State of Rhode Island
Office of the General Treasurer

# Liquid Credit Implementation - Staff Recommendation

*October-2021*

## RECOMMENDATION

Staff recommends that the SIC approve the amendment of ERSRI's existing 50/50 blended High Yield/Bank Loan-focused Liquid Credit mandates, as managed by PIMCO and Loomis Sayles, to High Yield-focused mandates, subject to Legal and Staff review.

## PURPOSE

*Remove bank loans from the Liquid Credit mandates and align the PIMCO and Loomis Sayles manager benchmarks with the Liquid Credit asset class benchmark.*

## BACKGROUND

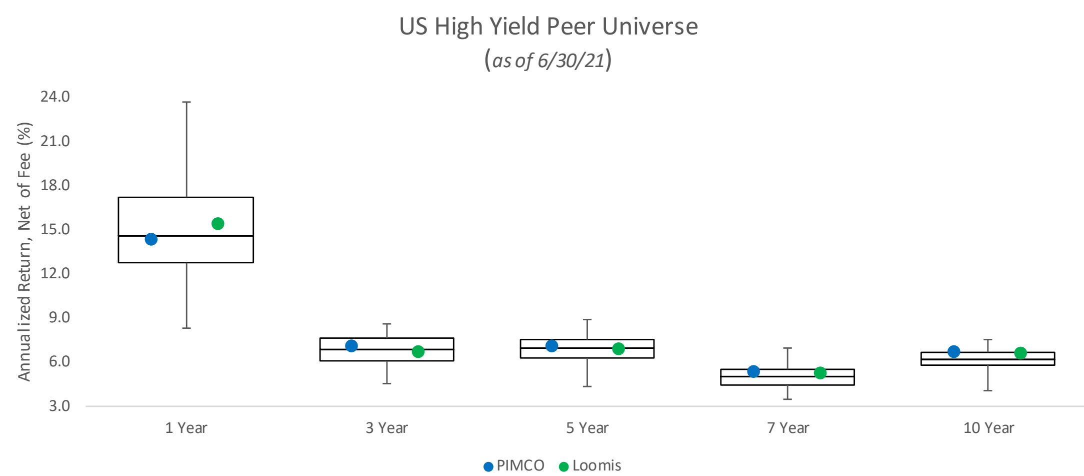
The target allocation to Liquid Credit is 3.0% effective 7/1/2021, and the actual allocation as of 9/30/2021 is 4.1%[1]. The Liquid Credit allocation resides within the Plan's Income Bucket, which seeks to achieve a meaningful yield premium over investment grade fixed income markets. Allocations within this bucket may include high yielding public and private fixed income strategies and complementary yield-generating investments such as derivatives that offer a premium income.

Per ERSRI's most recently adopted Investment Policy Statement (IPS), effective 7/1/2021, the Liquid Credit asset class benchmark is the Bank of America US High Yield Index. However, ERSRI's existing Liquid Credit mandates have continued to be managed to the legacy Liquid Credit asset class benchmark, a 50/50 blend of the Credit Suisse Leveraged Loan and Bank of America US High Yield Indices. In order to match the implementation of the Liquid Credit mandates with the new allocation benchmark, the Bank Loan component of the Liquid Credit asset class mandates will be removed. These changes to the benchmarks and mandates offset the added Bank Loan exposure via the Plan's newly implemented 2% allocation to CLOs within ERSRI's recently adopted IPS.

As of 9/30/2021, ~$100mm worth of CLO purchases have settled in Neuberger Berman's account and Sycamore has called ~$20mm of ERSRI's $125mm commitment. It is anticipated that Sycamore will call an additional ~$20mm before the end of the year. The Liquid Credit mandate adjustment is viewed as timely and sensible given the CLO portfolio ramp-up is progressing as expected.

[1] The Liquid Credit allocation has been temporarily overweighted in order to maintain the Income Bucket target allocation during the CLO mandate ramp up period.

# *Appendix*




**eVestment US High Yield Fixed Income**
**(as of 6/30/21, Net of Fee)**

| Percentiles | 1 Year | | 3 Year | | 5 Year | | 7 Year | | 10 Year | |
|---|---|---|---|---|---|---|---|---|---|---|
| 5th Percentile | 23.6 | | 8.6 | | 8.9 | | 6.9 | | 7.5 | |
| 25th Percentile | 17.2 | | 7.6 | | 7.5 | | 5.5 | | 6.6 | |
| Median | 14.6 | | 6.9 | | 6.9 | | 4.9 | | 6.2 | |
| 75th Percentile | 12.7 | | 6.0 | | 6.2 | | 4.4 | | 5.7 | |
| 95th Percentile | 8.3 | | 4.5 | | 4.3 | | 3.5 | | 4.0 | |
| Observations | 182 | | 178 | | 171 | | 156 | | 123 | |

| Product Name | 1 Year | %ile | 3 Year | %ile | 5 Year | %ile | 7 Year | %ile | 10 Year | %ile |
|---|---|---|---|---|---|---|---|---|---|---|
| **PIMCO U.S. High Yield Full Quality** | **14.4** | **53** | **7.0** | **42** | **7.1** | **38** | **5.3** | **32** | **6.7** | **20** |
| **Loomis Sayles US High Yield** | **15.4** | **39** | **6.6** | **59** | **6.8** | **54** | **5.2** | **40** | **6.5** | **29** |