

Credit (Bank Loans / Short Duration High Yield) Allocation **DRAFT**

Part of the real return allocation, credit investments are expected to generate high current income and positive real returns over a full market cycle. Income generation is the primary role, with diversification and liquidity secondary considerations. Generally issued by non-investment grade companies, these securities carry higher risks and returns than core investment-grade fixed income. By focusing credit investments in floating-rate bank loans and short-duration high yield securities, the allocation seeks to minimize duration risk and provide diversification from core fixed-income investments. Contracted payouts limit the upside and provide diversification to equities. The credit allocation is expected to perform best in relatively unchanged (status quo) market environments.

Given the structure of the market and the potential to generate outperformance through security selection, the credit allocation is actively managed. To ensure the goal of minimizing interest-rate risk, manager guidelines allow only moderate latitude to differ from the benchmark's duration.

The overall credit allocation has a blended benchmark of 70% Credit Suisse Institutional Leveraged Loan Index and 30% Bank of America Merrill Lynch 1-3 year BB-B High Yield Index. Individual managers may have benchmarks tailored to their particular investment style while seeking to achieve the overall goal.

SIC Investment Philosophy - Credit (Bank Loans / Short Duration High Yield):

- The SIC is a long-term investor in credit securities, expecting moderate returns over a full market cycle.
- The credit allocation plays the following roles for the total portfolio:
 - Income generation
 - Moderate portfolio diversification
 - Moderate volatility
 - Moderate liquidity
- Portfolio duration is expected to be managed within $\pm 60\%$ of the benchmark duration and not to exceed 4 years.
- The SIC believes that, over the long-term, the additional return for accepting moderate levels of credit risk, including non-investment grade debt, outweighs the higher levels of return volatility that may be produced in the short-term.

As of March 31, 2015, the policy allocation to credit is 5%, apportioned:

Pacific Investment Management	3%
Western Asset Management	3%

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.