SEEKING AN OPTIMAL SOLUTION

Brandywine and Ryan Labs replaces Jennison and Reams as Subadvisor for the CUIT Intermediate Diversified Bond Fund

CBIS INVESTMENT MANAGEMENT JANUARY 2019

EXECUTIVE SUMMARY

- CBIS Investment Management has recommended and received approval from the CUIT Board of Trustees to hire Brandywine Global Investment Management and Ryan Labs Asset Management to serve as subadvisors of the CUIT Intermediate Diversified Bond Fund along with existing subadvisor Dodge & Cox. The new managers will replace Jennison Associates and Reams Asset Management in early 2019.
- With a targeted subadvisor weighting plan of 40% to Ryan Labs, 35% to Dodge & Cox and 25% to Brandywine we believe the fund will have potential to deliver improved outcomes in absolute and risk-adjusted returns, based on the subadvisors' historical performance characteristics.
- The new lineup of managers results from CBIS' analysis of more than 250 potential fixed income strategies. The analysis considered the individual investment styles, portfolio characteristics, performance metrics and organizational attributes of the strategies and their managers as well as the strategies' abilities to act in a complementary manner to other strategies in the fund's lineup.

BACKGROUND

The announced departure of a portfolio manager from Jennison Associates prompted a review of that firm's role as a subadvisor to the fund. As the leader and senior member of Jennison's Rates/Yield Curve/Structured team, the departed portfolio manager had been responsible for a significant portion of the strategy's outperformance. The two remaining portfolio managers, while qualified, have significantly less experience, causing CBIS to become less confident in the strategy's ability to continue its strong track record. As a result, CBIS decided that a recommendation to terminate Jennison was necessary and the search for a replacement manager was begun in order to provide a complete set of recommended changes to the CUIT Board of Trustees. In the course of this search, it was determined that the fund's risk-reward profile would be improved by also replacing Reams. It is important to note that the decision to terminate Reams was not made as a result of performance or organizational issues.

REPLACEMENT SEARCH

CBIS began the replacement search process by analyzing the 268 investment strategies reporting into the eVestment Core Fixed Income Universe. Applying four sets of criteria – three quantitative and one qualitative – CBIS narrowed this universe of prospective replacement strategies from 268 to two, Brandywine Global and Ryan Labs. (See Exhibit A)

EXHIBIT A: CBIS ANALYSIS OF 268 FIXED INCOME STRATEGIES

CRITERIA	RESULTING UNIVERSE
Low correlation Correlation of excess return vs incumbent subadvisors	105
Performance and characteristics Batting average, absolute and relative return, risk-adjusted performance, AUM, standard deviation	16
Team and Organization Qualitative review of firms and investment professionals	5
Rolling correlation Identification and analysis of changes in trend	2

DETERMINING SUBADVISOR ALLOCATIONS

CBIS then analyzed multiple combinations of the four managers, the two leaders from the replacement search along with the two incumbent subadvisors. This performance and risk analysis considered combinations of two, three and four managers across a variety of allocation levels. In this analysis, CBIS compared pro forma outcomes from the various prospective manager combinations against the current fund mix relative to key performance and risk metrics, including:

- Performance – calendar year and annualized
- Standard Deviation
- Annualized Alpha
- Tracking Error
- Information Ratio
- Sharpe Ratio
- Upside/Downside Bias

The analysis identified a portfolio of 40% Ryan Labs, 35% Dodge & Cox and 25% Brandywine as providing the best pro forma outcomes across multiple historical performance criteria. The analysis indicated significant, measurable improvement in historical pro forma results – in both returns and risk-adjusted returns – with the replacement of Jennison and Reams with Brandywine and Ryan Labs.

Pro forma annualized returns of the new manager lineup compared favorably to those generated by the existing fund over standard annualized periods. Historical returns for the new line up outperformed those of the current lineup across most time periods. In all cases, both lineups outpaced the benchmark.

In evaluating pro forma risk-adjusted returns, we considered the historical information ratios, presented by the new manager lineup, the existing fund manager lineup as well as alternative weighting plans, over standard annualized periods. The historical information ratio of the new subadvisory plan presented solid results relative both to peers and to the existing fund across multiple time periods.

As noted above, the decision to terminate Reams was not prompted by performance or organizational issues. Rather, it resulted from an opportunity to optimize the fund portfolio with a lineup of managers presenting a more complementary mix of investment styles. This is borne out in correlation analysis of the individual strategies. As shown in Exhibit B, while Brandywine and Ryan Labs both exhibit low correlation of excess returns with both Dodge & Cox and Reams, they also present low correlations of excess returns with each other. In contrast, Dodge & Cox and Reams exhibit relatively high correlations of excess returns with each other. This provided the opportunity to construct a more optimal portfolio.

EXHIBIT B: CORRELATION OF EXCESS RETURNS

5 years ending June 2018

	BRANDYWINE	DODGE & COX	REAMS	RYAN LABS
BRANDYWINE	1.00			
DODGE & COX	0.08	1.00		
REAMS	-0.13	0.56	1.00	
RYAN LABS	0.35	0.41	0.27	1.00

Subadvisory Managers – Style Distinctions

The new manager lineup of the CUIT Intermediate Diversified Bond Fund brings together accomplished managers with distinct processes and styles.

Brandywine Global

Brandywine's US Fixed Income philosophy is value-driven, active and strategic. Its investment process operates on the belief that a top-down, macroeconomic-driven approach, seeking value and anticipating risk, will consistently outperform the Bloomberg Barclays US Aggregate Index. Strategic portfolio decisions, including duration, yield curve exposure, credit exposure, and sector weightings are based on broad investment themes of their global macroeconomic research platform as they apply to US markets. The manager develops an outlook for macroeconomic variables such as inflation, growth, and unemployment in the US as well as in other countries that may impact US fixed income sectors. The portfolio management team develops a viewpoint on the business cycle and positions the strategy's duration, sector weighting and credit exposures accordingly.

Dodge & Cox

The Dodge & Cox team emphasizes individual security selection and valuation along with risk analysis at the portfolio and individual security levels. Fundamental research is central to the investment process. Credit research focuses on analysis of factors that impact an individual issuer's creditworthiness. Also considered are economic trends and special circumstances which may affect an industry or a specific issue or issuer. At the security level, research emphasizes the structural characteristics of individual securities, e.g., sinking funds, put and call options, and, for mortgage securities, the effects of changing prepayments speeds. The core purpose of this research is to identify securities that will provide a relatively high and predictable stream of income and opportunities for attractive relative price performance. The resulting Dodge & Cox portfolio has typically delivered a higher yield and higher average credit quality than that of the benchmark. Dodge & Cox manages with a long-term investment horizon and has produced attractive returns historically.

Ryan Labs

Ryan Labs believes bottom up security selection creates value. The management team seeks upgrade candidates and mispriced securities (particularly in securitized credit). The team pursues relative value at the security level by examining historical relationships with comparative bonds and sub-sectors. The team takes a neutral stance on interest rates while seeking to identify mean-reversion trades in both structured and corporate credit. The Ryan Labs style is opportunistic, seeking to find investment opportunities by identifying risk that is fundamentally or technically mispriced. Downside avoidance has been critical to outperformance and the team has shown a willingness to underweight any sector in order to preserve and protect capital.

Projected Characteristics of the Reallocated Fund

Under the new three-manager lineup the portfolio will present characteristics consistent with the fund's historical profile.

- **Duration** – will be similar. Dodge & Cox and Brandywine will be constrained at +/- 25% of index duration. Ryan Labs is duration neutral.
- **Quality** – should exhibit little to no change. Currently average credit quality stands at AA.
- **Below Investment Grade** – the allocation will remain in line with historical levels. Brandywine will be constrained at a maximum of 15% below investment grade securities and Ryan Labs 5%. Ryan Labs is an investment grade manager, the 5% high-yield limit gives them the ability to hold downgraded securities until they can sell at a reasonable level. Currently Dodge & Cox holds 2.0% at BB or below.
- **Weights** – Brandywine and Ryan Labs will observe the same security and sector limits currently in place.

CONCLUSION

The new subadvisory lineup of the CUIT Intermediate Diversified Bond Fund is designed to preserve the historic character and quality of the fund with potential for improved investor outcomes as measured in absolute, relative and risk-adjusted return terms. By seeking to improve the complementary nature of the subadvisory managers, CBIS continues to build and follow the principles of best practices in multi-manager investing. We welcome the opportunity to discuss our investment process, including manager selection and allocation practices, in greater detail.

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SEEKING AN OPTIMAL SOLUTION

Brandywine Replaces Reams as Subadvisor for the CUIT Opportunistic Bond Fund

CBIS INVESTMENT MANAGEMENT JANUARY 2019

EXECUTIVE SUMMARY

CBIS has recommended and received approval from the CUIT Board of Trustees to hire Brandywine Global Investment Management to serve as one of two subadvisors of the CUIT Opportunistic Bond Fund (OBF). Beginning in early 2019 Brandywine will manage a target allocation of 25% of fund assets, replacing Reams Asset Management in early 2019. Longfellow Investment Management will continue as subadvisor of the fund with a target allocation of 75%.

RATIONALE

Diversification is a core tenet of CBIS management of the CUIT Funds. By combining multiple managers that demonstrate complementary investment styles and performance patterns, CBIS seeks to provide clients with significant improvement over the market benchmark in both absolute and risk adjusted returns over full market cycles.

The change in CUIT Opportunistic Bond Fund managers is designed to improve diversification of management styles. Our analysis of style and return patterns shows that Reams has exhibited a high correlation of excess returns, 0.6 correlation, to fellow incumbent subadvisor Longfellow. By replacing Reams with Brandywine, which has a 0.3 correlation, we seek to improve performance outcomes for the fund's shareholders in both risk and reward terms.

PROCESS

CBIS began the replacement search process by analyzing the 253 investment strategies reporting into the eVestment Short Duration Universe. Applying three sets of criteria – two quantitative and one qualitative – CBIS narrowed this universe of prospective replacement strategies from 253 to one (See Exhibit A). The analysis considered the individual investment styles, portfolio characteristics, performance metrics and organizational attributes of the strategies and their managers as well as the extent to which each strategies' over time demonstrated complementarity to Longfellow.

EXHIBIT A: CBIS ANALYSIS OF 253 FIXED INCOME STRATEGIES

CRITERIA	RESULTING UNIVERSE
Low correlation Correlation of excess return vs incumbent subadvisors	18
Performance and characteristics Batting average, absolute and relative return, risk-adjusted performance, AUM, standard deviation	2
Team and Organization Qualitative review of firms and investment professionals	1

DETERMINING SUBADVISOR ALLOCATIONS

In setting target allocations, CBIS sought to balance each manager's contribution to portfolio risk. Brandywine has historically registered higher tracking error than Longfellow to the benchmark Bloomberg Barclays 1-5 Year Government/Credit Index. This factored largely into the 75/25 target allocation decision. Back testing of this target allocation formula across multiple historical time periods and a variety of market conditions delivered positive results for the 75/25 allocation and served to confirm the decision. Analysis included comparisons of the new fund composition to the prior fund mix against key performance and risk metrics, including: annualized performance, annual performance, standard deviation, annualized alpha, tracking error, information ratio, Sharpe ratio and upside/downside bias. Based on this historical data the new fund composition demonstrated potential for significant improvement in absolute, relative and risk adjusted returns across a broad range of annual and annualized time periods.

Projected Characteristics of the Reallocated Fund Under the two-manager lineup the portfolio will present characteristics consistent with the fund's historical profile.

- **Duration** – will be similar, Longfellow and Brandywine will be constrained at +/- 2.5 years of the Bloomberg Barclays U.S. Government/Credit 1-5 Year Index duration. As of 12/31/18, the Fund's duration was 2.35 years slightly shorter than the 2.59 years
- **Credit Quality** – should exhibit little to no change. Both managers will maintain a minimum average quality rating of A-/A3. As of 12/31/18, the CUIT Opportunistic Bond Fund's average credit quality stood at A+.
- **Below Investment Grade** – the Fund allocation will remain in line with historical levels. Brandywine and Longfellow will be constrained at a maximum 20% weight to below investment grade securities. Minimum Credit Quality to Hold and Purchase is "C" for both, no change. Currently both managers view HY as unattractive due to unfavorable valuations.
- **Weights** – Longfellow and Brandywine will observe the same industry and security limits currently in place. Brandywine will have a slightly higher max for Yankees-30% up from Reams 10%.

CONCLUSION

The new subadvisory lineup of the CUIT Opportunistic Bond Fund is designed to preserve the historic character and quality of the fund with potential for improved investor outcomes as measured in absolute, relative and risk-adjusted return terms. The fund should be expected to show little change in the portfolio characteristics of duration and credit quality. The fund should be expected to show somewhat higher tracking error relative to its benchmark, the

Bloomberg Barclays 1-5 Year Government/Credit Index. By seeking to improve the complementary nature of the subadvisory managers, CBIS continues to build and follow the principles of best practices in multi-manager investing. We welcome the opportunity to discuss with you our investment process, including manager selection, allocation and monitoring practices, in greater detail.

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