**Core Fixed Income Allocation DRAFT**

The purpose of the core fixed income allocation is to provide downside protection in adverse market environments. It seeks to achieve this goal through broad exposure to U.S. investment grade fixed income securities. As the overall portfolio’s primary “risk off” asset, strong returns and outperformance are secondary considerations. The allocation accepts lower expected returns in exchange for more consistent cash flows and generally more stable valuations.

Given the structure of the investment grade 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.

The Barclays Aggregate Index is the benchmark for the core fixed income allocation. The Aggregate index parallels the investment-grade bond universe (bonds rated BBB- or higher), with roughly eighty percent of its weight in US Treasuries and US-backed agency (Fannie Mae, Freddie Mac, etc.) securities. Backed by the US government, these bonds are generally the most stable among fixed income securities. The rest of the index consists primarily of corporate bonds and asset-backed securities.

*SIC Investment Philosophy - Core Fixed Income:*

* The SIC is a long-term investor in core fixed income securities, expecting a modest but positive nominal return over a full market cycle.
* Core fixed income plays the following roles for the total portfolio:
	+ Diversification of growth risks
	+ Capital preservation / low expected volatility
	+ Liquidity
* The allocation is actively managed due to the structure of the U.S. investment grade fixed income market. Core fixed income managers may take modest risks in duration, pre-payment and credit. 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 core fixed income allocation will be constrained. The core portfolios are managed with low tracking error targets (±150 basis points per year). In addition, duration of the overall core investments will be limited to ±1.0 year of the benchmark’s duration.

As of March 31, 2015, the policy allocation to core fixed income is 15%, apportioned:

 Mackay Shields 8%

 Pyramis Global Advisors 8%

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.