Milliman

MEETING DATE
JAN 11 2012
AGENDA ITEM
#10

Memorandum

Date: December 28, 2011
To: CCCERA
From: Timothy Price and Bob Helliesen
Subject: Recommended Asset Allocation Targets

Overview

On June 16, 2011, Milliman presented the results of our most recent asset allocation study for CCCERA. At that meeting, the Board adopted Mix 8 from the study, shown below. This memo provides specific recommendations on how best to adjust the target allocation to the existing portfolios in order to implement the asset allocation target adopted earlier this year.

Component	Current Target	Alternative Mix 8
Global Equities	49.0%	42.6%
Global Fixed	24.0	19.4
Long Bonds	5.0	5.0
High Yield	3.0	5.0
Real Estate	11.5	12.5
Alternatives	7.0	10.0
Inflation Hedge	0.0	5.0
Cash	0.5	0.5
Expected Return, %/yr	7.75%	7.85%
Standard Deviation, %/yr	13.69	13.57
Total Plan Risk, %/yr	18.19	18.31

Considerations

There are three issues that must be addressed in order to adopt the new asset allocation targets:

1. Where should the allocation to Market Opportunities be taken from?
2. Where should the money intended for the Alternatives allocation be temporarily invested for a period of a few years?
3. Where should the money intended for as-yet-unfunded asset classes of Long Bonds and Inflation Hedges be temporarily invested?

We recommend that the target allocation to Market Opportunities, which with the recent termination of the Goldman Sachs Opportunistic portfolio currently consists solely of a $40 million commitment to the Oaktree Private Investment Fund 2009, be taken from core fixed income. The opportunistic investments made to date have consisted of debt instruments, so we feel that the 0.8% allocation to Oaktree PIF 2009 should most logically be taken from the fixed income allocation.

Historically, assets intended for the Alternatives mandate (primarily private equity) have been held in domestic equity. We see no reason to change this policy. These assets have been primarily invested in the PIMCO StocksPLUS account because of it highly liquid structure. However, given that the assets will likely be held in domestic equities for several years as the Alternatives allocation is gradually increased, we recommend allocating the excess funds across the domestic equity manager lineup. The Alternatives allocation is currently 6% of Plan assets vs. a new target of 10%, resulting in an additional 4% to be allocated to domestic equity portfolios.

Finally, there are two asset classes that were accepted in the June 2011 study, but have not yet been funded. The 5% allocation to long duration fixed should be held within the core fixed income mandates. The 5% allocation to inflation hedging investments should be temporarily allocated 4% to domestic equity and 1% to real estate (domestic REITS through Adelante).

A summary of the asset class target allocation adjustments is shown below:

Asset Class	**Current Target**	**New Long-Term Target**	**Temporary Adjustment**	**Total Adjusted Target**
Global Equity	48.1%	42.6%	+8.0%	50.6%
Global Fixed	27.8%	19.4%	+4.2%	23.6%
Long Bonds	5.0%	5.0%	-5.0%	0.0%
High Yield	3.0%	5.0%	-	5.0%
Real Estate	11.5%	12.5%	+1.0%	13.5%
Alternatives	7.0%	10.0%	-4.0%	6.0%
Inflation Hedge	-	5.0%	-5.0%	0.0%
Cash	0.5%	0.5%	-	0.5%
Opportunistic	0.0%	0.0%	+0.8%	0.8%

On the following pages, we provide long-term targets, temporary adjustments and current targets for each CCCERA portfolio.

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DOMESTIC EQUITY	Oct 2011 Allocation	Old Target	New Target	Temporary Adjustment	Adjusted Target
Delaware Investments	5.7 %	5.5 %	3.7 %	1.5 %	5.2 %
Emerald	3.2	3.5	2.5	1.0	3.5
Intech - Enhanced Plus	0.5	0.4	0.3		0.3
Intech - Large Core	3.4	3.4	2.4	0.8	3.2
PIMCO	4.3	2.5	2.2	1.4	3.6
Robeco	5.3	5.5	3.7	1.5	5.2
Ceredex	3.2	3.5	2.5	1.0	3.5
Wentworth	3.7	3.8	2.7	0.8	3.5
TOTAL DOMESTIC	29.2 %	28.1 %	20.0 %	8.0 %	28.0 %
INTERNATIONAL EQUITY					
William Blair	4.9 %	5.2 %	5.3 %		5.3 %
GMO Intrinsic Value	4.7	5.2	5.3		5.3
TOTAL INT'L EQUITY	9.6 %	10.4 %	10.6 %		10.6 %
GLOBAL EQUITY					
J.P. Morgan	4.4 %	4.8 %	4.0 %		4.0 %
First Eagle	2.4	2.4	4.0		4.0
Tradewinds	2.4	2.4	4.0		4.0
TOTAL GLOBAL EQUITY	9.2 %	9.6 %	12.0 %		12.0 %
TOTAL EQUITY		48.1 %	42.6 %	8.0 %	50.6 %
		45 to 53 %			*40 to 55 %*
DOMESTIC FIXED INCOME					
AFL-CIO	3.6 %	3.4 %	2.5 %	0.7 %	3.2 %
Goldman Sachs Core	5.8	5.4	3.2	1.0	4.2
Workout (GSAM)	0.3	0.0	0.0		0.0
Lord Abbett	5.7	5.4	3.2	1.0	4.2
PIMCO	6.5	7.0	4.0	1.5	5.5
Torchlight II	1.0	0.9	0.8		0.8
Torchlight III	1.3	1.7	1.7		1.7
TOTAL US FIXED INCOME	24.2 %	23.8 %	15.4 %	4.2 %	19.6 %
GLOBAL FIXED					
Lazard Asset Mgmt	4.2 %	4.0 %	4.0 %		4.0 %
TOTAL GLOBAL FIXED	4.2 %	4.0 %	4.0 %		4.0 %
LONG DURATION					
TBD	- %	5.0 %	5.0 %	-5.0 %	0.0 %
TOTAL LONG DURATION	- %	5.0 %	5.0 %	-5.0 %	0.0 %
TOTAL INV GRADE FIXED	28.4 %	27.8 %	24.4 %	-0.8	23.6 %
		24 to 34 %			*20 to 30 %*
HIGH YIELD					
Allianz Global Investors	3.5 %	3.0 %	5.0 %		5.0 %
TOTAL HIGH YIELD	3.5 %	3.0 %	5.0 %		5.0 %
		1 to 5 %			*2 to 9 %*

		Old Target	New Target	Temporary Adjustment	Adjusted Target
REAL ESTATE					
Adelante Capital	6.3 %	1.4 %	2.0 %	1.0 %	3.0 %
Angelo Gordon VIII	-	-	-		
BlackRock Realty	0.0	-	-		
DLJ RECP II	0.1	-	-		
DLJ RECP III	0.8	-	-		
DLJ RECP IV	1.1	-	-		
LaSalle Income & Growth VI	-	-	-		
Long Wharf II	0.3	-	-		
Long Wharf III	0.8	-	-		
Invesco Fund I	0.6	-	-		
Invesco Fund II	1.2	-	-		
Invesco International REIT	1.0	1.0	1.5		1.5
Oaktree Opportunities V	-	-	-		
Siguler Guff DREOF	-	-	-		
Willows Office Property	0.2	-	-		
TOTAL REAL ESTATE	12.3 %	11.5 %	12.5 %	1.0 %	13.5 %
		8 to 14 %			*10-16%*
ALTERNATIVE INVESTMENTS					
Adams Street Partners	2.1 %	- %	- %		- %
Bay Area Equity Fund	0.3	-	-		-
Carpenter Bancfund	0.4	-	-		-
Energy Investor Fund	0.1	-	-		-
Energy Investor Fund II	0.8	-	-		-
Energy Investor Fund III	0.4	-	-		-
Nogales	0.1	-	-		-
Paladin III	0.3	-	-		-
Pathway Capital	1.6	-	-		-
TOTAL ALTERNATIVE	6.0 %	7.0 %	10.0 %	-4.0	6.0 %
		5 to 9 %			*5 to 12 %*
OPPORTUNISTIC					
Goldman Sachs Opps	0.8 %	1.3 %	0.0 %		0.0 %
Oaktree PIF 2009	0.6	0.8	0.0	0.8	0.8
TOTAL OPPORTUNISTIC	1.4 %	2.1 %	0.0 %	0.8	0.8 %
INFLATION HEDGE					
TBD	- %	0.0 %	5.0 %	-5.0 %	0.0 %
TOTAL INFLATION HEDGE	- %	0.0 %	5.0 %	-5.0 %	0.0 %
					0 to 10 %
CASH					
Custodian Cash	0.4 %	- %	- %		%
Treasurer's Fixed	0.0	-	-		
TOTAL CASH	0.5 %	0.5 %	0.5 %		0.5 %
		0 to 1 %			*0 to 1 %*

Conclusion

The revised targets represent relatively modest changes from the old targets in most cases and can be implemented in the next semi-annual rebalancing which will occur in late January. The temporary adjustments will be removed as the Alternatives allocation grows to its target and the Long Bonds and Inflation Hedging categories are funded.