City of Hollywood Employees' Retirement Fund

Term Asset-Backed Loan Facility (TALF) - Presentation

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Presenter:

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Term Asset-Backed Loan Facility (TALF) Investment Proposal

INVESTMENT THESIS/ Why TALF?

- We believe the TALF 2.0 program offers investors a rare and unique opportunity to generate high single digits returns over a relatively short time horizon
- To achieve these compelling risk adjusted returns, managers will access attractive financing to leverage high-quality (AAA rated) securitized credit investments
- The key financing terms entail the following: 3-year term, non-recourse, and non-marked to market
- To finance these AAA quality securitized assets, the Fed requires that managers to put up a margin amount (ranging from 5 to 22%) based on asset types and weighted average life

RISK CONSIDERATIONS

- Credit Risk: The loss of principal a AAA rated asset is mitigated by enhanced structural features such as subordination and overcollateralization
- Tail Risk: Defined as a mismatch between the asset cash flows the liability (ie: 3 year financing term). Active management is a key mitigation factor
- Government Risk**:** The Fed could change the rules of the game anytime but we don't expect any changes to materially impact the value proposition of the TALF program

IMPLEMENTATION

- Segal Marco believes that manager selection is paramount as it pertains to investing in TALF given the wide range of offerings available in the marketplace
- We particularly favor managers that will employ a "pure play" TALF strategy, meaning:

1. The manager will only make investments financed through the Fed's Credit Facility. Therefore, all positions and loan maturity dates will be known to investors at the time the credit facility closes, which is currently scheduled for September 30, 2020
2. After the investment period ends the commingled fixed income investment vehicle will distribute (net of fees) on a monthly basis, current income plus principal as returned on underlying investments
3. The manager will not invest in stressed/distressed credits or tactically trade ABS following the conclusion of the TALF credit extension window

TALF 2.0: Nuveen – Nuveen TALF Opportunity Fund, LP

FUND HIGHLIGHTS

TARGET FUND SIZE: *$500 Million*

MINIMUM INVESTMENT*: $10 million (Can be reduced at the manager's discretion)*

TARGET RETURN: *8 to 11% gross IRR*

FUND TERM: *3 to 4 years*

FEES: *25bps mgt fees, 10% incentive over 6% hurdle rate*

FINAL CLOSE: *May 30, 2020/ Early to mid June 2020*

INVESTMENT STRATEGY & APPROACH

- Nuveen does not have a model portfolio because a large majority of TALF-eligible investments haven't been issued yet.
- However, the manager will be flexible investing across the TALF opportunity set. Based on their experience in TALF 1.0 the manager expects a large majority of the portfolio to be invested in ABS as well as smaller allocations to CMBS & CLOs.
- Nuveen intends to prioritize deals that will meet their IRR targets, subject to passing a rigorous research process.

Why Nuveen?

- Nuveen has one of the largest fixed income platforms in the world with $505 billion of total AUM, including $58 billion in securitized assets. As such, the manager has the clout and relationships to successfully participate in TALF eligible new issues, and to source legacy CMBS.
- Nuveen has experience with the TALF program, with over $1.1B successfully invested in 2009. Importantly, the lead ABS portfolio manager, Aashh Parekh, also led the management of the firm's TALF 1.0 investment program.
- The Fund is priced extremely competitively in the marketplace and the manager set the Fund's maximum capacity lower than many of its peers to ensure that clients not only achieve the target 8% - 11% IRR but also their committed capital is fully invested.
- The firm is investing alongside their clients – TIAA – Nuveen's parent company - committed $100 million to the Fund. This amount represents the largest GP commitment we have seen among the peer group.