Contact: Patrice Sayre

REVISED INVESTMENT POLICY

Actions Requested: Recommend that the Board:

- Approve modest changes to the asset allocation for the Long Term Endowment Pool, Diversified Intermediate Portfolio, and the Operating Portfolio (referred to collectively as the "Portfolios"); and

- Approve investment manager changes addressed herein.

Executive Summary: The Board of Regents investment policy requires that the investment advisor, Marquette Associates, Inc., provide recommendations and advice on matters regarding asset allocation, investment manager selection, retention and termination. (http://www.iowaregents.edu/plans-and-policies/board-policy-manual/22-business-procedures/#Investment Policy)

These recommendations were determined following multiple asset allocation studies contemplating expected portfolio risk and return characteristics. The investment manager recommendations follow comprehensive investment manager analysis and thorough investment manager interviews.

The changes proposed below offer additional diversification and endeavor to improve the Portfolios' risk adjusted return without materially affecting the cost of the overall investment program. More specifically, the changes are expected to increase return and reduce risk in each portfolio.

Discussion: At the October 21-22, 2015, meeting of the Board of Regents, Marquette Associates, Inc, was approved as Investment Advisor and has been working with University staff and Board Office staff to enhance the Regents Investment Portfolios. Using software simulation of macroeconomic factors, Marquette modeled monthly return outcomes of capital markets considering return objectives, risk tolerance, and investment constraints for each Portfolio.

Based on discussion with University financial staff and Board Office staff, Marquette Associates modeled multiple portfolio options with a variety of risk and return characteristics. Optimum portfolios were selected from each of these asset allocation studies. The optimum portfolios are shown on the following pages.

Marquette Associates conducted a comprehensive quantitative and qualitative evaluation of investment managers from core and intermediate fixed income, senior secured loans, global low volatility equity, and core US real estate. Decision factors included, but were not limited to, strength of organization and investment team, merits of investment approach and process, risk management, performance track record, and fees/expenses.

The field of candidates was narrowed and two to four managers for each investment strategy were interviewed by University staff, Board Office staff, and Marquette Associates. Collectively, the group recommends adding the investment managers in this item to the approved manager roster, subject to fully executed agreements between the Universities and each investment manager.

<u>Changes to Asset Allocation</u>

<u>Long Term Endowment Pool</u>

- Increase core fixed income from 3% to 10% and eliminate the allocation to short term fixed income
- Add new allocation of 3% to US mid cap equity and reduce total US equity by 5%
- Add new allocation of 3% to non-US small cap and reduce total non-US equity by 5%
- Eliminate allocation to opportunistic real estate and increase allocation to core real estate from 5% to 10%
- The allocation to private equity will increase from 17% to 25% and new commitments to private equity will be made over time.

Asset Class	Current Portfolio	Recommended Portfolio	Change
Core Fixed Income	3.0%	10.0%	7.0%
Short Term Fixed Income	7.0%	0.0%	-7.0%
High Yield	5.0%	5.0%	0.0%
Global Fixed Income	5.0%	5.0%	0.0%
Senior Secuied Loans	5.0%	5.0%	0.0%
Total Fixed Income	**25.0%**	**25.0%**	**0.0%**
US Large Cap	20.0%	14.0%	-6.0%
US Mid Cap	0.0%	3.0%	3.0%
US Small Cap	5.0%	3.0%	-2.0%
Total US Equity	**25.0%**	**20.0%**	**-5.0%**
Developed Market Large Cap	21.0%	14.0%	-7.0%
Non-US Small Cap	0.0%	3.0%	3.0%
Emerging Market	4.0%	3.0%	-1.0%
Total Non-US Equity	**25.0%**	**20.0%**	**-5.0%**
Core Real Estate	5.0%	10.0%	5.0%
Opportunistic Real Estate	3.0%	0.0%	-3.0%
Total Real Estate	**8.0%**	**10.0%**	**2.0%**
Private Equity	**17.0%**	**25.0%**	**8.0%**
Total	**100.0%**	**100.0%**	**0.0%**

Diversified Intermediate Portfolio

- Add 17% allocation to intermediate fixed income
- Eliminate the 10% allocation to TIPS
- Reduce the allocation to short term investment vehicle to 3%
- Reduce total fixed income by 5%
- Add new allocation of 5% to global low volatility equity
- Eliminate the 10% allocation to public REITs and add a 10% allocation to core real estate

Asset Class	Current Portfolio	Recommended Portfolio	Change
Core Fixed Income	28.0%	28.0%	0.0%
Intermediate Fixed Income	0.0%	17.0%	17.0%
Short Term Fixed Income	0.0%	0.0%	0.0%
High Yield	5.0%	5.0%	0.0%
TIPS	10.0%	0.0%	-10.0%
Global Fixed Income	7.0%	7.0%	0.0%
Short Term Investment Vehicle	15.0%	3.0%	-12.0%
Senior Secured Loans	5.0%	5.0%	0.0%
Total Fixed Income	**70.0%**	**65.0%**	**-5.0%**
Broad US Equity	**10.0%**	**10.0%**	**0.0%**
Broad Non-US Equity	**10.0%**	**10.0%**	**0.0%**
Global Low Volatility Equity	**0.0%**	**5.0%**	**5.0%**
Core US Real Estate	0.0%	10.0%	10.0%
Public REITs	10.0%	0.0%	-10.0%
Total Real Estate	**10.0%**	**10.0%**	**0.0%**
Total	**100.0%**	**100.0%**	**0.0%**

Operating Portfolio

- Increase core fixed income allocation to 25%
- Add a new allocation to intermediate fixed income of 20%
- Eliminate the allocation to TIPS
- Reduce the allocation to short term investment vehicle to 20%
- Reduce the total allocation to fixed income by 2.5%
- Add new allocation of 5% to global low volatility equity
- Eliminate the allocation to public REITs and add a dedicated allocation to core real estate of 5%

Asset Class	Current Portfolio	Recommended Portfolio	Change
Core Fixed Income	20.0%	25.0%	5.0%
Intermediate Fixed Income	0.0%	20.0%	20.0%
High Yield	5.0%	5.0%	0.0%
TIPS	7.5%	0.0%	-7.5%
Global Fixed Income	5.0%	5.0%	0.0%
Short Term Investment Vehicle	40.0%	20.0%	-20.0%
Senior Secured Loans	5.0%	5.0%	0.0%
Total Fixed Income	**82.5%**	**80.0%**	**-2.5%**
Broad US Equity	**5.0%**	**5.0%**	**0.0%**
Broad Non-US Equity	**5.0%**	**5.0%**	**0.0%**
Global Low Volatility Equity	**0.0%**	**5.0%**	**5.0%**
Core US Real Estate	0.0%	5.0%	5.0%
Public REITs	7.5%	0.0%	-7.5%
Total Real Estate	**7.5%**	**5.0%**	**-2.5%**
Total	**100.0%**	**100.0%**	**0.0%**

Investment Manager Selection

Core and Intermediate Fixed Income: MacKay Shields
Founded in 1938, MacKay Shields is a New York-based institutional asset manager wholly-owned by New York Life since 1984. Compared with its peers, it is a larger boutique-sized firm and provides only fixed income products.

Being a long cycle investor, it focuses on longer term dislocations. As such, it typically has lower turnover, usually 20-30% per year, versus its peers. It combines both a top-down and bottom-up perspective and screens opportunities based on 32 factors including size and leverage.

The strategy is led by a team of four seasoned Portfolio Managers who have worked together since 1994, and have been with MacKay Shields together since 2004. The four PMs work with a large team of analysts and traders.

Senior Secured Loans: Symphony Asset Management
Symphony Asset Management is a leading fixed income investment manager that has a focus on investing in bank loans. It is part of Nuveen, which was sold to TIAA-CREF in 2014.

Credit analysts of the team cover the entire capital structure, particularly useful for determining relative value between bank loans, investment grade, high yield and equity investments for a company.

Symphony’s focus is on more liquid, larger issues, while being benchmark-agnostic. Bank loans they invest in have issuers that have at least $100MM EBITDA with a minimum of a $300MM facility size and $200MM issue size.

The strategy's investment process is both top down and bottom up and they may avoid certain industries altogether if the macroeconomic outlook for that industry is unfavorable. Out of the bank loan index of 1,000 issuers and 1,400 issues, the team monitors 500 issuers that meet its liquidity test, and maintains a list of 250 approved credits that are thoroughly vetted that can be placed in the portfolio at any given time.

Global Low Volatility: Acadian Asset Management
Acadian Global Managed Volatility Equity employs a quantitative investment approach aimed at minimizing total portfolio risk. In constructing the portfolio, the volatility of individual stocks, historical correlations among stocks, as well as return forecasts for stocks are taken into account.

The target risk reduction relative to the market cap weighted benchmark is expected to be 25-35%. Sector allocations are a residual of the investment process, but the strategy tends to have higher allocations to consumer staples, utilities, and telecom. To mitigate interest rate sensitivity, the strategy places a constraint on the portfolio to match the duration of interest rate sensitivity of the broad market index within a tolerance range.

Core US Real Estate: Morgan Stanley PRIME Fund & UBS Trumbull Property Fund ("TPF")

The Morgan Stanley PRIME Property Fund is a well-established and diversified core real estate Fund. PRIME will venture outside of the four main property types and have exposure to development, self- storage, hotels, and land.

The appeal of the fund is its longevity and the diversity by property type and region. The majority of the holdings are properties over $100M in size. This does lend it to less volatility as larger and better class properties experience less pricing fluctuations. Debt is done at the fund and property level to offer greatest freedom for asset management.

The UBS TPF is one of the three largest and longest standing funds in the core, open-end universe. With a disciplined, research driven approach, TPF is focused on the best assets in the strongest markets.

The ongoing, long-term strategy of TPF is to produce attractive risk-adjusted returns by focusing on selective acquisitions, diversification, active portfolio management, and aggressive asset management. Diversification is pursued on many levels including geographic region, property type, and economic sector. A hallmark of this fund is the low leverage. This has been consistent for the duration of the fund, not a new discipline.

Index Funds

To accommodate the new allocation to US mid cap equity and non-US small cap, University staff, Board Office staff, and Marquette Associates recommend adding the Vanguard Mid Cap Index Fund and replacing the SSgA MSCI ACWI ex-US Index Fund with the SSgA MSCI ACWI ex-US IMI Index Fund, which contains an allocation to non-US small cap.