

Rhode Island SIC

Long-Duration U.S. Treasury
Portfolio

ERSRI Crisis Risk Offset Portfolio

- CRO Strategic Policy Allocation: 8%
- CRO Portfolio Sub-categories:
 - Long-duration U.S. Treasury Securities (4%) – today's discussion
 - Systematic Trend Following Strategies (4%)
- Long-duration U.S. Treasury Securities
 - High quality Long-duration securities perform well in a financial market crisis – when there is a “flight to quality” environment
 - In markets where interest rates decline, instruments with long duration increase in value
- Long-duration U.S. Treasury Risks:
 - Interest rate risk
 - Inflation risk

Manager Selection: Investment Staff and PCA due diligence process

- Manager due diligence document issued : October 5, 2016
 - Brown Brothers, Fidelity, MacKay Shields, PIMCO, Western Asset
- Proposer responses due October 17, 2016
- Proposals reviewed / rated
- Conference call with proposers
- Best and Final fee proposals reviewed
- Proposals rerated / manager recommendation to SIC: Mackay Shields and WAMCO
- Manager interview with the SIC December 16th
- Contracting / account set up / account guidelines / other on-boarding activities completed January 2017
- Portfolios will be funded pari passu with the Systematic Trend Following managers 1Q 2017

Portfolio Structure

PCA recommends the SIC hire two managers for the U.S. Treasury long duration portfolio; splitting the allocation 50/50.

- MacKay Shields (current manager - U.S. Core fixed income portfolio)
- Western Asset Management Company (current manager – Bank Loan portfolio)

Rationale:

Mackay employs a less active management style – consistent with the CRO portfolio's mandate. In addition, their proposed management fee is very competitive.

WAMCO employs a more active management style – which may be beneficial to the portfolio in a period of rising interest rates. In addition, the proposed management fees is very competitive for an active management mandate.

Fee:

7.7 bp both products

Long-duration U.S.T Treasury Market

The suggested benchmark for the long-duration portfolio is the Bloomberg Barclays Capital Long U.S. Treasury Index,

The Bloomberg Barclays Capital Long U.S. Treasury Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of 10 or more years, are rated investment grade, and have \$250 million or more of outstanding face value.

Number Issues	46
Returns Modified Duration	17.37
Duration (Mod. Adj.)	17.61
Market Value (MM)	1,071,617
Quality	AAA/AAA
Yield to Maturity/Worst	2.92%
Price	107.24
Maturity	25.22
Coupon	3.46%

Proposed Portfolio Guidelines

Benchmark: Bloomberg Barclays Capital U.S. Treasury Long Index

- Tracking error: 2% Max
- Expected information ratio: 0.35 – 0.50
- Agency MBS: max. 50%
- U.S. Treasuries: max. 100%
- Non-U.S. Dollar Treasury Denominated: No
- Only Treasuries and Agencies are allowed
- Non-benchmark: max. 50%

- Duration: benchmark +/- 10%