

**MICHIGAN STATE
UNIVERSITY**

September 8, 2010

MEMORANDUM

To: Trustee Finance Committee
From: Fred L. Poston *F. Poston*
Subject: Revised Asset Allocation for the Common Investment Fund

RECOMMENDATION

BE IT RESOLVED that the Trustee Finance Committee recommends that the Board of Trustees amend Investment Policy Number 01-07-01 to revise the asset allocation target, range and rationale for Michigan State University's Common Investment Fund ("CIF") by replacing Table No. 2 of Exhibit A of the Investment Policy with the following:

Major Asset Class	Target	Range	Rationale
U.S. Equity	17.0%	12.0%-23.0%	Maximize real returns
Global ex U.S. Equity (includes emerging markets)	18.0%	12.0%-23.0%	Maximize real returns & diversification
Inflation Hedge (real estate & natural resources)	10.0%	7.5% - 12.5%	Inflation hedge & diversification
Non-Marketable Investments (includes distressed, private equity and venture capital)	15.0%	7.0% - 20.0%	Higher returns than equities & diversification
Absolute Return	25.0%	20.0% - 30.0%	Low volatility & moderate correlation with equities
Fixed Income	15.0%	10.0% - 25.0%	Deflation hedge & diversification



OFFICE OF THE
VICE PRESIDENT FOR
FINANCE AND
OPERATIONS

Fred L. Poston
Vice President and
Treasurer

Michigan State University
412 Administration Building
East Lansing, Michigan
48824-1046

Phone 517.355.5014
Fax 517.353.6772
www.vpfo.msu.edu

BACKGROUND

Cambridge Associates advises, and the Investment Advisory Subcommittee and Administration concur, that both the recent and anticipated future market conditions warrant a revised asset allocation that will provide greater flexibility in investment strategy for the CIF. Recommended changes to the data found in the current Table No. 2 are shown below:

Table No. 2 Asset Allocation			
Major Asset Class	Target	Range	Rationale
U.S. Equity	19.0% 17.0%	14.0%-24.0% 12.0%-23.0%	Maximize real returns
Global ex U.S. Equity (includes emerging markets)	19.0% 18.0%	14.0%-24.0% 12.0%-23.0%	Maximize real returns & diversification
Non-Marketable Investments (includes distressed, private equity and venture capital)	12.0% 15.0%	17.0% 7.0% - 20.0%	Higher returns than common stocks & diversification Higher returns than equities & diversification
Absolute Return	25.0%	20.0% - 30.0%	Low volatility & low correlation with equities Low volatility & moderate correlation with equities

cc: D. Brower, N. Carter, G. Klein, K. Lindahl