AON & COUNCIL STAFF’S PROPOSED FIXED INCOME STRUCTURE

AON and staff will be presenting the final recommendation for the fixed income portfolios for the Defined Benefit, Cash Balance Benefit, OSERS, General Endowments, and Excess Liability plan. The presentation materials will also include information on the proposed managers and a change to the way we benchmark the fixed income portfolios.

DB/CBB/OSERS (30% of the total portfolio) – slides 5 & 15

We are proposing that the fixed income portfolio remain at 30% of the total portfolio – 20% risk-reducing and 10% return-seeking. The 20% risk-reducing portfolio will remain with core and core-plus managers with one manager change. The 10% return-seeking portfolio will be allocated to three multi-sector/multi-asset credit managers which replace the mandates that emphasize one specific sector.

- Hire Baird Advisors (buy rated) to replace Neuberger Berman (qualified rating)
- Realign core and core-plus manager weightings so each active manager has 16.7% of the fixed income portfolio (5% of the total portfolio) and the passive manager has 16.6% of the fixed income portfolio (5% of the total portfolio)
- Replace Loomis Sayles bank loans, Franklin Templeton bank loans, and Wellington global bond portfolio with multi-sector/multi-asset credit managers
- Hire PIMCO and Barings as multi-asset credit managers to each invest 11% of the fixed income portfolio (3.3% of the total portfolio)
- Increase Loomis Sayles multi-sector portfolio to 11.3% of the fixed income portfolio (3.4% of the total portfolio)

We will continue to manage the OSERS portfolio per the interim plan but moving towards the long-term target allocation.

GENERAL ENDOWMENTS (50% of the total portfolio) – slides 17 & 18

We are proposing that the fixed income portfolio remain at 50% of the total portfolio – 35% risk-reducing and 15% return-seeking. The 35% risk-reducing portfolio will be invested with core and core-plus managers with one manager change. The 15% return-seeking portfolio will be allocated to two multi-sector/multi-asset credit managers.

- Hire Baird Advisors (buy rated) to replace Neuberger Berman (qualified rating)
- Realign core and core-plus manager weightings with 30% to Blackrock Aggregate Bond Index (15% of the total portfolio), 20% to PIMCO Core-Plus (10% of the total portfolio), and 20% to Baird Core-Plus (10% of the total portfolio)
- Hire PIMCO as a multi-asset credit manager to invest 15% of the fixed income portfolio (7.5% of the total portfolio)
- Increase Loomis Sayles multi-sector portfolio to 15% of the fixed income portfolio (7.5% of the total portfolio)

The Excess Liability fund is invested 100% in fixed income. The current portfolio is invested with the
same asset allocation as the fixed income assets in the General Endowments. Our recommendation would be for any changes made to the General Endowment fixed income portfolio to also be implemented for the Excess Liability fund.

**BENCHMARKING CHANGES**

We are proposing formally separating the target allocation to fixed income into risk-reducing fixed income and return-seeking fixed income for reporting and benchmarking purposes.

- Risk-reducing: Bloomberg US Aggregate Bond Index
- Return-seeking: blended benchmark of 25% investment grade corporate bonds, 25% high yield, 25% bank loans, and 25% emerging market debt

We are also proposing changing the manager benchmark for the core-plus managers to the Bloomberg US Aggregate Bond Index.

**December Council meeting**

At the December Council meeting, there will be three manger presentations for the Council: Baird Advisors (core-plus), PIMCO (multi-asset credit), and Barings (multi-asset credit).

AON & Council staff will ask the Board to approve recommended changes to the fixed income portfolio asset allocations and benchmarks.