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Teacher Retirement System of Texas Board votes on changes to Strategic Asset Allocation
Changes call for a more balanced and efficient portfolio

AUSTIN, Texas—Teacher Retirement System of Texas (TRS) will increase long-term allocations to its current Stable Value strategy within its Asset Diversification Framework while concurrently raising allocations to its Private Markets portfolios, Risk Parity and Net Asset Allocation Leverage.

The System's Board of Trustees voted at its July 19th meeting to accept recommendations from the System's most recent Strategic Asset Allocation (SAA) Study.

"The newly-approved changes increase the probability of the System meeting its investment return assumption and provides a better balancing of the total Trust allocation," said **Board of Trustees' Investment Management Committee Chairman Joe Colonnetta.**

In line with TRS' Investment Policy, the System conducts an SAA Study every five years to examine the impact of changing market environments.

"Revising the Trust's asset allocation is important because it represents the risk-return strategy by which TRS diversifies its portfolio which includes investment vehicles such as stocks, bonds, hedge funds or real estate," said **TRS Executive Director Brian Guthrie.**

SAA – Three Themes

The 2019 SAA recommendations from the System's Investment Management Division comprised three themes: allocation change (illiquidity premia), becoming more efficient, and achieving more balance.

- **Allocation changes** include a one percent increase to each of three Private Market portfolios:

Portfolio	Current Allocation	New Allocation
Private Equity	13%	14%
Real Estate	14%	15%
Energy, Natural Resources and Infrastructure	5%	6%

- **Becoming more efficient** or, making each dollar work harder will be met by:
  - Changing the Directional Hedge Fund benchmark (*see backgrounder)
  - Changing Risk Parity Volatility to 12% (from 10%)
- **Achieving more balance** or, diversifying away from equity risk will be met by:
  - Increasing U.S. Treasuries 5%
  - Increasing Stable Value Hedge Funds 1% (to 5% of total Trust)
  - Introducing Net Asset Allocation Leverage of -4% (*see backgrounder)
  - Increasing Risk Parity by 3% (to 8% of total Trust)

Using Leverage

The SAA recommendations include increasing use of Net Asset Allocation Leverage which can further improve risk and return characteristics of the Trust (*see backgrounder).

"Leverage allows us to reduce our exposure to the stock market by adding to diversifying assets such as U.S. Treasuries without lowering our overall return expectation," said **Mohan Balachandran, Head of Multi-Asset Strategies.**

What's next?

At its September meeting, the TRS Board of Trustees' Policy Committee, is expected to propose a motion for the full Board to amend the System's Investment Policy Statement. Approval will initiate a phased-in period of up to six months for asset classes to transition to their new targets.
*For more detail, please see the associated backgrounder, entitled "Teacher Retirement System of Texas SAA Study."

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