

Contact: Patrice Sayre

### **ASSET ALLOCATION ISSUES**

**Actions Requested:** Recommend that the Board:

- ▶ Adjust the existing asset allocation policy framework to replace Ex U.S. Bonds with a more broadly diversified allocation to Global Fixed Income; and
- ▶ Set policy targets for Global Fixed Income as represented in the table on page 2.

**Discussion:** The current asset allocation policy provides for allocations to certain fixed income types including Ex U.S. Bonds. The allowable range of Ex U.S. Bonds in each portfolio is 0-10%; however, no formal target within the allowable range was established and the current target is 0%.

Based on discussion among Committee Chairman Downer, Board Office staff, Institutional staff, and Wilshire Associates, it was determined that an allocation to Global Fixed Income would be appropriate to broaden exposure. Global Fixed Income will include exposures to both U.S. and Ex U.S. Bonds, thereby providing broad diversification as well as expanded return opportunities.

The table on page 2 provides specific policy targets for each portfolio. Determination of appropriate targets was based on analysis that considered active risk levels (i.e. tracking error) and each portfolio's horizon and risk tolerance.

If approved, specific fund manager hires will be recommended at a future meeting.

Asset Class	Diversified Operating Portfolio		Diversified Intermediate Term Portfolio		Endowment Portfolio	
	Policy %	Range	Policy %	Range	Policy %	Range
U.S. Equity	5.0	2.5 - 7.5	10.0	7.5 - 12.5	25.0	20.0 - 30.0
Non-U.S. Equity	5.0	2.5 - 7.5	10.0	7.5 - 12.5	25.0	20.0 - 30.0
Private Equity	0.0	na	0.0	na	10.0	5.0 - 15.0
<b>Total Equity</b>	<b>10.0</b>	<b>5.0 - 15.0</b>	<b>20.0</b>	<b>15.0 - 25.0</b>	<b>60.0</b>	<b>55.0 - 65.0</b>
Core Fixed Inc	<del>25.0</del>	<del>20.0-30.0</del>	<del>35.0</del>	<del>30.0-40.0</del>	0.0	0.0 - 20.0
High Yield	20.0	15.0 - 25.0	28.0	23.0 - 33.0	0.0	0.0 - 20.0
Short-Term Fixed Inc	5.0	0.0 - 10.0	5.0	0.0 - 10.0	5.0	0.0 - 10.0
	0.0	na	0.0	na	<del>15.0</del>	<del>0.0-20.0</del>
Bank Loans	5.0	0.0 - 10.0	5.0	0.0 - 10.0	5.0	0.0 - 10.0
Other Fixed Inc	0.0	0.0 - 10.0	0.0	0.0 - 10.0	0.0	0.0 - 10.0
<del>Ex-U.S. Bonds (incl EMD)</del>	<del>0.0</del>	<del>0.0-10.0</del>	<del>0.0</del>	<del>0.0-10.0</del>	<del>0.0</del>	<del>0.0-10.0</del>
Global Fixed Income	5.0	0.0 - 10.0	7.0	0.0 - 10.0	5.0	0.0 - 10.0
Private Credit Opportunities	0.0	0.0 - 10.0	0.0	0.0 - 10.0	0.0	0.0 - 10.0
<b>Total Fixed Income</b>	<b>35.0</b>	<b>30.0 - 40.0</b>	<b>45.0</b>	<b>40.0 - 50.0</b>	<b>25.0</b>	<b>20.0 - 30.0</b>
<b>Liquidity (incl cash)</b>	<b>40.0</b>	<b>35.0 - 40.0</b>	<b>15.0</b>	<b>10.0 - 20.0</b>	<b>0.0</b>	<b>na</b>
Real Assets - Public	15.0	10.0 - 20.0	20.0	15.0 - 25.0	0.0	0.0 - 10.0
U.S. REITS	0.0	na	0.0	na	0.0	0.0 - 10.0
Global REITS (U.S. and non-U.S.)	7.5	5.0 - 10.0	10.0	7.5 - 12.5	0.0	0.0 - 10.0
TIPS	7.5	5.0 - 10.0	10.0	7.5 - 12.5	0.0	0.0 - 10.0
MLPs	0.0	0.0 - 10.0	0.0	0.0 - 10.0	0.0	0.0 - 10.0
Real Assets - Private	0.0	na	0.0	na	15.0	5.0 - 20.0
Real Estate	0.0	na	0.0	na	<i>not specified</i>	0.0 - 10.0
Natural Resources	0.0	na	0.0	na	<i>not specified</i>	0.0 - 10.0
<b>Total Real Assets</b>	<b>15.0</b>	<b>10.0 - 20.0</b>	<b>20.0</b>	<b>15.0 - 25.0</b>	<b>15.0</b>	<b>5.0 - 20.0</b>
<b>TOTAL PORTFOLIO</b>	<b>100.0</b>	<b>na</b>	<b>100.0</b>	<b>na</b>	<b>100.0</b>	<b>na</b>
Expected Return (%)	3.80		4.88		7.23	
Expected Risk (%)	3.58		5.56		12.00	
Return/Risk	1.06		0.88		0.60	

\*Expected Return / Risk data based upon Wilshire's 2014 Asset Class Assumptions.