

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Long Term Portfolio Asset Allocation

Action Requested: Adjustment to the Model Portfolio and Allowable Ranges

Background and Summary: The Board annually establishes a Model Portfolio with investment allocation ranges for each individual asset class as the guidelines for the investment of the portfolio for the ensuing fiscal year. Properly constructed limits on maximum and minimum exposures for individual asset classes in the portfolio ensures diversification and balances risk and return, positioning the university to earn an investment return sufficient to sustain distributions in real terms without assuming an inappropriate level of risk. Ranges need to be sufficiently wide to delegate to staff flexibility to manage allocations between the various asset classes, yet sufficiently narrow to ensure maintenance of desired levels of diversification and adherence to a specific risk-return profile for the LTP, in order to allow for the practical flexibility needed by the university's investment professionals to properly manage the investments in the LTP

The table below describes the current Model Portfolio with allowable ranges for each asset class that the Board approved in October 2019. There were no recommended changes to the Model Portfolio or ranges following last year's review.

LTP - Current Model Portfolio with Allowable Ranges

	Model	Maximum	Minimum	Allowable
MARKETABLE SECURITIES	Portfolio	Allocation	Allocation	Range
Equities	25.0%	40.0%	15.0%	+15%/-10%
Fixed Income	12.0	20.0	4.0	+8/-8
Cash	2.0	10.0	0.0	+8/-2
Absolute Return	18.0	26.0	10.0	+8/-8
TOTAL MARKETABLE SECURITIES	57.0%	80.0%	45.0%	+23/-12%
	Model	Maximum	Minimum	Allowable
ALTERNATIVE ASSETS (ILLIQUID)	Portfolio	Allocation	Allocation	Range
Venture & Private Equity ^(a)	25.0%	35.0%	15.0%	+10%/-10%
Real Estate	10.0	15.0	5.0	+5/-5
Natural Resources	8.0	12.0	4.0	+4/-4
TOTAL ALTERNATIVE ASSETS (ILLIQ.)	43.0%	55.0%	20.0%	+12/-23%

(a) Previously named Private Equity and Venture Capital

Investment returns in Venture & Private Equity have been persistently high for many years and significantly higher than that of the rest of the Long Term Portfolio. This substantial outperformance

relative to other investments has led the value of this category of investments to appreciate above its current maximum allocation of 35 percent to 41 percent as of June 30, 2021, and the allocation to Total Alternative Assets (Illiquid) to above its 55 percent maximum.

These are investments in funds where the university commits a fixed amount to be invested by the investment managers directly into companies that the managers will work to grow and ultimately sell over a period of 15 to 20 years. The university's portfolio of Venture & Private Equity investments today is mature and we expect a substantial amount of sales of investee companies in coming years that we expect will reduce the overall allocation to this category of investments. It will take some time for the allocation to decrease organically from net distributions as managers sell their current holdings. We therefore request an increase in the maximum allocation to Venture & Private Equity to 45 percent to allow for a gradual decline in the allocation over time and the maximum allocation to Total Alternative Assets (Illiquid) to 65 percent. There are no other recommended changes to the Model Portfolio or ranges at this time.

The proposed Model Portfolio with ranges is shown in the table below.

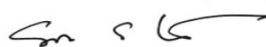
LTP - Recommended 2022 Model Portfolio with Allowable Ranges

	Model	Maximum	Minimum	Allowable
MARKETABLE SECURITIES	Portfolio	Allocation	Allocation	Range
Equities	25.0%	40.0%	15.0%	+15%/-10%
Fixed Income	12.0	20.0	4.0	+8/-8
Cash	2.0	10.0	0.0	+8/-2
Absolute Return	18.0	26.0	10.0	+8/-8
TOTAL MARKETABLE SECURITIES	57.0%	80.0%	45.0%	+23/-12%
	Model	Maximum	Minimum	Allowable
ALTERNATIVE ASSETS (ILLIQUID)	Portfolio	Allocation	Allocation	Range
Venture & Private Equity ^(a)	25.0%	45.0%	15.0%	+20%/-10%
Real Estate	10.0	15.0	5.0	+5/-5
Natural Resources	8.0	12.0	4.0	+4/-4
TOTAL ALTERNATIVE ASSETS (ILLIQ.)	43.0%	65.0%	20.0%	+22/-23%

(a) Previously named Private Equity and Venture Capital

We request that the Board of Regents adopt the 2022 Model Portfolio with the recommended allowable ranges as outlined above and review them on an annual basis.

Respectfully submitted,



Geoffrey S. Chatas
Executive Vice President and
Chief Financial Office