

# MEMORANDUM

To: **Board of Trustees, Fresno County Employees' Retirement Association**  
 Cc: **Jeffrey MacLean, Senior Consultant**  
 From: **Bee G. Lim, Associate Director of Research**  
 Date: **August 9, 2010**  
 Re: **CIO Departure at BlackRock Fixed Income, Fundamental Portfolios**

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**BlackRock announced that Curtis Arledge, CIO of Fixed Income, Fundamental Portfolios had resigned. Wurts & Associates is putting BlackRock Fixed Income in our research priority list and will monitor this development closely while continuing to assess the impact of the personnel turnover. No action is necessary at this time.**

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***Personnel Turnover at BlackRock Fixed Income Strategies***

BlackRock announced on August 3 that Curtis Arledge, CIO of its Fixed Income Fundamental Group, had resigned to become CEO of BNY Mellon Asset Management. Rick Rieder, the current deputy CIO, had been promoted to the CIO role.

The structure and investment philosophy of the fixed income team have not changed, and all portfolios are managed on a team basis rather than by individuals; as such, Wurts is not overly concerned about losing a key investment professional since he/ she doesn't have a disproportionate share in making investment decisions. However, Rick Rieder will be the fourth CIO for this group in less than 3 years, which is a concern. In addition, Mr. Rieder has only been at the firm for a little over a year even though he has 23 years of fixed income experience. As such, his promotion over others who have longer tenure at the firm could cause tension among senior members of the group.

***Recent Developments at BlackRock Fixed Income***

Curtis Arledge became CIO for the Fixed Income Fundamental Group in early 2010 when Scott Amero, then Vice Chairman and Global CIO of Fixed Income, announced his retirement. Scott Amero had been at the firm for close to 20 years and became CIO in late 2007, when then CIO/ co-founder Keith Anderson resigned.

**Timeline of Recent Fixed Income CIOs' Tenure**

CIO	Year Joined	Became CIO	Year Left	Reason
<b>Keith Anderson</b>	1988	Pre-2006	2007	Resigned
<b>Scott Amero</b>	1990	Dec 2007	2010	Retired
<b>Curtis Arledge</b>	1988, 2008	Feb 2010	1993, 2010	Resigned
<b>Rick Rieder</b>	2009	Aug 2010	Still at Firm	NA

Mr. Amero's tenure as CIO coincided with a difficult time for BlackRock's fixed income strategies as his call to overweight commercial mortgage back securities resulted in a -0.3% loss for its core strategy in 2008, underperforming the index by 5.5%. 2009 was also a difficult year because the

strategy underperformed relative to its peers who were more aggressive in increasing allocation to spread products because their cheapness.

Hence, Wurts was not surprised that Mr. Amero decided to retire in early 2010. At the time of his announcement, Wurts published a memo regarding the matter. Our opinion was that given BlackRock's team-based approach to investing, no action needed to be taken as they had made no changes to their investment process or philosophy. Investment ideas continue to be generated by the individual investment groups and then presented at weekly strategy meetings. Those ideas believed to warrant inclusion in client portfolios are presented to the portfolio management teams for consideration. BlackRock also re-structured its fixed income group for greater organizational clarity earlier this year. With almost \$1 trillion under management in fixed income portfolios (both active and index strategies), a more clearly defined role for professionals involved in the portfolio management process was needed. The fixed income organization is split into six groups, each lead by a senior investment professional reporting directly to Peter Fisher, Head of Fixed Income. (Appendix Ia shows the current organization chart.)

### ***Rick Rieder and Team Structure***

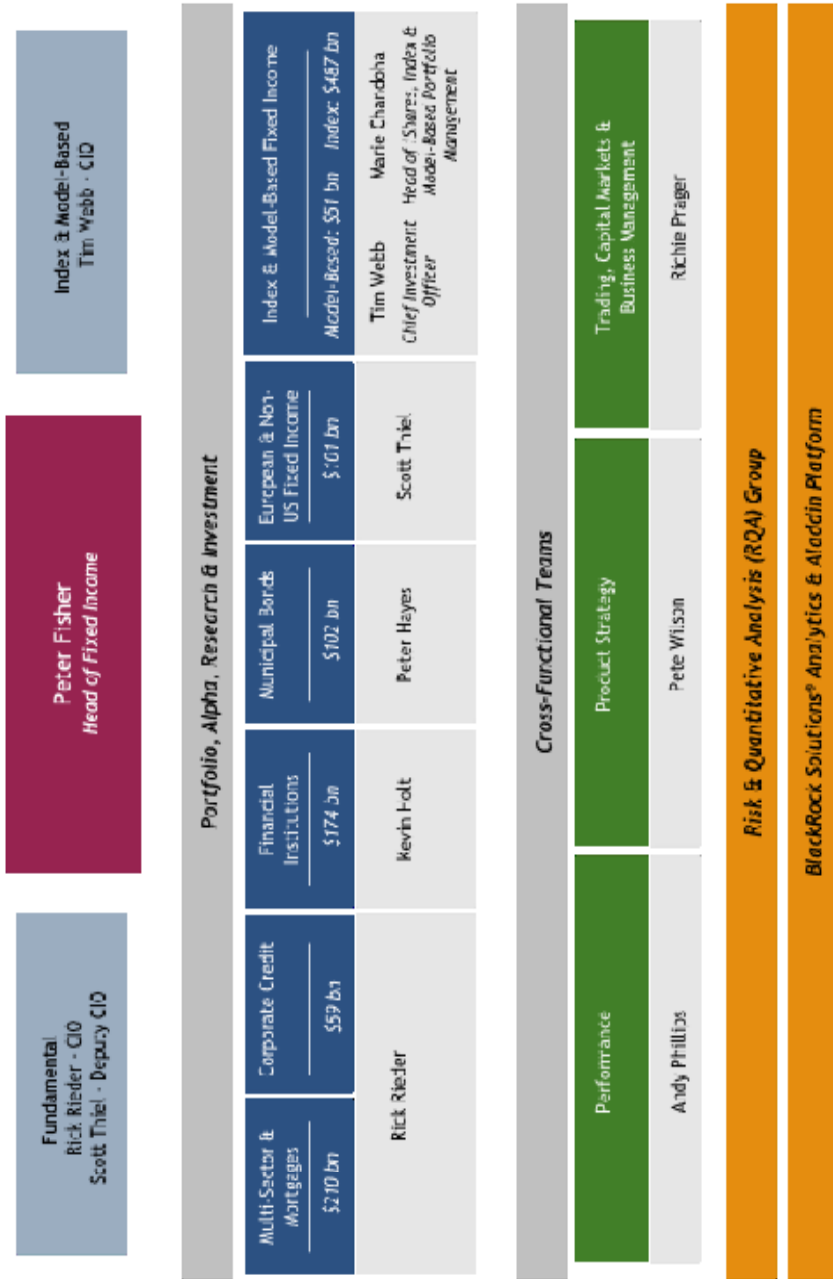
Rick Rieder, the current CIO replacing Curtis Arledge, joined BlackRock in April 2009 when BlackRock bought the hedge fund he founded. Mr. Rieder has 23 years' experience in fixed income and was head of Lehman's Global Principal Strategies and credit businesses prior to founding R3 Capital Management in 2008. Mr. Rieder brought his corporate credit expertise to BlackRock, which complemented its existing mortgage expertise well. Nine senior investment professionals at R3 also joined the firm alongside Mr. Rieder, as well as two other professionals who joined to head up its mortgage and securitized assets group.

Mr. Rieder will now head up the multi-sector & mortgages (previously headed by Curtis Arledge) as well as the corporate credit teams. There is no plan at this moment to introduce a new person to head up either group, but BlackRock has added five new managing directors and other junior members to its fixed income team thus far in 2010. The team now has over 400 investment professionals and is deep and broad enough that the loss of one single individual will not have a material impact. (Appendix Ib lists the fixed income team leaders and experience.) The investment process has not changed and ensures continuity of the group's investment philosophy (please refer to appendix Ic).

### ***Conclusion***

In the near term, the investment philosophy, organizational structure and team-based investment process remain the same. However, Wurts is concerned about the deeper organizational issues that could exist within the group given the frequent turnover at the helm. We have put the strategy on our research priority list and will continue to closely monitor the situation to ascertain the Fixed Income Group's organizational stability and investment capabilities.

**Appendix Ia: BlackRock's Fixed Income Group Structure**  
*(Source: BlackRock)*



## Appendix Ib: BlackRock's Team Heads and Experience / Responsibilities (Source: BlackRock)

Investment Team Leadership	Yrs of Experience	Yrs with BlackRock	Responsibilities
Rick Rieder	23	1	CIO, Head of Multi-Sector & Mortgages & Corporate & Credit Strategies
Jeff Cucunato	16	26	Head of Investment Grade Credit/ Long Duration Portfolios & Head of US IG Credit Investments
Akiva Dickstein	16	1	Head of Mortgage Portfolios
James Keenan	12	5	Head of Leveraged Finance Portfolios & Investments
Matt Marra	15	15	Deputy Head of Retail & Mutual Fund Products
Stuart Spodek	17	17	Head of Obsidian & Short Duration Portfolios
Brian Weinstein	10	10	Head of Institutional Multi-sector Portfolios
Scott Thiel	21	8	Deputy CIO, Head of European & Non-US FI
Shigeru Endo	23	4	Head of Yen Bond Portfolios
Andrew Gordon	26	14	Head of Global Bond Portfolios
Imran Hussain	20	12	Head of Emerging Markets Portfolios
Michael Krautzberger	16	5	Head of Euro Bond Portfolios
Steve Miller	26	8	Head of Australian Bond Portfolios
Paul Shuttleworth	23	10	Head of Sterling Bond Portfolios
Kevin Holt	25	7	Head of Financial Institutions, Co-head of Financial Institutions Portfolios
Jeff Jacobs	12	12	Co-head of Financial Institutions Portfolios
Peter Hayes	27	23	Head of Municipal Bonds
James Pruskowski	13	13	Head of Institutional & Wealth Management Municipal Portfolios
Ted Jaeckel	28	19	Co-head of Municipal Mutual Funds
Walter O'Connor	25	18	Co-head of Municipal Mutual Funds
Eric Pellicciaro	14	14	Head of Global Rates Investments
Dik Blewitt	23	1	Co-head of Securitized Assets Investments
Randy Robertson	24	1	Co-head of Securitized Assets Investments
Michael Phelps	18	1	Head of European IG Credit Investments
James Schwartz	23	20	Head of Municipal Credit Research

**Appendix Ic: BlackRock's Investment Process**  
*(Source: BlackRock)*

