

**City of San José**

**Treasury Inflation Protected Securities (TIPS)  
Bond Fund Search**

December 9, 2019 / Thomas D. Coughlin



## Background

- Buck recommends the City of San Jose replace the BlackRock Inflation Protected Bond due to a manager change, relative underperformance and the availability of a lower fee option.
- We have compiled a short list of strong candidates, each of which would be an acceptable choice.
- Data in this report was obtained from Morningstar and fund management firms.
- Our highest conviction managers in the Inflation Protected space are:
  - Fidelity Inflation Protected Bond
  - PIMCO Real Return
  - Vanguard Inflation-Protected Securities

## Selection Criteria

- *Performance*: Over a 5 year period, each investment fund's overall net-of-fee annualized total return should be above the peer group average. In addition, each fund's volatility should be comparable to relevant active and passive benchmarks.
- *Organizational structure/depth*: Tenure of the company, ownership structure, number and quality of investment and research professionals, professional turnover.
- *Manager tenure*: Length of the current manager's tenure with the fund, as well as other relevant experience.
- *Style consistency*: Consistency of historical portfolio statistics compared to the appropriate benchmarks, consistency of investment philosophy and process.

# Net-of-Fee Total Returns and Standard Deviations as of September 30, 2019

Fund/Benchmark	YTD (periods longer than 1 year are annualized)							Standard Deviation		Expense Ratio
	11/20/19	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	
Fidelity Inflation-Prot Bd Index	8.19	1.50	7.71	7.19	2.14	2.42	-	3.30	3.64	0.05
PIMCO Real Return Instl	8.15	1.13	7.53	6.54	2.27	2.13	3.52	3.17	3.81	0.98
Vanguard Inflation-Protected Secs I	8.03	1.45	7.63	7.13	2.07	2.41	3.43	3.28	3.57	0.07
BlackRock Inflation Protected Bond Instl	7.76	1.05	6.96	6.15	1.85	1.84	3.03	3.20	3.39	0.50
Barclays US TIPS	8.23	1.35	7.58	7.13	2.21	2.45	3.46	3.28	3.51	-
Avg Inflation-Protected Bond	7.55	1.12	7.00	5.97	1.94	1.86	2.92	3.06	3.43	0.74

Green indicates fund outperformed both benchmarks

Blue indicates fund performed between benchmarks

Red indicates fund underperformed both benchmarks

Fund/Benchmark	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Fidelity Inflation-Prot Bd Index	-1.37	2.98	4.88	-1.72	3.70	-8.63	-	-	-	-	-
PIMCO Real Return Instl	-1.97	3.92	5.04	-2.75	3.42	-9.05	9.25	11.57	7.81	18.96	-6.42
Vanguard Inflation-Protected Secs I	-1.40	2.97	4.63	-1.67	4.07	-8.83	6.87	13.39	6.33	11.03	-2.81
BlackRock Inflation Protected Bond Instl	-1.88	3.09	4.11	-2.10	2.63	-8.11	6.94	11.88	6.23	10.42	0.42
Barclays US TIPS	-1.26	3.01	4.68	-1.44	3.64	-8.61	6.98	13.56	6.31	11.41	-2.35
Avg Inflation-Protected Bond	-1.64	2.72	4.59	-2.36	1.80	-7.85	6.45	10.93	5.94	10.88	-4.08

Green indicates fund outperformed both benchmarks

Blue indicates fund performed between benchmarks

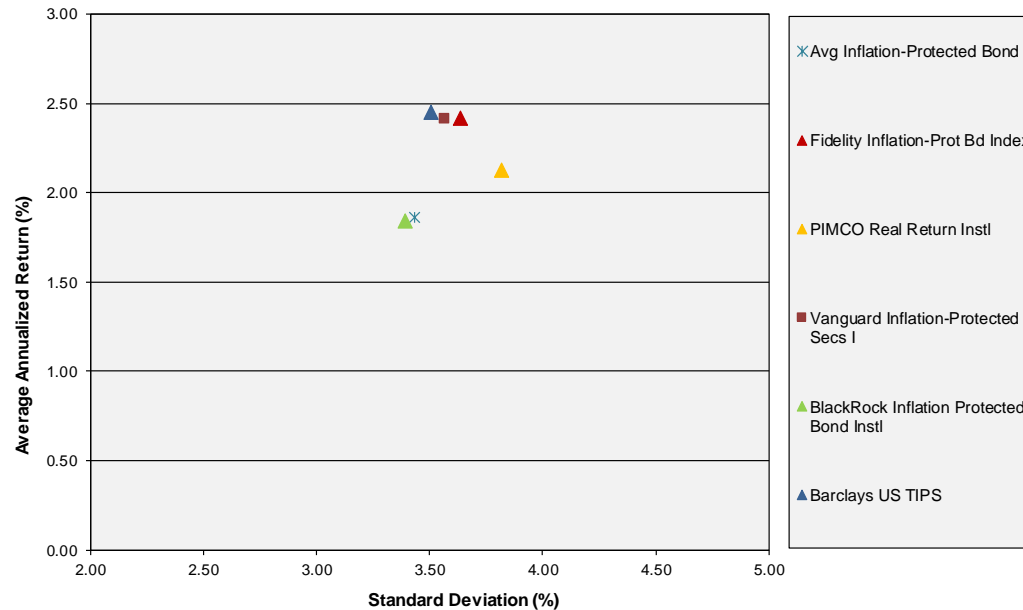
Red indicates fund underperformed both benchmarks

# Peer Group Rankings as of September 30, 2019

Yellow shading indicates above median performance in Morningstar peer group (1 = Best Ranking / 100 = Worst Ranking)

Fund Name	Morningstar Category	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Fidelity Inflation-Prot Bd Index	Inflation Protected Bond	14	26	17	31	12	
PIMCO Real Return Instl	Inflation Protected Bond	46	36	37	16	33	10
Vanguard Inflation-Protected Secs I	Inflation Protected Bond	17	28	18	38	17	17
BlackRock Inflation Protected Bond Instl	Inflation Protected Bond	50	56	46	56	56	48

## Risk Return Trade-off / 5 years ended 9/30/19



# Portfolio Characteristics

Fund/Benchmark	Upside/Downside Capture Ratio						Standard Deviation		
	Up - 3 Yr - Down		Up - 5 Yr - Down		Up - 10 Yr - Down		3 Yr	5 Yr	10 Yr
Fidelity Inflation-Prot Bd Index	98	99	101	103	-	-	3.30	3.64	-
PIMCO Real Return Instl	95	91	102	112	107	110	3.17	3.81	4.91
Vanguard Inflation-Protected Secs I	98	101	100	102	101	102	3.28	3.57	4.59
BlackRock Inflation Protected Bond Instl	94	100	92	103	92	96	3.20	3.39	4.26
Barclays US TIPS	-	-	-	-	-	-	3.28	3.51	4.50
Avg Inflation-Protected Bond	85	79	84	91	86	90	3.06	3.43	4.36

Reported modern portfolio theory (MPT) statistics are calculated with respect to the Barclays US TIPS Index for fixed income funds.

# Portfolio Characteristics

Fund/Benchmark	# of Holdings	Average Duration	Average Maturity	Average						Below	Not Rated/
				Credit Quality	AAA/ AA	A	BBB	BB	B	B	Cash/ Other
Fidelity Inflation-Prot Bd Index	41	5.58	8.20	AAA	100	-	-	-	-	-	-
PIMCO Real Return Instl	887	7.59	8.16	-	90	4	-	1	1	1	1
Vanguard Inflation-Protected Secs I	46	7.41	8.30	AAA	100	-	-	-	-	-	-
BlackRock Inflation Protected Bond Instl	152	7.74	9.33	AA	97	0	2	0	-	-	-
Avg Inflation-Protected Bond	493	7.06	8.29	AA	88	2	4	1	0	0	0

- Fidelity Inflation Protected Bond invests at least 80% of its assets in bonds which are linked to inflation indices and issued by the United States.
- BlackRock Inflation Protected Bond invests at least 80% of its assets in bonds which are linked to inflation indices and issued by the United States or other countries.
- PIMCO Real Return Inst invests a portion of its portfolio in investment grade corporate bonds as well as developed market and emerging market international debt. As of September 30, 2019 the fund held 90% of its assets in U.S. Government related securities and cash equivalents whereas its benchmark is comprised entirely of U.S. Government securities.
- Vanguard Inflation-Protected Securities invests in inflation-indexed bonds issued by the U.S. Treasury and government agencies as well as domestic corporations.

# General Fund Information

Fund Name	Manager	Tenure (Avg/Long)	Total Assets (\$MM)	Morningstar Rating	Morningstar Analyst Rating	Ticker
Fidelity Inflation-Prot Bd Index	Brandon Bettencourt (2)*	5/6	7,089,349	4		FIPDX
PIMCO Real Return Instl	Mhir P. Worah (2)*	6/12	9,476,653	4	Silver	PRRIX
Vanguard Inflation-Protected Secs I	Gemma Wright-Casparius	8/8	27,630,741	4	Gold	VIPIX
BlackRock Inflation Protected Bond Instl	Christopher Allen (2)*	2/3	2,110,594	3	Neutral	BPRIX

\* Longest tenured manager listed with total number of fund managers listed in parentheses.

- Each share class has zero revenue sharing so an administration fee wrap on the investment option would be needed.





Client has the authority to select investments and investment managers. Past performance is not indicative of future results. We do not guarantee the performance of any investment, fund, or manager.

This report was prepared by Buck Global, LLC  
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