Interest Rate Sensitive Fixed Income

Interest Rate Sensitive Fixed Income is comprised of the Core Fixed Income and Treasuries (Long Duration) asset classes. Core fixed income represents the US investment-grade market which includes US Treasuries and Agencies, Agency Mortgage-Backed Securities, Corporate Bonds, Commercial Mortgage-Backed Securities (CMBS) and Asset-Backed Securities (ABS). Its benchmark is the Barclays U.S. Aggregate Bond Index, which encompasses the market for U.S. dollar denominated, fixed-rate, taxable, investment-grade bonds that are SEC-registered. Treasuries (Long Duration) is comprised of US Treasuries with maturities of 10 years or longer; its benchmark is the Barclays U.S. Treasury Long Index.

The performance of Interest Rate Sensitive Fixed Income is heavily tied to the direction of US Treasury rates. In addition, Interest Rate Sensitive Fixed Income tends to perform well when equity markets decline (ex. 2008) or when inflation expectations materially decline. As a result, it is an important part of the overall ASRS portfolio because it provides a source of balance and diversification from riskier assets such as equities.

IMD House View:

Interest Rate Sensitive Fixed Income is likely to generate low returns as Treasury rates, corporate credit spreads and agency MBS spreads are at low levels. As a consequence, we are underweight Interest Rate Sensitive Fixed Income vs. the interim SAA adjusted policy target. We are also concerned that interest rates may rise over the intermediate term as global growth and inflation expectations are generally improving and central banks such as the Federal Reserve and the ECB are likely to pull back from monetary policies that have pushed down rates in major developed countries.

Weighting vs. Revised Interim SAAP Policy Effective 4/1/17:	**Underweight**
ASRS Actual Weighting (May 31, 2017)	10.8%
Pro Forma Interest Rate Sensitive Interim Adj. Policy	13.3%