversification.



Capital Cities met with LeAnn Bickel, Head of Stable Value Contract Administration, Jessica Cole, Head of the Stable Value Contract Group, and Jennifer Gilmore, Head of Stable Value Portfolio Management, to discuss wrap management. During the discussion, the team highlighted that additional wrap capacity is positively impacting pricing and issuers are beginning to offer more investment guideline flexibility. Specifically, fees on new wrap capacity range from 18 to 21 basis points, down from 23 to 25 basis points following the 2008 financial crisis. The appetite for growth has also triggered several wrap issuers to loosen stringent underwriting standards caused by the 2008 financial crisis. As such, there has been a

modest increase in allowance of spread sectors and broader flexibility in combined sector allocation and duration covenants.

Upcoming Changes/Proposals:

Invesco has been negotiating with the CollegeBound Program’s wrap providers. Following the onsite visit, Jeff Deetsch, Stable Value Strategist, reported that two of the wrap providers agreed to decrease their fees. Reinsurance Group of America (RGA) is decreasing to 19 basis points from 21 basis points and American General Life (AGL) is decreasing to 20 basis points from 21 basis points. Both of these decreases will be effective December 1, 2017. Invesco anticipates further reductions from the other wrap providers within the CollegeBound Stable Value Portfolio and will continue their negotiations.

Additionally, Invesco has successfully negotiated more portfolio duration flexibility with State Street and AGL. This allows Invesco to increase State Street and AGL’s wrap allocations and divide the wrap allocations evenly among the six wrap providers. As a result of this new flexibility, Invesco also proposes increasing the allocation to the “Core” component of the portfolio construction.

**Rhode Island 529 Portfolio
9/30/2017**

Cash	Short Duration	Intermediate	Core
3.1% of Portfolio	45.2% of Portfolio	37.0% of Portfolio	14.7% of Portfolio
STIF	Invesco 45.2%	Jennison 18.2% Voya 18.8%	Invesco 14.7%

Proposed Future Allocation

Cash	Short Duration	Intermediate	Core
4% of Portfolio	46% of Portfolio	30% of Portfolio	20% of Portfolio
STIF	Invesco 46%	Jennison 15% Voya 15%	Invesco 20%

While this change decreases the exposure to external managers from 37% to 30%, Capital Cities believes this proposal will be beneficial to the CollegeBound Program’s Stable Value Portfolio in terms of additional return potential. Capital Cities also met with the key fixed income professionals during the onsite visit. Capital Cities remains comfortable with the experience and depth of the Core Strategy team. It is important to note that the overall Portfolio will maintain its emphasis on quality and stability to support the Stable Value objectives.

At the same time, Invesco is examining the Stable Value Portfolio’s wrap allocation to the Bank of Tokyo-Mitsubishi (BTMU). BTMU recently announced that the firm is exiting the wrap market. As a result, Invesco is pursuing another wrap provider for the CollegeBound Program. In speaking to Ms. Gilmore, Invesco is taking a thoughtful approach to the replacement of BTMU and negotiations with a new wrap provider given the contract with BTMU does not expire until March, 2019 (it is the only non-evergreen contract in the Program).

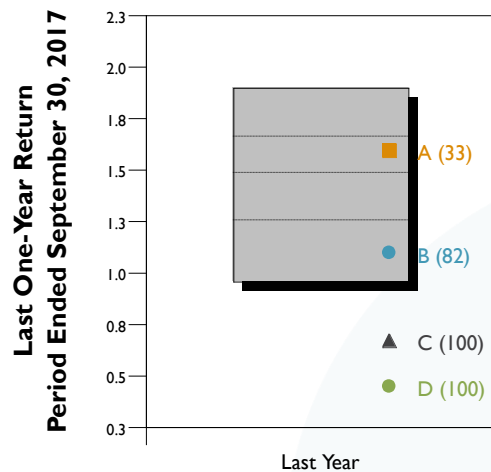
Separately, Invesco is proposing custom benchmarks for the Intermediate and Core “building blocks” to better measure the performance and characteristics of these segments. In particular, the benchmark components will be adjusted to increase sector diversification away from the Treasury sector. This

approach also allows the team to better align the Intermediate and Core portfolio segments with the Short Duration segment, which is utilizing a custom benchmark.

Overall, Capital Cities believes all of the upcoming changes/proposals are prudent steps to enhance the Stable Value Portfolio for the CollegeBound Program. Further details regarding implementation and contracts will be provided by Invesco in the coming months.

Performance:

The Stable Value Portfolio has exhibited strong performance since inception (last four quarters) relative to peers (please note that the peer group in the chart below includes defined contribution plans). Additionally, the CollegeBound Program’s ability to offer a Stable Value Portfolio to account owners makes the Program particularly attractive from a performance perspective compared to many 529 Plans that offer a Money Market Fund as their capital preservation offering.



Median		1.49
CollegeBound Saver (Direct RI): Stable Value Portfolio	■ A	1.59
CollegeBound 529 (Advisor A): Invesco Stable Value	● B	1.10
Blmbg:US Treas Bell 3M	▲ C	0.67
Money Market Funds	● D	0.45

Compliance:

Nathan Katner, Compliance Manager, provided an overview of Invesco’s dedicated, independent compliance team. Invesco uses the Aladdin compliance system to monitor client, wrap contract and all underlying fixed income portfolios. Internally managed allocations have both pre- and post-trade compliance on a daily basis. External managers are monitored on a post-trade basis to ensure compliance with investment guidelines. Capital Cities found Invesco’s automated and daily compliance monitoring process to be comprehensive and appropriate for the custom construction of the CollegeBound Program’s Stable Value Portfolio.