E.3. Return Objectives & Risk Profile

A. Class Return Benchmarks

The ERS utilizes the target benchmark below to monitor the performance results of the Principal Protection class:

45% Bloomberg Barclays Capital Global Intermediate Aggregate ex-Credit Index (Hedged)
55% Bloomberg Barclays Capital U.S. Intermediate Aggregate ex-Credit Index

The Principal Protection class portfolio is expected to outperform the above blended benchmark, net of fees, over a full investment cycle. An appropriate measure of an investment cycle would be rolling 5-year periods. The Principal Protection class portfolio should outperform its benchmark, net of fees, over the majority of rolling 5-year periods.

B. Class Risk Profile

In aggregate, the Principal Protection class is the ERS's most stable investment class and is the class that should be the least sensitive to varying economic growth trends. Based on current capital market assumptions and the Principal Protection class's long-term structure, there is an extremely low probability that this class will lose any of its capital within the next five years. This absence of potential volatility is meant to complement the high volatility associated with the Broad Growth class. The key tradeoff is that the long-term expected return of the Principal Protection class is significantly lower than that of the Broad Growth class.

The ERS is expected to manage the Principal Protection class portfolios by taking active risk (tracking error) around the respective benchmarks discussed under Section E.3.A. above. Active risk within the broader class is the aggregation of several risks taken/accepted by Investment Staff and/or ERS's external investment managers as they implement the class's portfolios. Types of active risk include: security selection risk, sector/style bias risk, manager weighting risk, and benchmark misfit risk. The allowable active risk range for the aggregate Principal Protection class is 1.0% - 3.0%/year.