**Inflation-Linked Bonds DRAFT**

Part of the real return allocation, the allocation to inflation-linked bonds is intended to protect the portfolio during periods of unanticipated inflation. Diversification, safety and liquidity are primary considerations, with an expectation of a minimal but positive return over a full market cycle.

Given the structure of the inflation-linked bond market, the allocation is actively managed. Managers are given tight guidelines to ensure the allocation hews closely to the expected goal of providing safety and protection from inflation.

As of March 31, 2015, the benchmark for the inflation-linked allocation is the Barclays US Inflation Linked Bonds 1 to 10 Year. An intermediate-term benchmark is used to moderate the portfolio’s duration risk. Since the global inflation-linked market can experience meaningful, lasting swings between the relative attractiveness of U.S. issues vs. non-U.S. issues and intermediate duration vs. long duration, the SIC can authorize shifts in the policy benchmark to take advantage of these long-term valuation misalignments.

*SIC Investment Philosophy – Inflation-Linked Bonds:*

* The SIC is a long-term investor in inflation-linked securities, expecting a modest but positive real return over a full market cycle.
* Inflation-linked bonds play the following roles for the total portfolio:
  + Protection in periods of rising inflation
  + Diversification of growth and duration risks
  + Capital preservation / low expected volatility
  + Liquidity
* The allocation is actively managed due to the structure of the inflation-linked bond market. Managers may take modest duration and sovereign risks. The SIC expects managers to be adequately compensated for assuming these risks and the attendant volatility.
* To increase the likelihood of serving its portfolio purpose, the active management of the inflation-linked allocation will be constrained by low tracking error targets (±200 basis points per year). In addition, duration of the inflation-linked investments will be limited to ±25% of the benchmark’s duration.

As of March 31, 2015, the policy allocation to inflation-linked bonds is 4%, apportioned:

Brown Brothers Harriman 4%

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.