

Contact: Patrice Sayre

### **ASSET ALLOCATION**

**Action Requested:** Recommend that the Board approve a reduction in the fixed income duration exposure in the long term pool. This would be accomplished by changing the fund manager guidelines for the two fixed income managers, Reams and Chicago Equity. Wilshire Consulting recommends that the benchmarks for Reams and Chicago Equity separately managed fixed income accounts be changed from the Barclay's Aggregate Index to the BofA Merrill Lynch 1-3 Year Government/Corporate Index (or similar index).

**Executive Summary:** Strategic asset allocation is the key to a successful investment program, represents the best tool for meeting investment objectives, and provides a disciplined framework from which to diversify assets and manage investment risk.

Periodically (at least every three to five years), Institutional staff and Board Office staff complete an asset allocation review with the assistance of Wilshire Consulting. Changes to the strategic asset allocation policy must be approved by the Board.

The recommendation to reduce the duration exposure in the long term pool fixed income represents the culmination of numerous discussions about the current interest rate environment and risk tolerances. The issue of the current interest rate environment also arose at the last committee meeting of the Board in June.

Wilshire is currently reviewing the entire asset allocation of all the university investment pools and final recommendations will be presented for the Board's consideration in September. The preliminary recommended adjustments in asset allocation policy targets and permissible ranges for the diversified operating, intermediate diversified, and long term portfolios currently under discussion are not substantial, but do require further review. Conversely, the proposed reduction in duration exposure in the long term pool warrants Board action.