



State of Rhode Island
Office of the General Treasurer

Strategic Cash Recommendation
Enhanced Cash Strategy
April 23, 2025

RECOMMENDATION

Terminate Payden & Rygel's strategic cash mandate → Replace with Garcia Hamilton & Associates.

BACKGROUND

The ERSRI defined benefit investment portfolio has a strategic cash asset target allocation of 2.0%. This allocation resides within the Volatility Protection category (15% target), under the Stability sleeve (33% target). This ~\$200 million cash portfolio is currently managed by Payden & Rygel ("Payden") as an SMA. The purpose of the cash portfolio is to provide cash liquidity to make monthly cash outflows while preserving principal and earning higher returns than those generated in a short-term investment fund ("STIF") or a money market account. As such, the portfolio consists of liquid high-quality securities in short-term instruments.

1) Elevated Exposure to Credit

Since Payden's SMA inception in 2017, ERSRI's Strategic Cash Portfolio has held high levels of exposure to corporate credit and securitized bonds. (See Appendix 1) During a lower interest rate regime and a benign credit environment, the larger exposures to corporate and securitized assets made sense as these investments generated potential to deliver higher yields but also exposed our Strategic Cash portfolio to increased valuation risk and volatility. While the program has delivered 2.4% net of fees returns since inception, with ~ 27 bps of benchmark outperformance (as of February 28, 2025), this level of outperformance (on a 2% allocation) only impacts the total plan by half a basis point. Liquidity is a consistent priority from this portfolio, but it assumes heightened importance during periods of market distress. While the current mandate has consistently met the Staff's withdrawal requests, periods of market stress have required additional considerations to facilitate liquidity. For example, during the early stages of the COVID-19 pandemic, a \$35 million withdrawal prompted a temporary waiver of investment guideline limits on securitized and triple-B exposures, enabling the current manager to avoid liquidating less liquid holdings under unfavorable conditions.

2) Fees

Payden & Rygel's fees are above market for its mandate—charging 12 bps on the first \$150 million, 10 bps on the next \$100 million, and 8 bps thereafter. In contrast, Garcia Hamilton & Associates' ("GH&A") proposed fee is 6 bps for the first \$100 million, 4 bps thereafter---a savings from Payden & Ryden's current fee structure.

3) Garcia Hamilton's Investment Philosophy Better Aligned with ERSRI Strategic Cash Objectives

GH&A's investment approach is to target high quality liquid portfolios with an emphasis on short duration investments. A more conservative approach that ensures ERSRI liquidity when it's needed. (See Appendix 2)

SUMMARY

Approval of the recommendation included herein would replace Payden & Rygel as the active manager of the ERSRI's Strategic Cash portfolio with Garcia Hamilton & Associates. The change is expected to reduce unnecessary risk, achieve lower fees, and better enable the Strategic Cash portfolio to meet its objective of providing cash liquidity while preserving principal.

Appendix 1

Payden's Current Strategic Cash Allocation & 02/28/2025 Net of Fees Returns:

Current Portfolio %

Securitized	9.6%
Corporates	37.8%
Commercial Paper	5.3%
Agency	1.0%
Government Related	3.4%
Treasuries	38.9%
Municipal	1.0%
Cash	3.0%
TOTAL	100.0%

Source: Payden, as of April 11, 2025

Returns Net of Fees (Periods Ending February 28, 2025)

	Market Value	% of Total	YTD	FYTD	1 year	3 Years	5 Years	ITD	Inception Date
ERSRI SMA Cash	193,995,683	2.00	0.87	3.74	5.59	4.30	2.72	2.49	2/1/17
ICE BofA US Treasury			0.70	3.43	5.18	3.91	2.46	2.22	2/1/17

Source: BNY Total Performance Summary as of 02/28/2025

Appendix 2

GH&A Proposed Strategic Cash Portfolio Allocation:

GH&A Proposed Portfolio %

Securitized	10.0%
Corporates	16.0%
Commercial Paper	4.0%
Government Related	0.0%
Treasuries	70.0%
TOTAL	100.0%

Source: Garcia Hamilton & Associates