



Independent  
Investment  
Consultants  
for  
Institutions



Unrestricted  
University  
Investments

*Trust, Process, Results*

Summary of Intermediate Fixed Income RFP

March 5, 2020

Presented by: Neil Heppler

## Scope of Fixed Income RFP

- Objective of RFP process was to identify two to four financial institutions or SEC-registered investment advisory firms to manage intermediate-term fixed income portfolios for the University's operating assets
- RFP sought to identify firms that have established a proven track record of managing similar portfolios for other clients with favorable results to both a passively managed index as well as peers
  - ❖ Some preference given to financial institutions with a local presence
- RFP issued to 14 different investment management or financial institutions
  - ❖ PNC Bank was the lone organization that chose not to respond
  - ❖ Fifth Third Securities responded and conveyed that they are a broker/dealer and not a registered investment advisor; thus not meeting the requirements laid out in the RFP

# Qualitative Comparisons

	<u>Ownership</u>	<u>Location</u>	<u>Firm AUM</u>	<u>Strategy AUM</u>
<b>Fifth Third Bank</b>	Public	Cincinnati, OH	\$3,943 M	\$784 M
<b>German American Bank</b>	Public	Evansville, IN	\$998 M	\$89 M
<b>Johnson Asset Management</b>	Employee owned	Cincinnati, OH	\$3,691 M	\$324 M
<b>JP Morgan</b>	Public	Columbus, OH	\$1,876,817 M	\$9,341 M
<b>Longfellow Investment Management</b>	Employee owned	Boston, MA	\$11,626 M	\$1,294 M
<b>Merganser Capital Management</b>	93% owned by Providence Equity Partners, 7% by employees	Boston, MA	\$11,659 M	\$1,463 M
<b>Old National Bank</b>	Public	Evansville, IN	\$11,842 M	\$159 M
<b>Reams Asset Management</b>	Owned by Raymond James Financial	Columbus, IN	\$18,505 M	\$313 M
<b>Western Asset Management</b>	Owned by Legg Mason, Inc.	Pasadena, CA	\$452,887 M	\$9,179 M
<b>Goldman Sachs</b>	Public	Chicago, IL	\$1,608,801 M	\$25,800 M
<b>Regions Bank</b>	Owned by RFC Financial Services Holding, LLC	Birmingham, AL	\$5,662.7 M	\$6.3 M
<b>Agincourt Capital Management</b>	Employee owned	Richmond, VA	\$7,086 M	\$984 M



# Qualitative Comparisons

	<u>Vehicles</u>	<u>Number of Interm. Bond Accounts</u>	<u>Management Tenure on Strategy</u>	<u>Minimum</u>	<u>Liquidity</u>
<b>Fifth Third Bank</b>	SMA (Separately managed account)	18	New Mgmt Team 1/1/2020	\$10 M	Daily
<b>German American Bank</b>	SMA	124	Inception (7 Years)	Less than \$20M	Daily
<b>Johnson Asset Management</b>	SMA, Mutual Fund Ticker: JIBEX	28	Inception (15 Years)	SMA: \$5 M, Mutual Fund: \$1 M	Daily
<b>JP Morgan</b>	SMA, Commingled	20	26 Years	SMA: \$100 M Commingled: \$5 M	Daily
<b>Longfellow Investment Management</b>	SMA	23	10 Years	\$10 M	Daily
<b>Merganser Capital Management</b>	SMA, Commingled	8	14 Years	\$20 M	SMA: Daily Commingled: Monthly
<b>Old National Bank</b>	SMA	Not Tracked	Inception (12 Years)	\$10 M	Daily
<b>Reams Asset Management</b>	SMA	9	Inception (30 Years)	\$25 M	Daily
<b>Western Asset Management</b>	SMA, Commingled	26	17 Years	SMA: \$50 M Commingled: \$1 M	Daily
<b>Goldman Sachs</b>	SMA	Not Tracked	10 years	Less than \$20M	Daily
<b>Regions Bank</b>	SMA	2	15 Years	\$3 M	Daily
<b>Agincourt Capital Management</b>	SMA	51	Inception (20 years)	\$5 M	Daily



# Quantitative Comparisons

As of 9/30/19

	<u>5 Year Net Annualized Return</u>	<u>5 Year Standard Deviation</u>	<u>5 Year Sharpe Ratio</u>	<u>Yield</u>	<u>Duration</u>
Fifth Third	2.74%	2.35%	0.75	2.20%	3.90
German American	2.39%	2.04%	0.69	2.29%	3.76
Johnson Asset Management	3.30%	2.34%	0.99	2.17%	3.97
JP Morgan	2.71%	2.33%	0.74	2.24%	3.76
Longfellow Investment Management	2.81%	2.05%	0.89	2.27%	3.77
Merganser Capital Management	2.85%	2.30%	0.81	2.36%	3.87
Old National	2.68%	2.41%	0.70	1.93%	3.89
Reams Asset Management	2.76%	2.24%	0.80	2.13%	3.67
Western Asset Management	3.67%	2.72%	0.99	4.14%	4.42
Goldman Sachs	2.78%	2.65%	0.68	2.04%	3.30
Regions Bank	2.52%	2.13%	0.72	2.09%	3.96
Agincourt Capital Management	2.80%	2.51%	0.72	2.08%	3.92
Bloomberg Intermediate Gov/Credit Index	2.68%	2.43%	0.70	1.93%	3.91



# Quantitative Comparisons

	<u>Corporate Exposure</u> (%)	<u>Average Credit</u> <u>Quality</u>	<u>Inception Date of Product</u>	<u>Proposed Fees</u>
Fifth Third	44.55	AA-	December 31, 1992	First \$25 M @ 20 bps, Next \$25 M @ 15 bps, Balance at 10 bps
German American	36.15	AA-	January 1, 2012	20 bps; includes custody
Johnson Asset Management	51.32	AA-	July 31, 2004	25 bps
JP Morgan	29.00	AA	January 1, 1988	30 bps
Longfellow Investment Management	29.57	AA	October 1, 1997	25 bps
Merganser Capital Management	41.80	AA	January 1, 1990	22.5 bps
Old National	37.00	AA	August 1, 2007	First \$10 M @ 25 bps, Next \$10 M @ 20 bps, Balance at 15 bps
Reams Asset Management	34.00	AA	November 1, 1989	25 bps
Western Asset Management	31.29	A+	June 30, 1994	30 bps
Goldman Sachs	90.20	AA	April 20, 2011	First \$50 M @ 32 bps, next \$50 M @ 25 bps
Regions Bank	61.00	AA-	November 30, 2010	First \$10 M @ 15 bps, Balance at 9 bps
Agincourt Capital Management	47.44	A+	January 1, 2000	First \$25 M @ 25 bps, Next \$75 M @ 20 bps
Bloomberg Intermediate Gov/Credit Index	30.79	AA		

## Firms Eliminated

- **Western Asset** and **JP Morgan** were eliminated from consideration due to their high minimums for separate account (\$50M and \$100M). University could only access their commingled fund product which would be a level 2 asset for USI audited FS's.
- The following banking institutions were eliminated for the reasons below:
  - ❖ **Regions Bank** – underperformance relative to benchmarks and other respondents
  - ❖ **German American** – underperformance relative to benchmarks and other respondents
  - ❖ **Goldman Sachs** – expensive, heavy corporates (90%), poor risk-adjusted returns
- The following investment managers were eliminated for the reasons below:
  - ❖ **Merganser** – mortgage-backed focus and corresponding mark-to-market variability creates potential for more financial statement volatility than other options
  - ❖ **Reams** – investment returns in-line with local financial institutions
  - ❖ **Agincourt** – underperformed other investment managers with similar corporate bond focus



## Recommendation to Committee

- Hire two investment advisory firms and two local banking institutions to manage \$60M of USI BS assets in intermediate-term IG fixed income securities
  - ❖ **Fifth Third Bank** \$10M – local banking institution with current relationship to University; solid risk adjusted returns
  - ❖ **Old National Bank** \$10M – local banking institution with current relationship to University; reasonable performance record with stable team
  - ❖ **Johnson Asset Mgmt.** \$20M – of SA mgrs., highest performance record
  - ❖ **Longfellow Inv. Mgmt.** \$20M – good performance, lower volatility, high risk-adjusted returns and diversifying strategy
- Average Fees for four intermediate-term investment portfolios is 0.24%
- Custody the Johnson and Longfellow accounts at Fifth Third Bank
- Approx. \$20-25M will remain with several institutions in short term securities





# Statement of Disclosure

## **Disclaimer**

Past performance is no guarantee of future results. Historical market trends are not necessarily indicative of future market movements.

The information contained herein is confidential information and should not be used other than by the intended recipient for its intended purpose or disseminated to any other person without the permission of the recipient. Not for public distribution. For institutional use only.

Reliance upon information in this material is at the sole discretion of the reader.

The information contained in this report does not constitute an offer to sell or buy securities mentioned herein which can only be done in compliance with applicable securities law.

This material contains opinions of Fourth Street Performance Partners, Inc. and unless indicated, all information herein is subject to change without notice.

## **Data**

The information contained in this analysis has been prepared by Fourth Street Performance Partners, Inc. and is believed to be accurate based on the asset and transaction data reported to us by trustees, custodians, and/or investment managers retained by the client. Calculations are subject to the accuracy of the source data provided and are not warranted to be accurate or complete. This analysis may contain returns and valuations for prior periods provided by other service providers of the client. Fourth Street Performance Partners, Inc. assumes no responsibility for the accuracy of these valuations or return methodologies.

The information and data contained in this material may be derived from MorningStar, Callan Associates, Investment Metrics, Factset and numerous other sources that are deemed to be reliable by Fourth Street Performance Partners, Inc., but are not necessarily all inclusive and are not guaranteed as to accuracy.

## **Russell Indexes**

Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

Russell Investment Group is the source and owner of the data contained or reflected in this material and all trademarks and copyrights related thereto. The material may contain confidential information and unauthorized use, disclosure, copying, dissemination, or redistribution is strictly prohibited. This is a user presentation of the data. Russell Investment Group is not responsible for the formatting or configuration of this material or for any inaccuracy in presentation thereof.