

## **Long Duration U.S. Treasury Portfolio (Draft 1/10/17)**

The purpose of the long duration U.S. Treasury portfolio is to smooth the volatility of the overall ERSRI portfolio in times of steep equity market decline, by capturing the “flight to quality” effect in an equity market crisis environment. It seeks to achieve this goal through exposure to high quality, long duration government bonds that have historically performed well in this market environment.

Investments to be included in the Long Duration U.S. Treasury Portfolio are long-dated (maturities in excess of 10 years) high-quality bonds (Treasuries and full faith and credit Government-backed Agency securities only).

Due to the long duration of bonds in this portion of the portfolio, return volatility is expected of a similar magnitude as a publicly traded equity portfolio, but with low correlation to the public equity markets. It is accepted that the portfolio may produce negative returns at times, particularly during non-crisis investment environments.

Risk that may impact the long duration U.S. Treasury portfolio include:

- Interest Rate Risk
- Inflation Risk

The benchmark for the long duration U.S. Treasury Portfolio will be the Bloomberg Barclays Long Duration U.S. Treasury Bond index. The long duration index represents the high quality long maturity bond universe.

### *SIC Investment Philosophy – Long duration U.S. Treasury Portfolio*

- The SIC expects that the long duration U.S. Treasury portfolio will produce strong positive returns in periods of financial market stress.
- The long duration U.S. Treasury Portfolio will play the following roles for the total portfolio:
  - Diversification of growth risks
  - Liquidity
- Active management value addition is not a material objective of this allocation. The allocation will employ a blend of modestly active management styles.
- Managers are expected to control risk relative to the benchmark within a 1% annual tracking error target.

As of December 31, 2016, the strategic policy allocation to the long duration U.S. Treasury portfolio is 4%.

Approved by RI SIC: \_\_\_\_\_