



Employees' Retirement System of the State of Rhode Island

October 28, 2015

Frances L. Coombes

Timothy J. Settel



Global Breadth and Local Depth

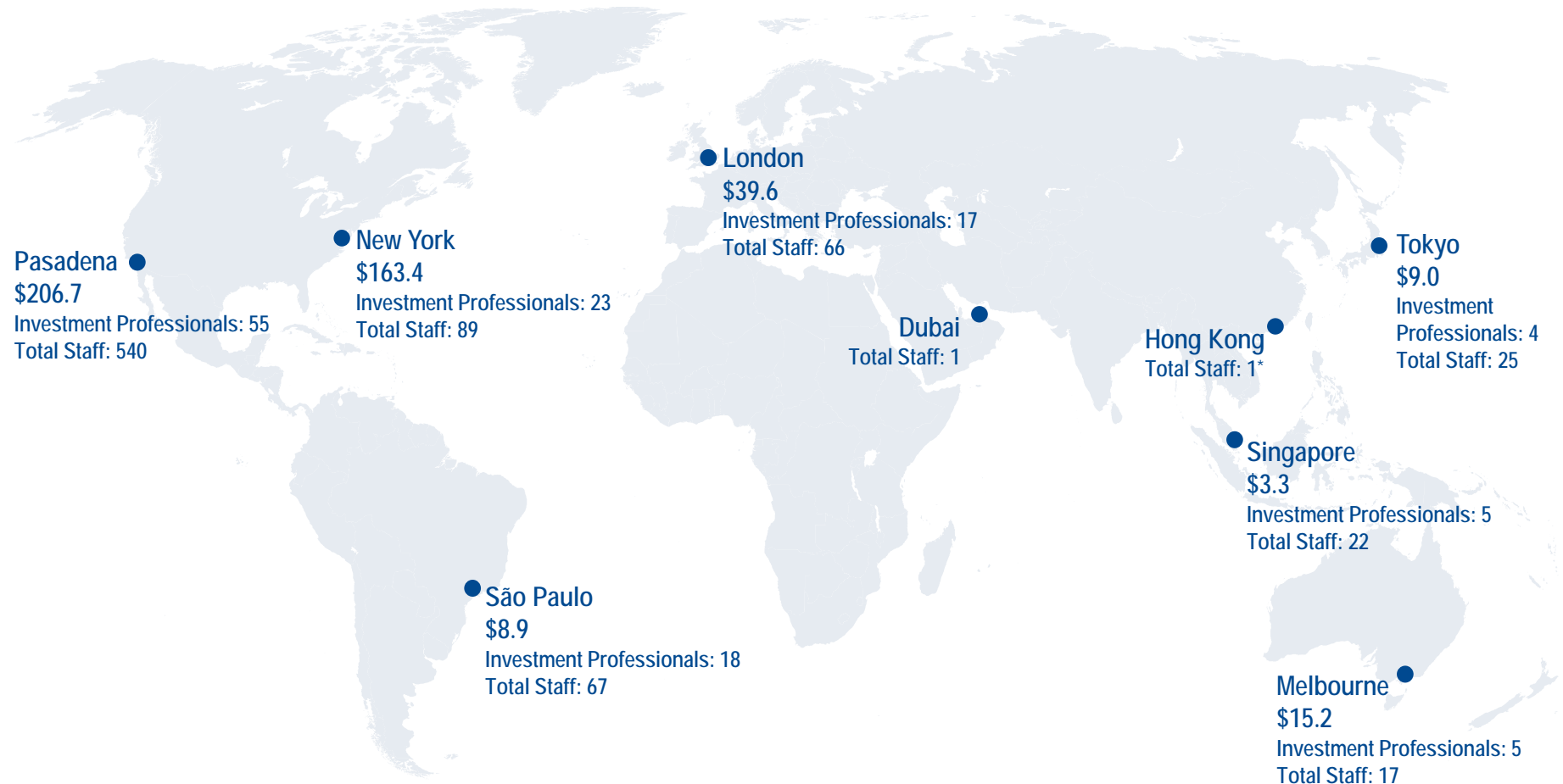
September 30, 2015

Global Fixed-Income Focus

Total Firm AUM: \$446.1 billion

Total Corporate Credit AUM: \$126.7 billion

Total Staff: 827



Assets under management in USD (billions)

*Splits time between Hong Kong and Singapore offices

Current Mandate – Bank Loan / Short Dated High-Yield

Relationship inception:

- March 2013

Benchmark

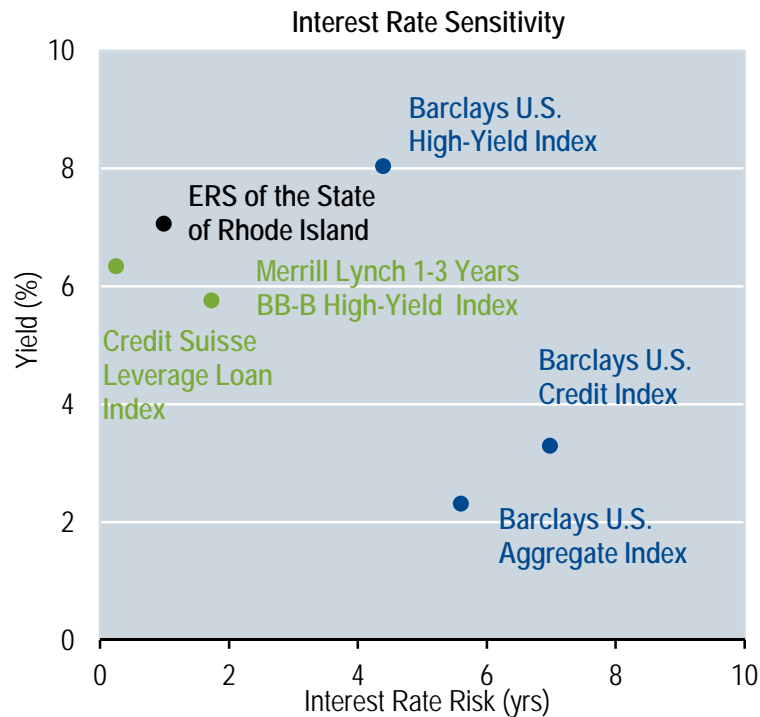
- 70% Credit Suisse Leverage Loan / 30% Merrill Lynch 1-3 Years BB-B High-Yield Index

Market Value

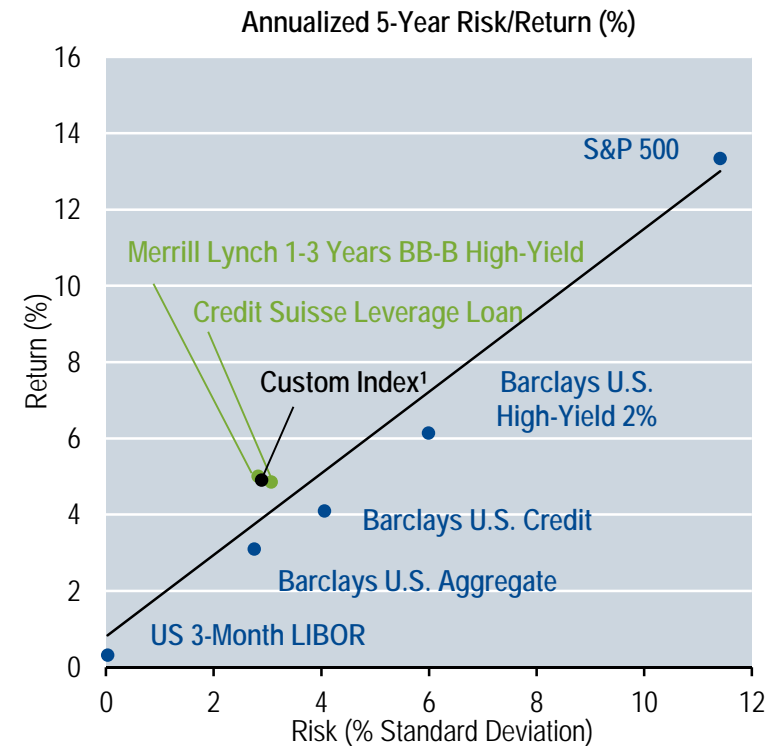
- \$202 million (as of September 30, 2015)

Advantages

- Income generation
- Reduced volatility
- Low interest rate sensitivity



Source: Barclays, J.P. Morgan, S&P/LSTA. As of 30 Sep 15



Source: Barclays, S&P, Merrill Lynch, Credit Suisse. As of 30 Sep 15

¹70% Credit Suisse Leverage Loan / 30% Merrill Lynch 1-3 Years BB-B High-Yield Index

Market Themes

Global environment

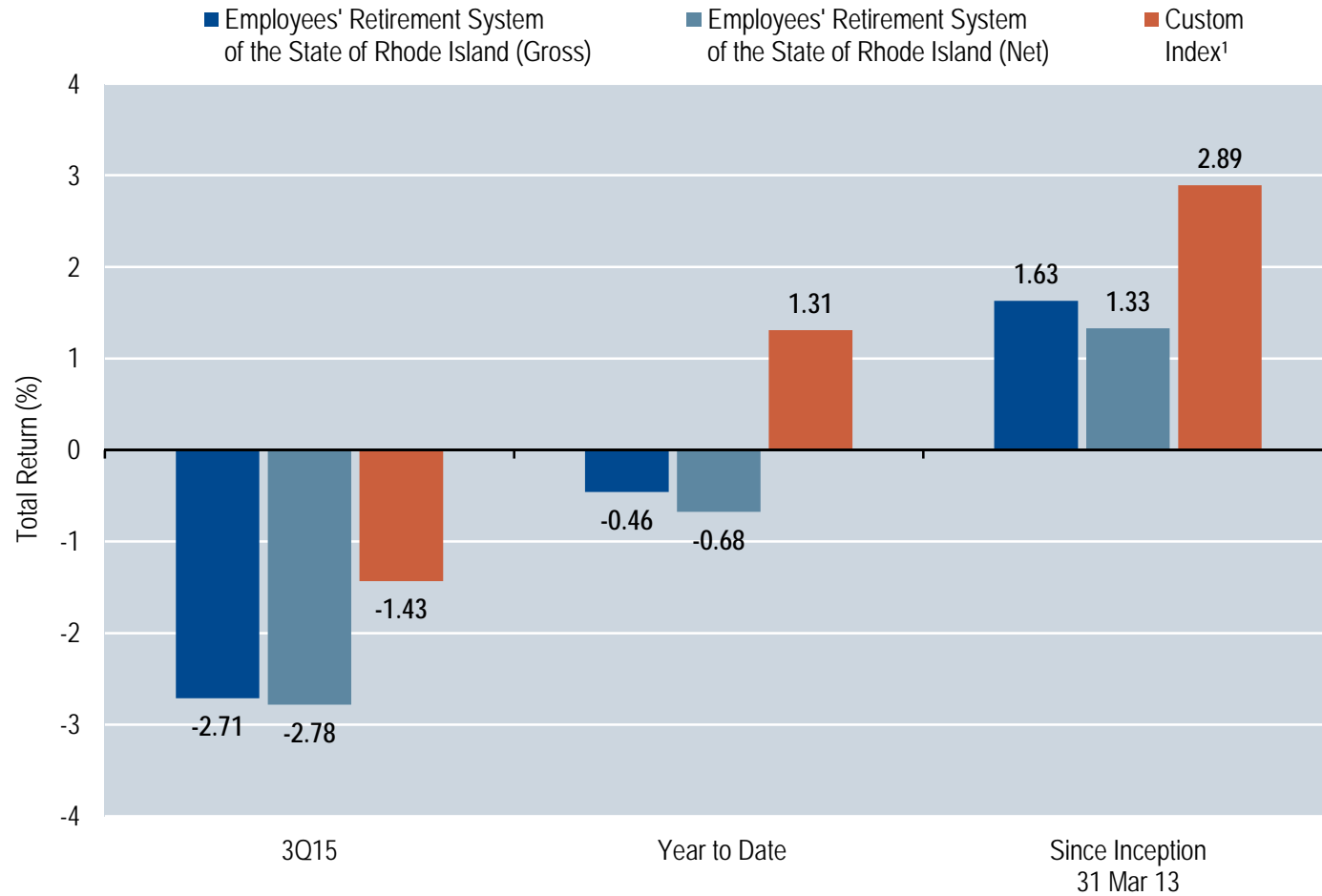
- Timing of Fed interest rate lift-off remains an unknown; source of ongoing market uncertainty
- Emerging Markets continue to struggle contributing to global slowdown in growth
- Commodities have suffered significantly from China and emerging markets slowdown, most commodities trading at historically low levels
- Oil remains main focus for credit investors given size of Energy sector within credit universe
- European QE gaining traction, better results and stability out of the region
- Earnings season unspectacular as earnings growth continues to moderate. Sales growth challenged, yet most companies are beating low earnings estimates
- Global liquidity continues to worsen leading to additional volatility in markets

US-focused environment

- US growth is steady yet muted. US appears to be the stabilizing force in the global market
- Dollar strength acts as headwind for corporate earnings
- Corporate balance sheets are strong and leverage is manageable
- Ability to service debt burdens remains at all-time high
- Cash on the balance sheet and access to liquidity plentiful for most borrowers
- Defaults rates should remain low for the foreseeable future

Investment Results

Periodic Returns



*As of 30 Sep 15. Returns for periods greater than one year are annualized. Returns since inception are as of the indicated close of business day.
¹70% Credit Suisse Leveraged Loan Index, 30% Merrill Lynch US High Yield Cash Pay BB-B Rated 1-3 Year Index*

Performance Summary

3rd Quarter 2015

Asset allocation had a neutral impact on relative performance

Overweight to the energy sector and other commodities negatively impacted performance

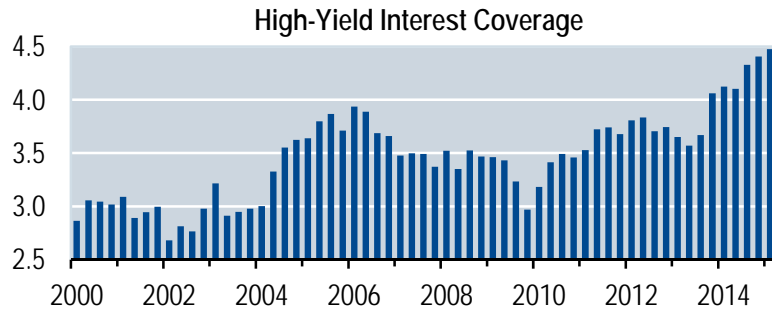
Lower quality biases detracted from performance

Issue selection detracted from performance due to an overweight to underperforming individual issuers

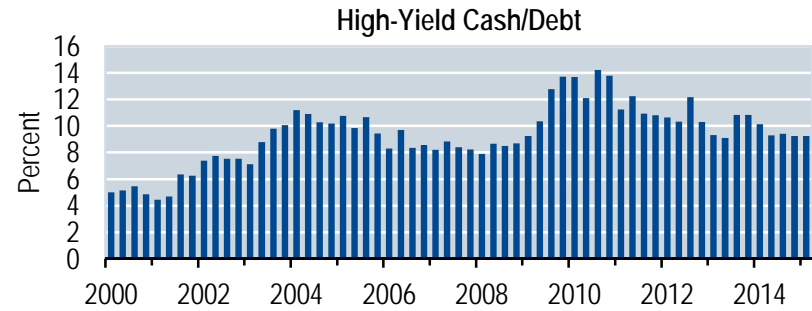
Primary market offerings provided attractive total return opportunities

Active trading and ongoing market dislocation allowed us to concentrate portfolio in better relative value sectors/issues

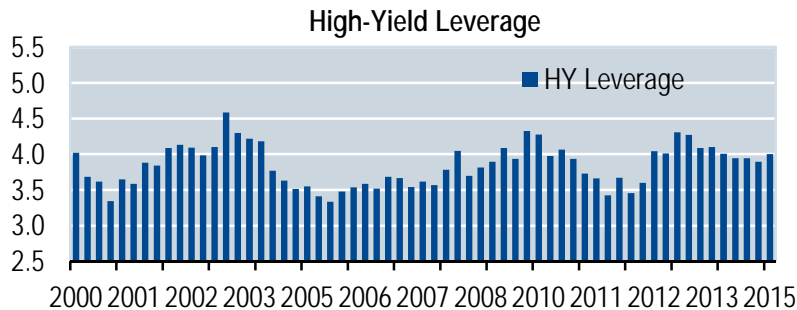
Corporate Credit Fundamentals Remain Solid



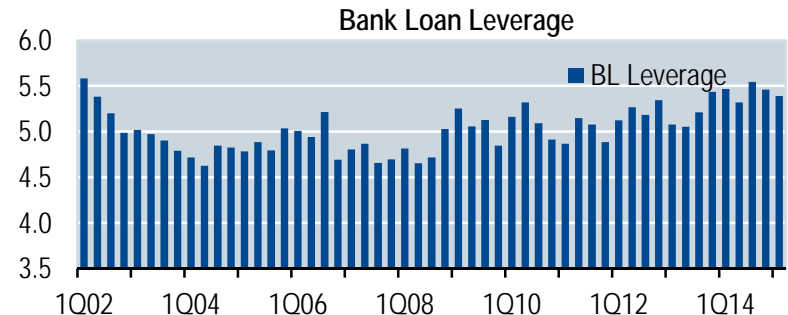
Source: Morgan Stanley Research, Bloomberg. As of 30 Jun 15



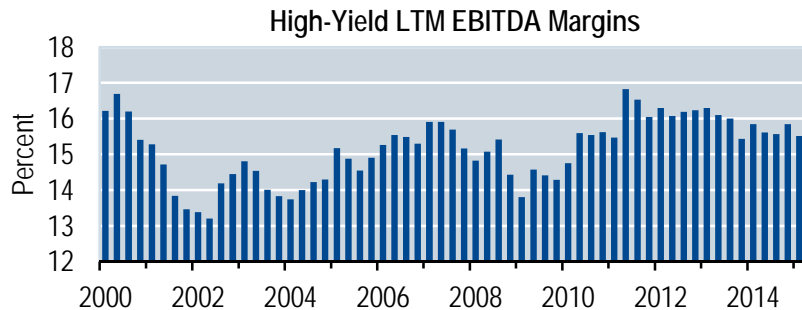
Source: Morgan Stanley Research, Bloomberg. As of 30 Jun 15



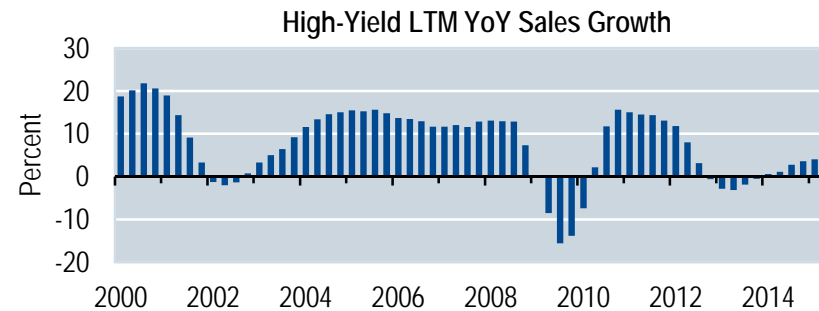
Source: Morgan Stanley Research, Bloomberg. As of 30 Jun 15



Source: S&P/LSTA, LCD. As of 31 Mar 15



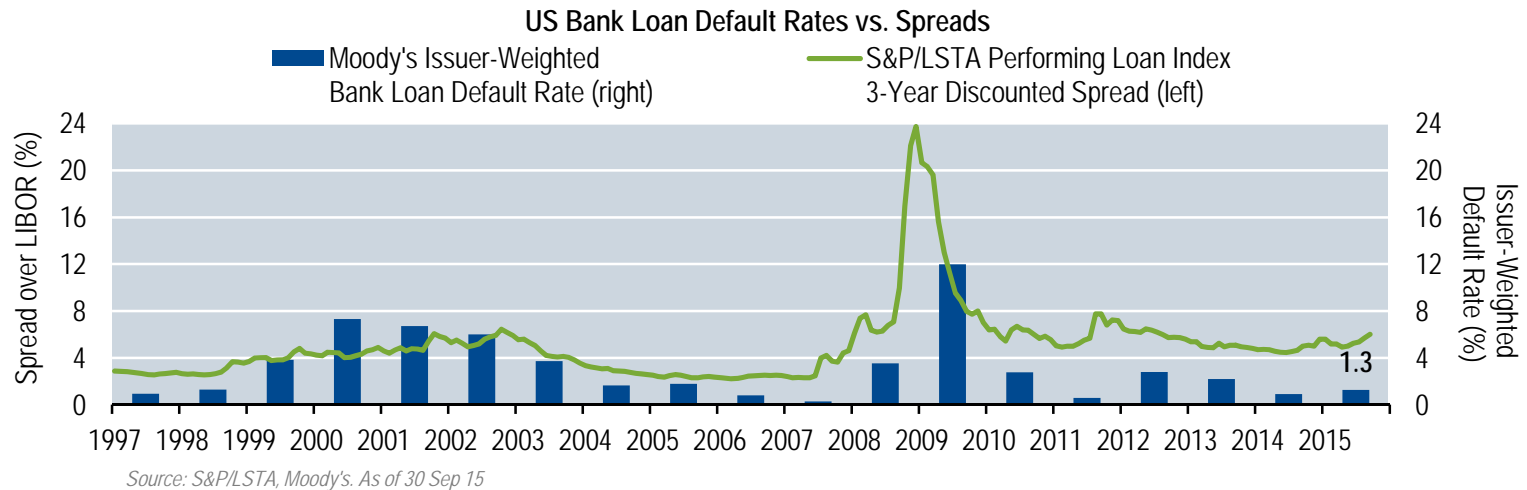
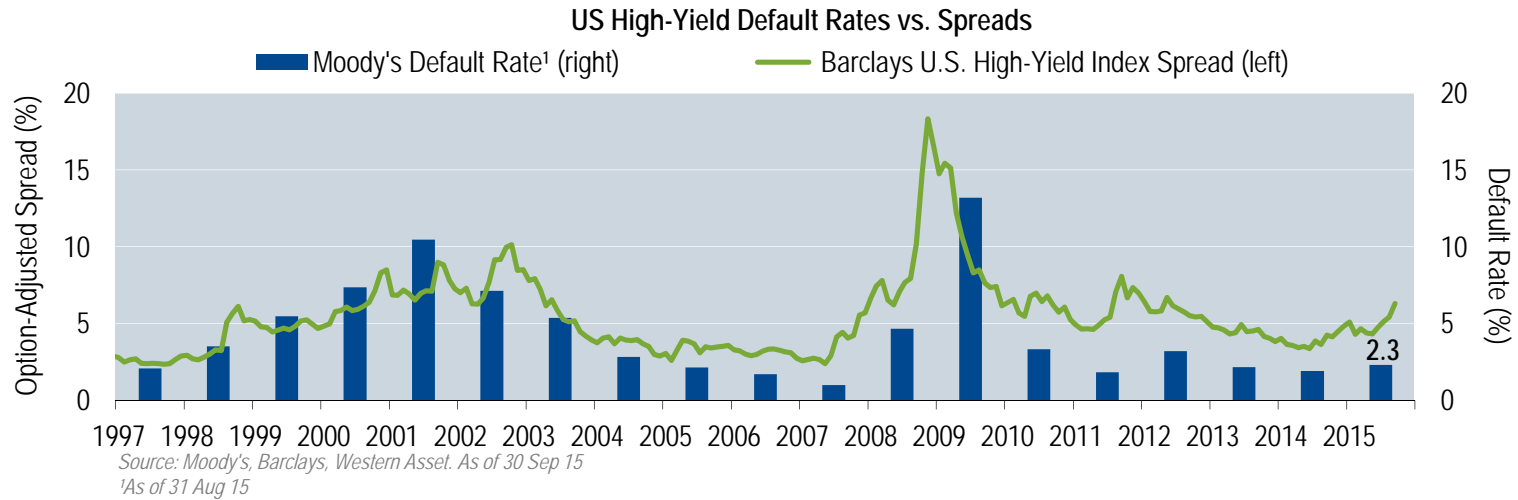
Source: Morgan Stanley Research, Bloomberg. As of 30 Jun 15



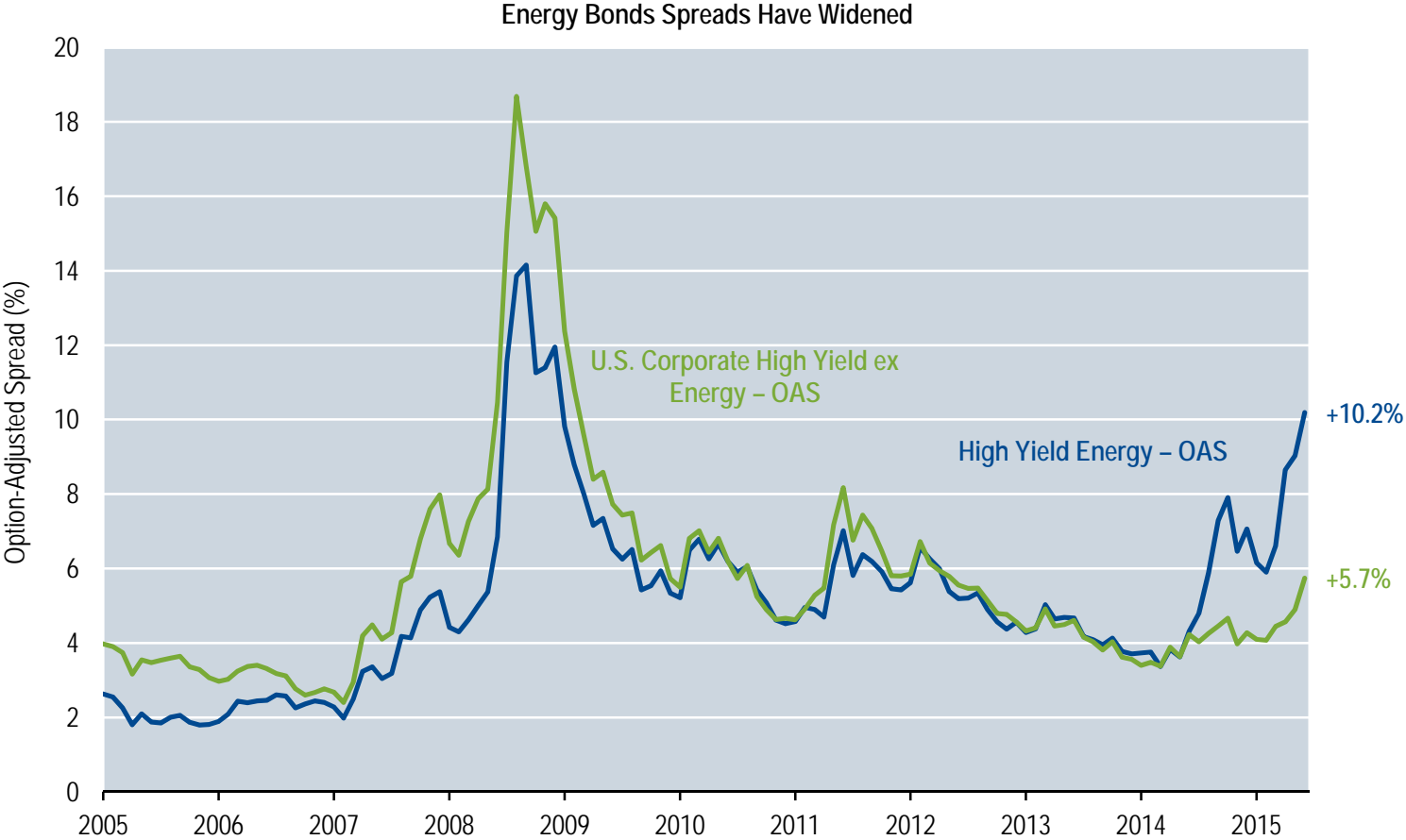
Source: Morgan Stanley Research, Bloomberg. As of 30 Jun 15

Valuations and Default Rate Correlation

Valuations are Compelling



Energy Credit Repricing on an Absolute and Relative Basis



Source: Barclays. As of 30 Sep 15

Portfolio Considerations

4Q15

Global environment

- Timing of Fed interest rate lift-off remains an unknown and is a source of uncertainty in the market
- Emerging Markets continue to struggle which is contributing to a global slowdown in growth
- Commodities have suffered significantly from the slowdown in China and Emerging Markets, with most commodities trading at historically low levels
- Oil has been the main focus for credit investors given the size of the Energy sector within the credit universe
- European QE is showing signs of traction resulting in better results and stability out of the region
- Earnings season has been unspectacular as earnings growth continues to moderate. Sales growth has been difficult to achieve yet most companies are beating low earnings estimates
- Global liquidity in investment trading markets continues to worsen leading to additional volatility

US-focused environment

- Dollar strength continues to be a headwind for corporate earnings
- US growth is steady yet muted. The US appears to be the stabilizing force in the global market
- Corporate balance sheets are strong and leverage is manageable
- Ability to service debt burdens remains at an all-time high
- Cash on the balance sheet and access to liquidity is plentiful for most borrowers
- Defaults rates should remain low for the foreseeable future

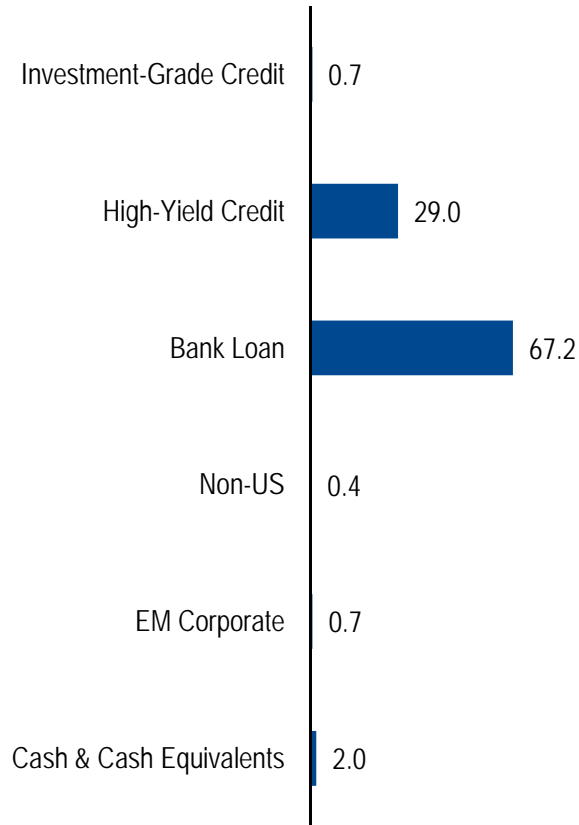
Strategies

- Maintain short-dated exposure / potential refinancing candidates
- Maintain overweight to single B and lower rated issuers given attractive risk-return dynamic
- Overweight transportation, consumer non-cyclicals (healthcare, consumer products)
- Remain overweight to energy companies based on strong asset base, attractive valuations and low default outlook
- Underweight technology and communications (broadcasters, wirelines)
- Issuer selection will continue to drive results
- Focus exposure in most attractive relative value opportunities

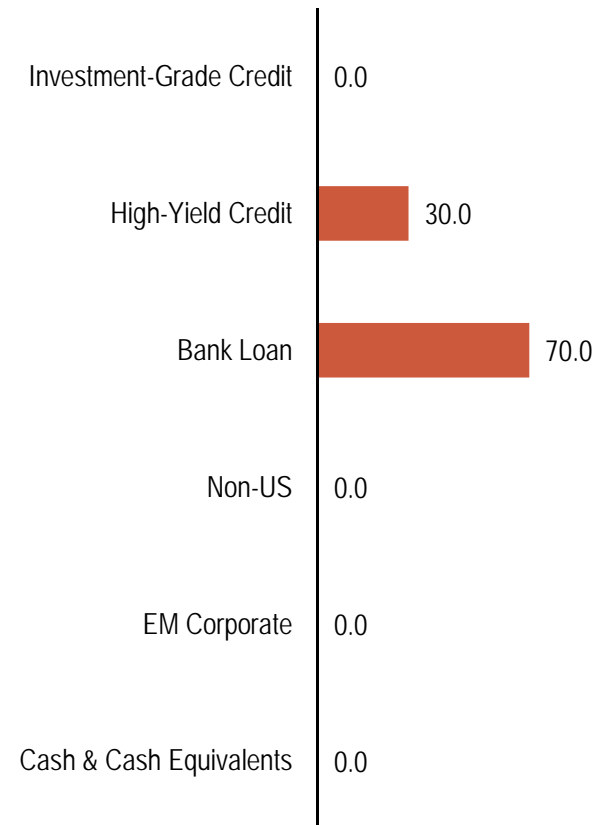
Sector Exposure

September 30, 2015

Employees' Retirement System of the State of Rhode Island (%)
Yield to Worst: 7.06



Custom Index¹ (%)
Yield to Worst: 6.17



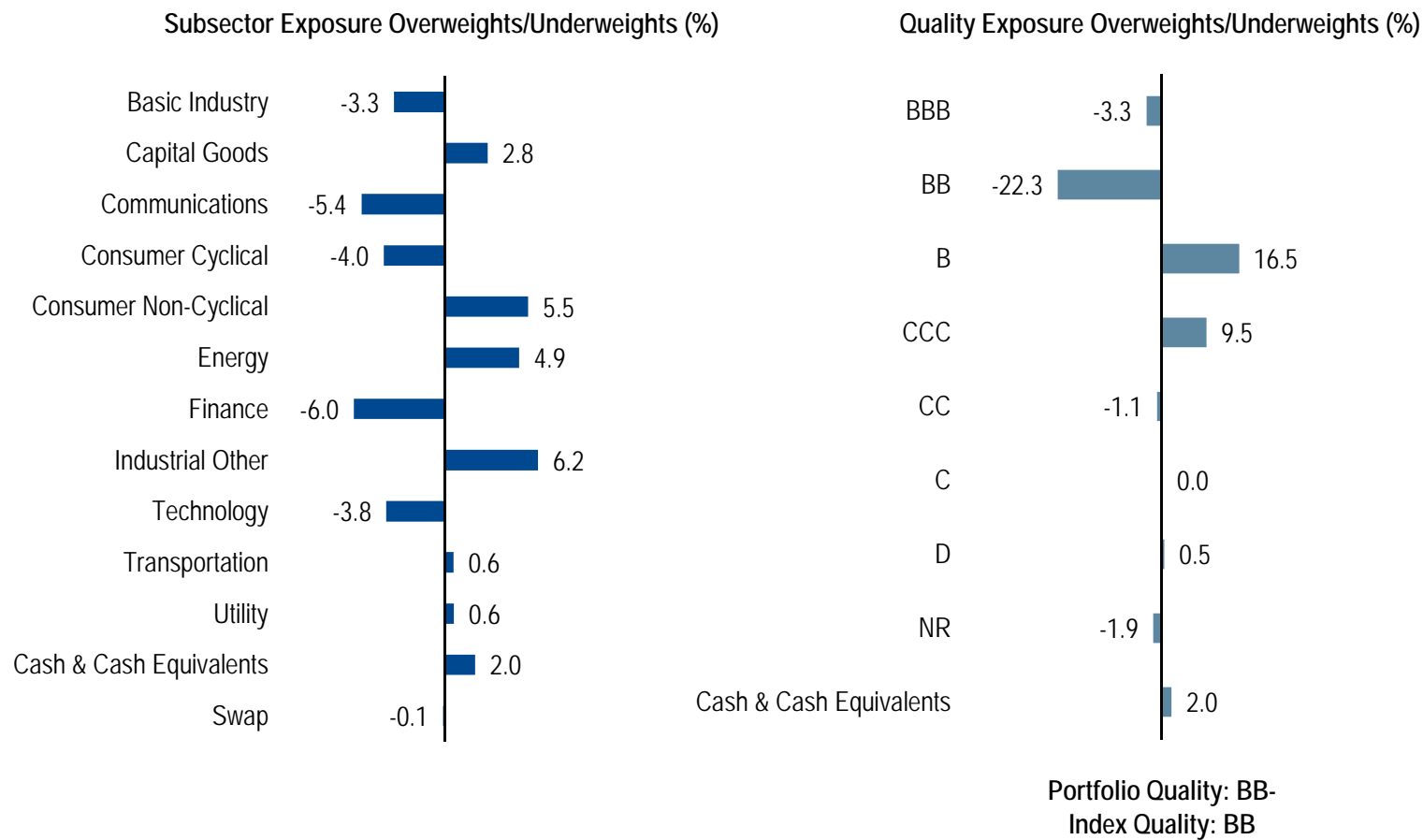
¹70% Credit Suisse Leveraged Loan Index, 30% Merrill Lynch US High Yield Cash Pay BB-B Rated 1-3 Year Index

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be reported, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to 100% due to rounding.

Subsector and Quality Exposure Overweights/Underweights

Employees' Retirement System of the State of Rhode Island vs. Custom Index¹

September 30, 2015



¹70% Credit Suisse Leveraged Loan Index, 30% Merrill Lynch US High Yield Cash Pay BB-B Rated 1-3 Year Index

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be apparent, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to 100% due to rounding.

Appendix

Biographies

FRANCES L. COOMBES

17 Years Experience

- Western Asset Management Company – Client Service Executive, 1998–
- *Columbia University, School of International and Public Affairs, M.P.P.*
- *University of California, Berkeley, B.A.*

TIMOTHY J. SETTEL

22 Years Experience

- Western Asset Management Company – Portfolio Manager, 2001–
- Lazard Freres & Co. – Portfolio Manager, 1995 – 2001
- Bear Stearns – Mortgage Analyst, 1993 – 1995
- *New York University, M.B.A.*
- *Lehigh University, B.S.*

Note: Western Asset experience reflects current position title and hire date.

Global Credit Team

	S. Kenneth Leech (38 yrs) – Chief Investment Officer	Michael C. Buchanan, CFA (25 yrs) – Deputy Chief Investment Officer		
Portfolio Managers	Investment-Grade Credit Ryan K. Brist, CFA (22 yrs) – US Matthew D. Jackson (13 yrs) – UK Craig Jendra, CFA (19 yrs) – Australia Blanton Keh, CFA (15 yrs) – US Hiroyuki Kimura (28 yrs) - Japan Anthony Kirkham, CFA (25 yrs) – Australia Paul Shuttleworth (29 yrs) – UK	High-Yield Credit/Bank Loans Michael C. Buchanan, CFA (25 yrs) – US Ian R. Edmonds (25 yrs) – UK Christopher N. Jacobs, CFA (27 yrs) – US Walter E. Kilcullen (18 yrs) – US Christopher Kilpatrick (18 yrs) – US Timothy J. Settel (22 yrs) – US Damon Shinnick, CFA (16 yrs) – Australia	Emerging Markets Credit Jean-Pierre Cote Gil (16 yrs) – Brazil Sergio Evangelista (26 yrs) – Brazil Chia-Liang Lian, CFA (22 yrs) – US Swee-Ching Lim (16 yrs) – Singapore Kevin Ritter, CFA (17 yrs) – US	Municipals Robert Amodeo, CFA (28 yrs) – US Charles Bardes (30 yrs) – US David T. Fare, CFA (28 yrs) – US Barbara Ferguson (30 yrs) – US John C. Mooney, CFA (28 yrs) – US
Research	Sebastian Angerer (6 yrs) – UK Credit Analyst Nathalie Cuadrado, CFA (15 yrs) – UK Industrials Ian Justice (17 yrs) – UK Whole Business Securitization Rene Ledis (22 yrs) – US Basic Industries/Utilities/Energy Paul S. Olsen* (32 yrs) – US Financial Institutions DeAndre L. Parks, CFA (22 yrs) – US Healthcare/Consumer Products/Retail Gerald R. Rawcliffe (32 yrs) – UK Financial Institutions Sean Rogan (26 yrs) – Australia Credit Analyst Ivor Schucking (24 yrs) – US Financial Institutions Davis Smith (26 yrs) – US Communications Amelia Sugiarto (9 yrs) – UK Credit Analyst	J. Gibson Cooper, CFA (28 yrs) – US Chemicals, Energy, Pipelines & Gas Distribution Douglas Dieter, Dr.P.H (16 yrs) – US Healthcare, Technology Ruchi Gupta (17 yrs) – UK European High-Yield Credit John C. Hwang (13 yrs) – US Structured Credit Araceli M. Sibley (23 yrs) – US Consumer Products, Entertainment, Restaurants, Consumer Services, Textiles Suzanne M. Trepp, CFA (25 yrs) – US Aerospace/Defense, Transportation, Retail, Food & Beverage, Tobacco Florent Vallespir (22 yrs) – UK European High-Yield Credit	Daniel Araujo (31 yrs) – Brazil Banking, Insurance, Telecom Adriano Casarotto (19 yrs) – Brazil Capital Goods, Chemicals, Energy, Metals & Mining, Paper & Forest, Infrastructure Kevin Chang, CFA (15 yrs) – US Emerging Markets Credit Marcos Dal Collina (30 yrs) – Brazil Education, Health Care, Specialized Consumer Services, High Yield Matthew Graves, CFA (10 yrs) – US Emerging Markets Credit Mark A. Hughes, CFA (17 yrs) – US Emerging Markets Credit Caio Magano (14 yrs) – Brazil Auto Components, Transportation, Utilities Willian Murayama (11 yrs) – Brazil Securitization Alex Tanaka (15 yrs) – Brazil Building Products, Homebuilding, Real Estate Broker, Retailing	Judy Ewald (32 yrs) – US Health Care, Higher Education, Housing, Pre-Refunded, Tax Exempt Structured Michael Linko (23 yrs) – US Airports, Bridges and Tunnels, Mass Transit Toll Roads Bud Littman (22 yrs) – US Misc High-Yield, Public Facilities, Power, Special Assessment Districts Kathryn L. Montgomery* (8 yrs) – US Airport Revenue, Financial Institutions Higher Education, Ports Thea Okin (33 yrs) – US Assisted Living, Charter Schools, Nursing Homes, Power, Water & Sewer Frederick Poon (15 yrs) – US Health Care, Industrial Revenue, Solid Waste, Tobacco
Trading	Osvaldo Acosta (16 yrs) – Australia Dan Alexander, CFA (11 yrs) – US Oberto Alvarez (22 yrs) – US Kurt D. Halvorson, CFA (14 yrs) – US Chetna Mistry (18 yrs) – UK	Sophala Choeng (9 yrs) – US Brandon C. Jacoby, CFA (12 yrs) – US	Wilfred Wong, CFA (14 yrs) – US	
Portfolio Analysts	Steve A. Green (21 yrs) – Australia Jean Lee, CFA (10 yrs) – UK Edward T. Ma, CFA (13 yrs) – US Molly Schwartz, CFA (11 yrs) – US	Quentin Lafosse (8 yrs) – UK Brendan A. Bowman, CFA (10 yrs) – US	Jacob Greenberg (2 yrs) – US	David Curry (8 yrs) – US Amish Dalal (9 yrs) – US Joseph Genco (22 yrs) – US Mindy Tran, CFA (13 yrs) – US Maria Pacifico (8 yrs) – US
Product Specialists	Thomas V. McMahon (36 yrs) – US Investment-Grade Credit & High-Yield Credit/Leveraged Loans Catherine L. Matthews (28 yrs) – UK Global Products	Steven T. Saruwatari, CFA (21 yrs) – US		

As of 31 Aug 15

*Dual responsibilities, shared with investment-grade and municipals team

Risk Disclosure

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