Income Research & Management (IR+M)

Core Fixed: Bloomberg Barclays Gov/Credit Bond Index

For the month of: August 2020

Manager Performance Calculations

** Annualized returns*

	Last Month	Last 3 Months	Last 1 Year	Last 3 Years*	Last 5 Years*
IR+M	-1.01%	2.75%	8.51%	6.37%	N/A
BB Gov/Credit	-1.16%	1.71%	7.26%	5.67%	N/A

Performance Attribution & Strategy Comments

The PERSI portfolio outpaced the Bloomberg Barclays G/C Index, returning -1.01% versus -1.16%. Security selection drove relative performance. Specifically, selection within the finance, industrial, and municipal sectors, and selection within out of benchmark sectors including CMBS and ABS.

Fixed income markets experienced mixed performance in August, as higher-quality corporates underperformed Treasuries, while momentum continued for equity markets with the S&P 500 Index rising 7% and reaching new all-time highs. Federal Reserve (Fed) Chair Jerome Powell announced that the Fed will allow inflation to moderately surpass its 2% target following extended periods of sub-2% inflation. Core PCE, the Fed's preferred inflation measure, remains below target at 1.25%, but increased from 1.07% in June. The 10-year breakeven inflation rate increased by 0.24% month-over-month, from 1.56% to 1.80%, matching year-to-date highs, and TIPS outperformed nominal Treasuries; in March, this rate fell to as low as 0.55%. Treasury yields rose across the curve, and the curve steepened, as long-term rates continued to rise in expectation of higher future inflation; the difference between the 30-year and 10-year Treasury yield rose from 0.66% to 0.77%.

Both investment-grade and high-yield borrowers were active in August, ignoring predictions for a summer doldrum and issuing record amounts of supply amid a continuation of supportive technical. High-yield issuance totaled roughly $53 billion, the second highest monthly total of all-time, and investment-grade primary markets surpassed $136 billion in August, more than doubling initial estimates of $50-60 billion. Investment-grade corporate spreads were range-bound, tightening or widening by no more than 3bps day-over-day, and remained within a 9bp range; spreads closed the month 4bps tighter, from 133bps to 129bps, and Utilities underperformed as California wildfires regained headlines. High-yield spreads tightened by 11bps from 488bps to 477bps, and stayed within a 32bps range. Commercial mortgage-backed securities (CMBS) outperformed Treasuries and investment-grade corporates, as private-label CMBS issuance trended almost 33% below last year's pace, providing

Organizational/Personnel Changes

N/A

Manager Style Summary

IR+M's investment philosophy is based on the belief that careful security selection and active portfolio risk management provide superior returns over the long term. Utilizing a disciplined, bottom-up investment approach, IR+M adds value through security selection by seeking attractive, overlooked, and inefficiently priced issues.

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Portfolio Guideline Compliance — August 2020

Portfolio Guideline:	IR+M	BB G/C	Min	Max	Compliance
B2. Effective Duration:	7.5	7.7	7.2	8.2	ok
B3. Sector Diversification:					
Government	26%	54%	24%	84%	ok
Treasuries	23%	52%	22%	82%	ok
Agencies	0%	2%	-3%	7%	ok
Govt Guaranteed	3%	0%	-10%	10%	ok
Credit	51%	45%	25%	65%	ok
Financial	16%	12%	-3%	27%	ok
Industrial	28%	24%	9%	39%	ok
Utility	6%	3%	-7%	13%	ok
Non-Corporate	1%	6%	-4%	16%	ok
Securitized					
RMBS	2%	0%	-10%	10%	ok
ABS	9%	0%	-10%	10%	ok
CMBS	7%	0%	-10%	10%	ok
Agency CMBS	3%	0%	-5%	5%	ok
Municipals	2%	1%	-9%	11%	ok
B4. Issuer Concentration: <=5% all corporate issuers				5%	ok
B5. Number of positions	222		100	175	check
B6. Non-Investment Grade alloc	1%			5%	ok
E2. Annual Turnover	38%		25%	75%	ok
The portfolio is in compliance with all other aspects of the Portfolio Guidelines				☑ Yes	☐ No

Manager Explanations for Deviations from Portfolio Guidelines

B5. Number of Positions: Due to volitility, we positioned the portfolio to take advantage of attractive opportunities.

Account Turnover

Gained:	Number of Accounts:	0	Total Mkt Value ($m):	$	-
Lost:	Number of Accounts:	0	Total Mkt Value ($m):	$	-

Reason(s) for loss: IRM did not gain or lose any accounts in the G/C strategy during the month.