



Memorandum

To: Rhode Island State Investment Commission

From: Capital Cities, L.L.C.

Date: November 29, 2018

Re: Stable Value Onsite Meeting

Capital Cities conducted an onsite meeting with the Invesco Stable Value Team on October 11, 2018 in Louisville, Kentucky. The Invesco Stable Value Portfolio serves as the CollegeBound Program's capital preservation option. Specifically, the Stable Value Portfolio invests in investment contracts (also referred to as "wrap contracts") and seeks to produce a stable return while avoiding negative returns. The Stable Value Portfolio is offered as an Individual Portfolio within CollegeBound 529 (Advisor Plan) and CollegeBound Saver (Direct Plan). As an Individual Portfolio, the Stable Value Portfolio represents \$433.4 million (or 7.7% of Plan assets) in CollegeBound 529 and \$13.3 million (or 5.3% of Plan assets) in CollegeBound Saver, as of September 30, 2018. Additionally, the Stable Value Portfolio serves as one of the underlying capital preservation components of CollegeBound 529's Age-Based and Target Risk Portfolios, representing \$762.9 million in assets. In total, the CollegeBound Program has \$1.2 billion in the Invesco Stable Value Portfolio.

Capital Cities met with the Invesco Stable Value Team's key professionals, during the onsite visit. Our due diligence 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. Capital Cities also believes Invesco's ongoing wrap contract negotiations will allow the Stable Value Portfolio to remain competitive through investment flexibility guideline enhancements and expense reductions.

A summary of the onsite meeting and findings can be found 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)
- Offering—Comprehensive Stable Value management and reporting services

In total, Invesco manages \$311.1 billion in assets across its fixed income complex (as of September 30, 2018). Nearly one-fifth of the fixed income assets resides in Invesco's Stable Value strategy. The Stable Value Team currently manages \$54.5 billion in assets, which represents a slight increase in assets since the last onsite meeting in October 2017. The Stable Value assets under management remain diverse in terms of market segments, including private plans (60%), pooled plans (20%), public plans (15%), and 529 plans (5%).

Invesco's Stable Value leadership is represented by a six-person team with 28 years' average experience. This senior team has oversight of all aspects of the Stable Value business. Leadership has remained consistent since Capital Cities' last onsite visit. However, the Louisville-based office did undergo changes. In particular, Invesco made the decision in early October to more fully centralize the firm's fixed income effort by moving the structured credit team to join the rest of the fixed income group in Invesco's Atlanta headquarters. Mr. Baumann indicated that Invesco retained 90% of the structured credit team, including the key professionals, during the transition.

Capital Cities will continue to monitor personnel, but does not believe the recent move of the structured credit team will negatively impact the Stable Value team. Concern is mitigated by the experience and depth of Invesco's Stable Value team, which is a key differentiator relative to its peers. Capital Cities believes Invesco's dedicated Stable Value resources will continue to prove beneficial for the CollegeBound Program, particularly the team's ability to leverage its large asset base and experience, to secure wrap coverage and favorable wrap contract provisions for the Program.

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

The Stable Value Portfolio continues to meet these objectives for the CollegeBound Program and exhibits favorable portfolio characteristics (as of September 30, 2018), including:

- Crediting Rate: 2.20% (Direct Share Class RI), 1.69% (Advisor Share Class A)
- Duration: 3.39 years
- Average Quality: AA
- Market-to-Book Ratio: 97.82%

Portfolio Construction Overview and Recent Enhancements:

Invesco uses a “building block” approach to portfolio construction for the CollegeBound Program. Each building block (e.g., Cash Buffer, Short Duration, Intermediate and Core) serves as a key component to the overall Stable Value Portfolio’s structure. 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.

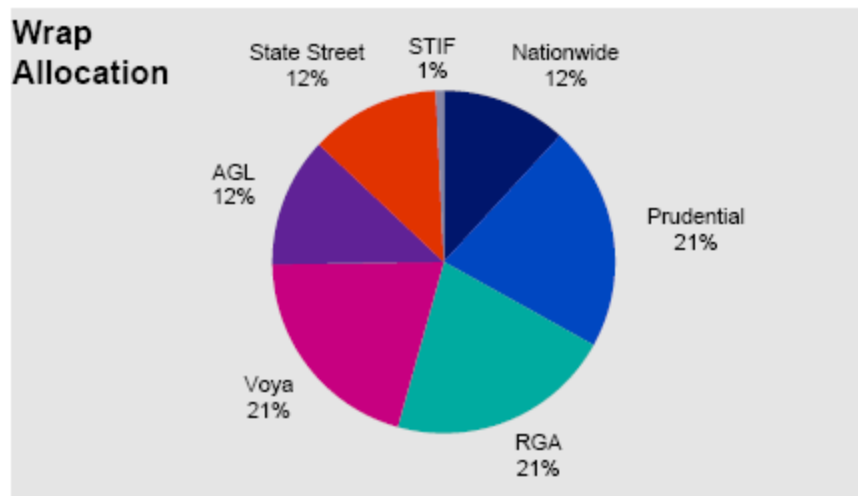
As noted in Capital Cities’ October 2017 Onsite Meeting Memo, Invesco successfully negotiated more investment flexibility with the Portfolio’s wrap contract providers. As a result, the Core component of the Portfolio increased from 15% to 20% in April 2018. At the same time, the Intermediate allocation was reduced from 37% to 30%. This change provided more return potential, while still maintaining the Portfolio’s emphasis on quality and stability to support the Stable Value objectives.

The table below details the construction of the Stable Value Portfolio as of August 31st.

Strategy	Cash Buffer	Short Duration	Intermediate	Core
Target	1% - 5%	45%	30%	20%
Managers / Subadvisors	STIF 0.7%	Invesco 48.0%	Jennison 15.4% Voya 15.3%	Invesco 20.5%
Market Value	\$8,836,864	\$575,591,820	\$367,852,588	\$246,132,090

Wrap Coverage Overview and Recent Enhancements:

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, as detailed in the following chart.



Capital Cities met with Jessica Cole, Head of the Stable Value Contract Group, and Jennifer Gilmore, Head of Stable Value Portfolio Management, to discuss wrap management. In addition to more investment guideline flexibility, wrap provider fees have declined given increased wrap capacity. Specifically, fees on new wrap capacity range from 18 to 21 basis points (bps), down from 23 to 25 bps following the 2008 financial crisis. Invesco has seized this opportunity by conducting ongoing negotiations with the CollegeBound Program’s wrap providers. A summary of the negotiations over the last year is detailed below.

Wrap Issuers	9/30/2017	9/30/2018	12/1/2018	Note
AGL	0.21%	0.20%	0.18%	Decreased Dec 1, 2017 (Will decrease to 0.18% Dec 1, 2018)
BTMU	0.21%	N/A	N/A	Terminated March 21, 2018
Nationwide	N/A	0.19%	0.18%	Added March 21, 2018 (Will decrease to 0.18% Dec 1, 2018)
Prudential	0.20%	0.18%	0.18%	Decreased March 1, 2018
RGA	0.21%	0.18%	0.18%	Decreased from 0.21% to 0.19% Dec 1, 2017 and from 0.19% to 0.18% July 1, 2018
State Street	0.23%	0.20%	0.20%	Decreased Dec 1, 2017
Voya	0.18%	0.18%	0.18%	No change

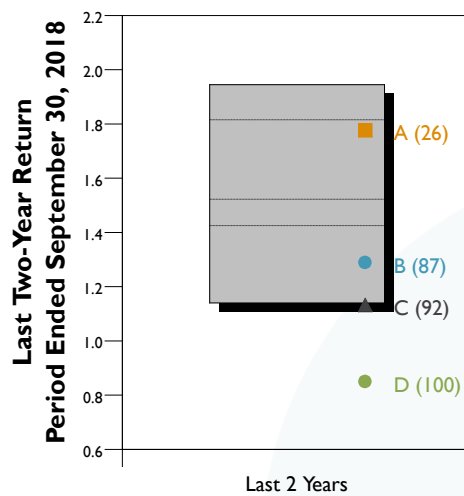
In total, the Stable Value Portfolio’s fee has been reduced by two bps over the last year, given Invesco’s negotiations.

As detailed in Capital Cities’ October 2017 Onsite Meeting Memo, the Bank of Tokyo-Mitsubishi (BTMU) announced in 2017 that the firm was exiting the wrap market. As a result, Invesco pursued another wrap provider for the CollegeBound Program and ultimately selected Nationwide to replace BTMU. The change in wrap coverage occurred on March 27, 2018. It is also important to note that Invesco increased the wrap coverage of both AGL and State Street from 8% to 12% each, as a result of successful investment guideline and fee negotiations.

Overall, Capital Cities continues to favorably view the Invesco Stable Value Portfolio’s prudent diversification within the portfolio construction (e.g., building blocks and proprietary vs. non-proprietary strategies) and wrap contract coverage. Additionally, Capital Cities believes Invesco’s ongoing wrap provider negotiations will allow the Stable Value Portfolio to remain competitive through investment flexibility guideline enhancements and expense reductions.

Performance:

The Stable Value Portfolio has exhibited strong performance since inception (last two-year time period) relative to peers (*please note that the Stable Value 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.



Investment Category	Return
CollegeBound Saver (Direct RI): Stable Value Portfolio	1.78
CollegeBound 529 (Advisor A): Invesco Stable Value	1.29
Bimbg:US Treas Bell 3M	1.13
Callan Money Market Funds	0.85
Median	1.52