

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 Long Term Portfolio (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 2021, when the allowable maximum range to Venture & Private Equity was increased to 45 percent to accommodate a growing allocation to this asset class resulting from substantial outperformance relative to other investments in the portfolio with a corresponding increase in the maximum allocation to Total Alternative Assets (Illiquid) to 65 percent. The Model Portfolio weights remained unchanged.

**LTP - Current Model Portfolio with Allowable Ranges**

	<b>Model</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Allowable</b>
<b>MARKETABLE SECURITIES</b>	<b>Portfolio</b>	<b>Allocation</b>	<b>Allocation</b>	<b>Range</b>
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
<b>TOTAL MARKETABLE SECURITIES</b>	<b>57.0%</b>	<b>80.0%</b>	<b>35.0%</b>	<b>+23/-12%</b>
	<b>Model</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Allowable</b>
<b>ALTERNATIVE ASSETS (ILLIQUID)</b>	<b>Portfolio</b>	<b>Allocation</b>	<b>Allocation</b>	<b>Range</b>
Venture & Private Equity <sup>(a)</sup>	25.0%	45.0%	15.0%	+10%/-10%
Real Estate	10.0	15.0	5.0	+5/-5
Natural Resources	8.0	12.0	4.0	+4/-4
<b>TOTAL ALTERNATIVE ASSETS (ILLIQ.)</b>	<b>43.0%</b>	<b>65.0%</b>	<b>20.0%</b>	<b>+12/-23%</b>

(a) Previously named Private Equity and Venture Capital

There are several relatively modest recommended adjustments to the Model Portfolio and the corresponding allowable ranges this year made to accommodate 1) a rapidly growing allocation to sustainable energy investments in Natural Resources; and 2) what we expect to be a prolonged increase in the allocation to Venture & Private Equity resulting from a significant appreciation of this category of investments that has been moderated by a lower allocation to market traded Equities for some time.

We therefore request an increase in the Model Portfolio allocation to Natural Resources to 10 percent from the current 8 percent with a corresponding allowable range of +/- 5 percent with a corresponding 2 percent reduction in the Model Portfolio allocation to Fixed Income. In addition, we request an increase in the Model Portfolio allocation to Venture & Private Equity to 30 percent from the current 25 percent with a corresponding 5 percent reduction in the Model Portfolio allocation to Equities to 20 percent. The Model Portfolio allocations for Total Marketable Securities and Total Alternative Assets (Illiquid) also will be adjusted to accommodate these recommended changes.

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

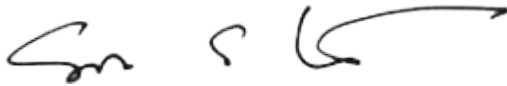
### LTP - Recommended 2023 Model Portfolio with Allowable Ranges

<b>MARKETABLE SECURITIES</b>	<b>Model Portfolio</b>	<b>Maximum Allocation</b>	<b>Minimum Allocation</b>	<b>Allowable Range</b>
Equities	20.0%	30.0%	10.0%	+10%/-10%
Fixed Income	10.0	15.0	4.0	+5/-6
Cash	2.0	10.0	0.0	+8/-2
Absolute Return	18.0	25.0	10.0	+7/-8
<b>TOTAL MARKETABLE SECURITIES</b>	<b>50.0%</b>	<b>75.0%</b>	<b>35.0%</b>	<b>+25/-15%</b>
<b>ALTERNATIVE ASSETS (ILLIQUID)</b>	<b>Model Portfolio</b>	<b>Maximum Allocation</b>	<b>Minimum Allocation</b>	<b>Allowable Range</b>
Venture & Private Equity <sup>(a)</sup>	30.0%	45.0%	15.0%	+15%/-15%
Real Estate	10.0	15.0	5.0	+5/-5
Natural Resources	10.0	15.0	5.0	+5/-5
<b>TOTAL ALTERNATIVE ASSETS (ILLIQ.)</b>	<b>50.0%</b>	<b>65.0%</b>	<b>25.0%</b>	<b>+15/-25%</b>

(a) Previously named Private Equity and Venture Capital

We request that the Board of Regents adopt the 2023 Model Portfolio with the recommended allowable ranges as outlined above and review them on an annual basis.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Geo S Chatas", with a long horizontal stroke extending to the right.

Geoffrey S. Chatas  
Executive Vice President and  
Chief Financial Officer

December 2022