

STATE OF RHODE ISLAND

INVESTMENT GRADE CORPORATE CREDIT & SECURITIZED CREDIT

April, 2020

Will Forde, CFA, CAIA, Senior Consultant

Doug Moseley, Partner



BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

REVISITING THE CORE BOND ALLOCATION

- **As a reminder, the SIC approved the disaggregation and decrease of its Core Bond allocation**
 - Dedicated allocations to Investment Grade Corporate Credit and Securitized Credit were approved
 - Treasury exposure was maintained with an increase in the Long Bond and TIPS allocations

		Current Target	Current Allocation
Stability	CPC	10%	8%
	Inflation Protection	8%	8%
	Core Bonds	0%	11%
	IG Corp Credit (Core Bonds)	3.25%	0.00%
	Securitized Credit (Core Bonds)	3.25%	0.00%
	Absolute Return	6.5%	6.6%
	Strategic Cash	2%	3%
	Volatility Protection	15%	21%
	TOTAL STABILITY	33%	36%



SEARCH PROCESS SUMMARY

- **The SIC approved a 3.25% allocation (~\$280M) to IG Corp. Credit and Securitized Credit, respectively**
- **Over the last several months, NEPC and the RI Investment Team have conducted additional research to identify our highest conviction managers**
 - Given both allocations subside within the Stability bucket, we've focused on firms with the following characteristics:
 - Tracking error in line with our expectations
 - A long track record within the asset class and an experienced/stable team
- **As a result of this additional research, NEPC and the RI Investment Team recommend Fidelity and Loomis to present to the SIC**
 - Fidelity – Investment Grade Corp. Credit
 - Loomis – Securitized Credit



INVESTMENT GRADE CORP. CREDIT

NEPC, LLC

FIDELITY INVESTMENT GRADE CREDIT

General Firm & Strategy Information	
Firm Name	Fidelity Institutional Asset Management
Strategy Name	FIAM U.S. Investment Grade Credit Strategy
Strategy AUM	\$2.9 Billion
Strategy Inception Date	March 2002
NEPC Product Rating	3 (Neutral)*
Representative List of Competitors	<ol style="list-style-type: none"> 1. IR+M 2. Loomis 3. MacKay Shields 4. Neuberger Berman 5. Payden & Rygel 6. PGIM 7. Pinebridge 8. Voya 9. Wellington 10. Western

General Firm & Strategy Information	
Strategy Description	The strategy seeks to achieve absolute and risk-adjusted total returns in excess of the index by primarily investing in IG corporate bonds. Portfolio returns will predominantly be driven by Fidelity's fundamental research on issuers and sector valuations. As such, security selection is expected to be the most consistent driver of alpha. The team will use top-down macro views to help shape overall risk. However, they will de-emphasize interest rate anticipation based on its belief that it's a low probability and high-risk endeavor.
Strategy Benchmark	Barclay's U.S. Corp. Investment Grade
Important Considerations	<ol style="list-style-type: none"> 1. Non-IG Exposure: Fidelity manages two versions of this strategy. One of which has the ability to invest up to 20% in non-IG exposure. NEPC recommends that RI consider capping that exposure at 10% 2. Derivative Usage: Derivate usage employed to help effectively manage risk

Fees	
Fee	<p><u>Standard Separate Account Fee:</u> First \$100M @ 0.28% Next \$400M @ 0.22%</p> <p>OPTION 1 <u>Effective fee: 0.18%</u> 0.18% on first \$250M 0.15% on next \$250M 0.12% thereafter</p> <p>OPTION 2: <u>Performance Based Fee</u> 0.07% flat 25% incentive fee on net outperformance relative to benchmark over rolling 36 months; Max fee of 0.28%</p>

*Fidelity is a 1-rated manager on NEPC's Core Plus Bond FPL

**The proposed performance based fee is net of management fee and operating expenses



PEER GROUP PERFORMANCE (GROSS)

- **The below reflects absolute gross of fee performance based on each manager's composite track record**
 - Performance is also color coded based on its out/under performance relative to the Barclay's US Corp. Investment Grade index

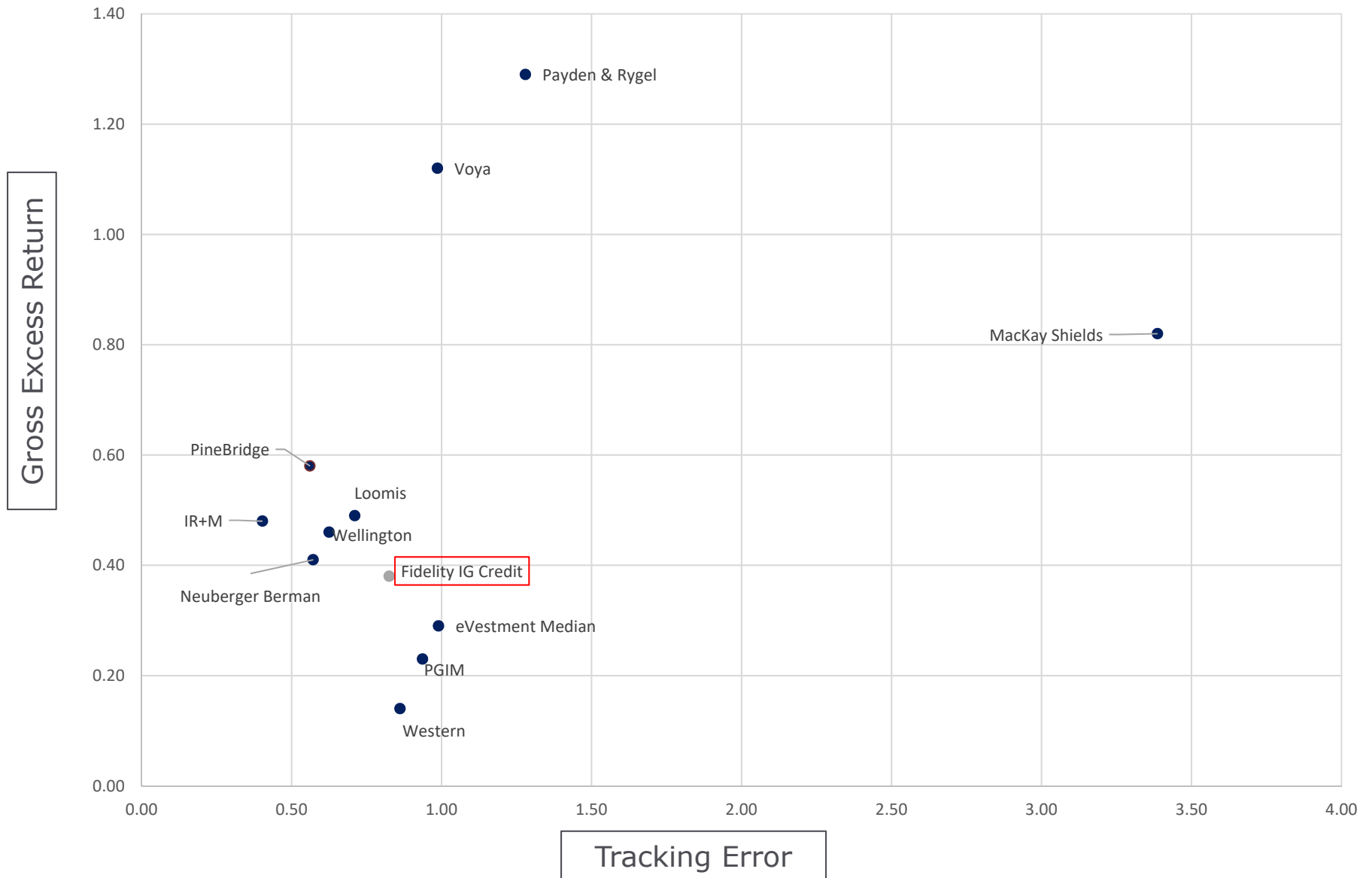
NEPC Rating	Firm Name	Product Name	1 Year	Rank	3 Years	Rank	5 Years	Rank	7 Years	Rank	10 Years	Rank
1 (Preferred)	Fidelity	Investment Grade Credit	4.28	47	4.44	31	3.67	42	3.95	44	---	---
1 (Preferred)	IR+M	IR+M Corporate Credit	5.59	25	4.69	20	3.94	22	4.05	30	---	---
1 (Preferred)	Loomis	Investment Grade Corporate Bond	4.57	39	4.44	31	3.73	34	4.06	30	5.55	28
3 (Neutral)	MacKay Shields	Municipal Investment Grade	4.59	39	5.07	8	4.17	11	4.39	12	5.65	23
3 (Neutral)	Neuberger Berman	Investment Grade Credit	5.47	28	4.57	25	3.79	29	3.98	40	5.18	69
3 (Neutral)	Payden & Rygel	US Investment Grade Corporate	3.38	70	4.40	33	4.40	5	4.86	3	6.06	10
1 (Preferred)	PGIM	PGIM Fixed Income US Corporate Fixed Income	2.99	79	3.74	69	3.44	60	3.80	61	5.31	56
3 (Neutral)	PineBridge	PineBridge USD Investment Grade Credit Bond Strategy	5.80	19	4.58	24	3.69	40	4.15	19	6.17	5
3 (Neutral)	Voya	Voya Investment Grade Credit	6.15	16	5.05	9	4.15	12	4.69	6	6.49	1
1 (Preferred)	Wellington	Investment Grade Corporate Bond	6.36	13	4.80	16	3.78	32	4.03	34	5.44	43
1 (Preferred)	Western	WA US Investment Grade Credit	2.60	84	3.71	71	3.32	68	3.71	66	5.14	72
Barclays US Corp. Investment Grade			4.98	36	4.20	45	3.36	66	3.57	73	4.92	80



*NEPC ratings are based on NEPC's Core & Core Plus Focused Placement List

As of March 2020

PEER GROUP PERFORMANCE (7 YEAR)



*Tracking error is relative to the policy index

As of March 2020

SECURITIZED CREDIT

NEPC, LLC

LOOMIS INVESTMENT GRADE SECURITIZED

General Firm & Strategy Information	
Firm Name	Loomis, Sayles & Company, L.P.
Strategy Name	Investment Grade Securitized
Strategy AUM	\$1.3 Billion
Strategy Inception Date	May 2006
NEPC Product Rating	3 (Neutral)*
Representative List of Competitors	<ol style="list-style-type: none"> 1. BlackRock 2. Fidelity 3. Loomis 4. Neuberger Berman 5. PGIM 6. PIMCO 7. Voya 8. Wellington 9. Western

General Firm & Strategy Information	
Strategy Description	Loomis implements a duration neutral value strategy seeking broad exposure to the investment grade securitized market through a fundamental approach. The strategy will primarily invest in Agency MBS, IG ABS, CMBS, and non-Agency RMBS. The strategy seeks 1-2% in excess returns over a 3-5 year period with a typical tracking error of 0.50% - 2.50%.
Strategy Benchmark	Bloomberg Barclays US Securitized
Important Considerations	<ol style="list-style-type: none"> 1. Strategy AUM: Most strategy assets are held within their mutual fund

Fees	
Fee	<p><u>Standard Separate Account Fee:</u> First \$50M @ 0.34% Next \$50M @ 0.30% Remaining @ 0.25%</p> <p>OPTION 1 <u>ERSRI Commingled Fee:</u> 0.22% flat</p> <p>OPTION 2 <u>Performance Based Fee:</u> 0.10% flat 20% incentive fee on net outperformance relative to benchmark over rolling 36 months: Max fee of 0.34%; Min. annual fee of \$250,000</p>



*Loomis is a 1-rated manager on NEPC's Core Plus FPL

**The proposed performance based fee is net of management fee and operating expenses

PEER GROUP PERFORMANCE (GROSS)

- **The below reflects absolute gross of fee performance based on each manager's composite track record**
 - Performance is also color coded based on its out/under performance relative to the Barclay's US Securitized index

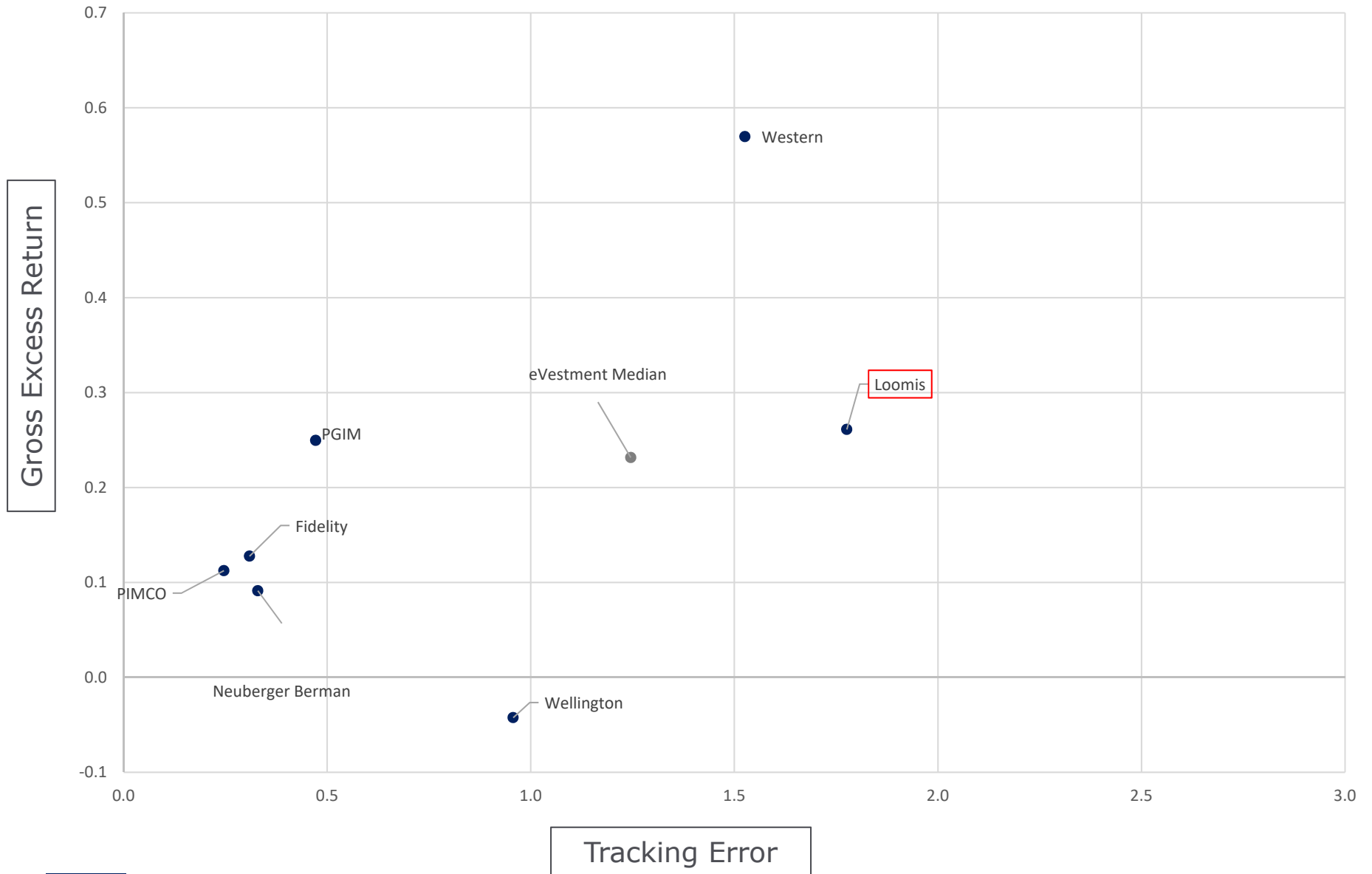
NEPC Rating	Firm Name	Product Name	1 Year	Rank	3 Years	Rank	5 Years	Rank	7 Years	Rank	10 Years	Rank
3 Rated (Neutral)	BlackRock	US Mortgage Bond	---	---	---	---	---	---	---	---	---	---
1 Rated (Preferred)	Fidelity	Agency MBS	6.91	16	4.10	24	3.05	40	3.02	58	3.59	64
1 Rated (Preferred)	Loomis	Investment Grade Securitized	2.75	61	3.40	58	2.91	50	3.16	43	4.48	38
3 Rated (Neutral)	Neuberger Berman	Mortgage Constrained	7.33	10	4.13	22	2.91	53	2.99	64	3.49	80
1 Rated (Preferred)	PGIM	PGIM Fixed Income US Mortgage Backed Securities Plus	6.43	29	4.01	27	3.07	36	3.14	45	4.12	45
1 Rated (Preferred)	PIMCO	Mortgage Constrained	6.91	15	4.15	21	3.10	32	3.01	60	3.55	72
3 Rated (Neutral)	Voya	Voya Securitized Credit - Opportunistic	-9.19	91	0.89	91	2.65	77	---	---	---	---
1 Rated (Preferred)	Wellington	Mortgage-Backed Securities	4.23	52	3.43	55	2.74	66	2.85	72	4.01	55
1 Rated (Preferred)	Western	WA US Agency MBS Plus	3.98	55	3.93	32	3.12	27	3.46	21	5.00	30
Bloomberg Barclays US Securitized			6.89	22	4.02	27	2.93	52	2.89	70	3.37	92



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As of March 2020

PEER GROUP PERFORMANCE (7 YEAR)



*Tracking error is relative to the policy index



As of March 2020