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REVISION TO THE BOARD OF REGENTS POLICY MANUAL – CHAPTER 7

Recommended Action: Recommend that the Board approve, as a first and final reading, a revision to the Investment Policy, Chapter 7.04G of the Board of Regents Policy Manual.

Executive Summary: Board Policy Manual Chapter 7.04G Investment Policy – Permitted Investments should be revised to allow Non U.S. dollar bonds as an approved investment type and to diversify assets and manage investment risk.

CHAPTER §7.04G (<http://www.regents.iowa.gov/Policies/Chapter%207/chapter7.04.htm>)

G. Permitted Investments

It is the intent of the Board that all investment pools be broadly diversified among asset classes as much as possible. Diversification by the number of individual securities, industry, economic sector, and within governmental issues is viewed as desirable.

Permitted investments include:

19. Non U.S. dollar bonds – obligations of foreign issuers including sovereign and corporate borrowers. These types of investments may be made strategically as a fixed allocation or opportunistically by designated investment grade managers. Investments shall be in limited liability investment vehicles, such as limited partnerships, limited liability companies, and other pooled investment funds. Additional credit quality restrictions may be made in the designated manager's investment guidelines. Currency exposures shall be managed by the designated investment manager(s).

Background/Analysis: At its meeting on August 6, 2014, the Board approved a new sub-asset class of Global Fixed Income to replace Ex U.S. Bonds.

http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/August2014/0814_a&cITEM02.pdf

Global Fixed Income includes exposure to both U.S. and Ex U.S. bonds, thereby providing broad diversification as well as expanded return opportunities. Since some of the underlying assets in the commingled and mutual funds are not specifically authorized investments, the Board of Regents is asked to approve a revision to the Policy Manual before making any investment in this asset type.

Target asset allocation to Global Fixed Income is 5% for the Diversified Operating and Long Term Endowment Portfolios, and 7% for the Diversified Intermediate Term Portfolio.