



State of Rhode Island
Office of the General Treasurer

Long Duration Treasury Recommendation
Crisis Protection Class
October 23, 2024

RECOMMENDATION

Terminate Western Asset Management's active Long Duration Treasury mandate → Replace with passive Long Duration Treasury Indexed implementation, managed by Russell Investments.

BACKGROUND

The ERSRI defined benefit investment portfolio includes a 5% strategic allocation to Long Duration Treasuries as a component of the portfolio's Crisis Protection Class. This ~\$500 million Long Treasury portfolio is currently actively managed by Western Asset.

1) Underperformance

Western Asset has failed to meet its objective of achieving a targeted 25-basis point (net of fee) excess return over the benchmark.

2) Active vs. Passive

An active Long Treasury manager has a limited number of levers to pull to generate active return. Given this as well as the Long Treasury allocation's role within the portfolio's broader strategic objectives, Investment Staff believes that passive implementation is a more appropriate approach.

3) Fees

Russell Investment's passive implementation proposal includes a 3 basis point management fee, which represents a discount relative to the 5 basis point management fee charged in connection with Western Asset's active mandate.

4) Portfolio Synergies

Russell Investments currently manages the ERSRI defined benefit portfolio's Futures Overlay. Management of the portfolio's Long Treasury allocation would enable Russell to satisfy initial margin requirements with Treasuries, thus freeing up the Overlay account's cash collateral (currently ~\$20 million).

5) Western Asset Organizational Risk

Western Asset has experienced outflows following co-CIO Ken Leech's leave of absence amidst an SEC investigation.

SUMMARY

Approval of the recommendation included herein would shift the implementation of this allocation from active to passive, reduce management fees, terminate an underperforming manager with broader organizational issues, and enable the portfolio to leverage synergies with an existing partner who has experience providing passive treasury implementation solutions.