

Rebalancing Your Portfolio

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What is Asset Allocation?

Asset Allocation Is...

- The single most important investment choice.
- Setting target weights to asset classes.
- A discussion on how much risk to accept.
- A discussion on how much return to seek.
- Agreement on permissible “policy ranges”.

Example . . .

Asset Allocation Policy Target

	Target (%)	Ranges (%)
Public U.S. Equity	30	25% - 35%
Public International Equity	25	20% - 30%
Private Equity	5	2% - 8%
Investment Grade Bonds	20	15% - 25%
High Yield Bonds	5	2% - 8%
Emerging Market Debt	5	2% - 8%
Real Estate	10	7% - 13%
Total	100%	

What is Rebalancing?

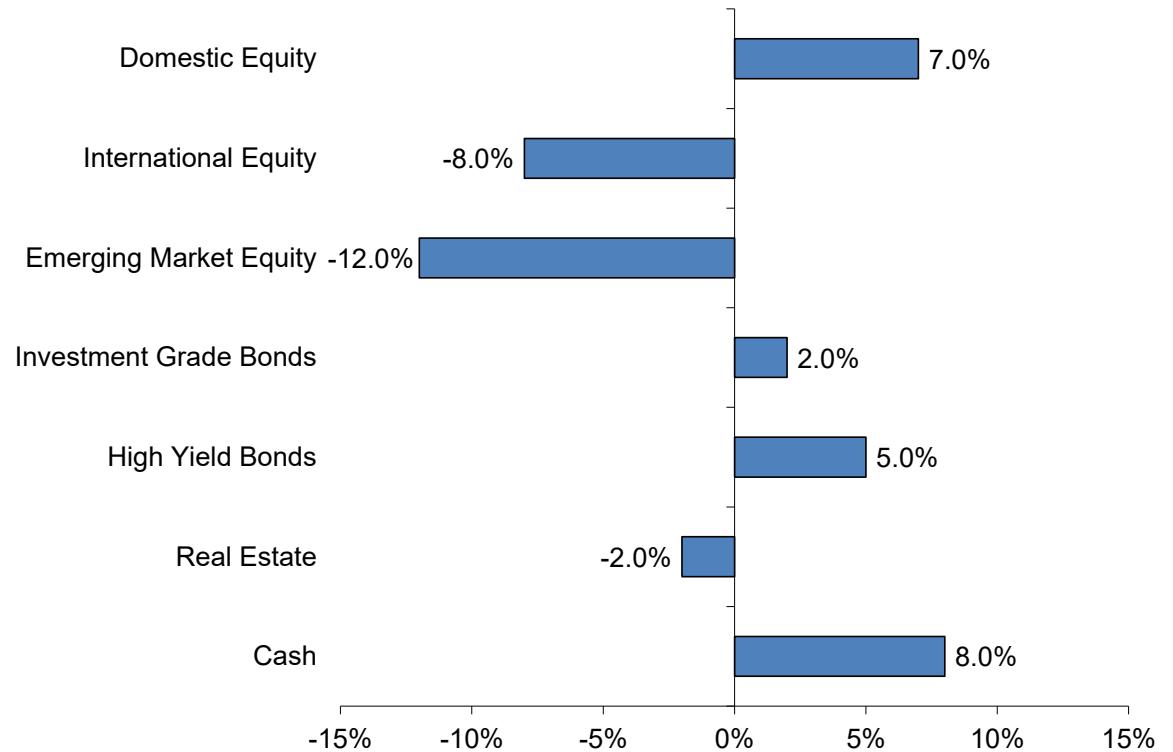
Rebalancing Is...

- Returning a portfolio back to its target allocation (or close to target) after a period of portfolio drift.
- Rebalancing is done in response to market movements.

Rebalancing Is...

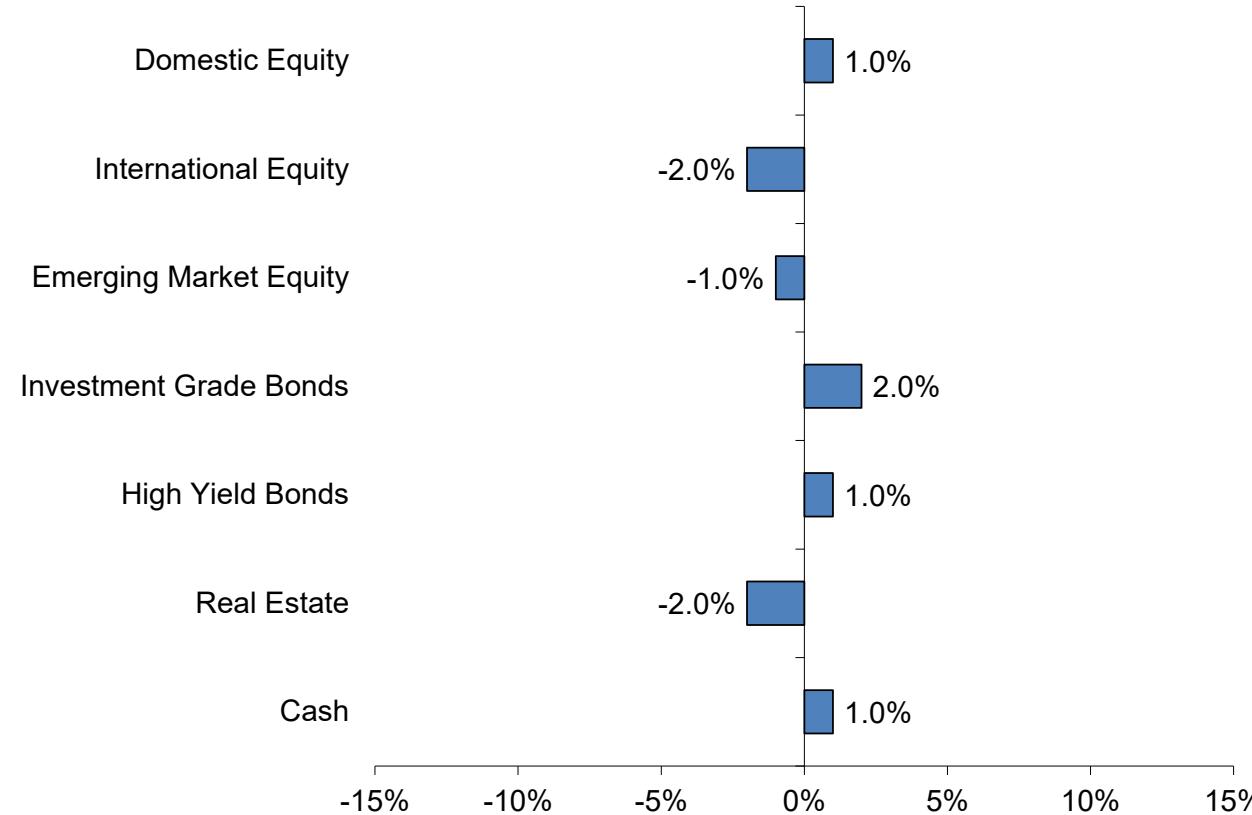
- Reducing overweight asset classes & adding to underweight asset classes.

Weight vs. Target Before Rebalancing



Rebalancing Is...

Weight vs. Target After Rebalancing



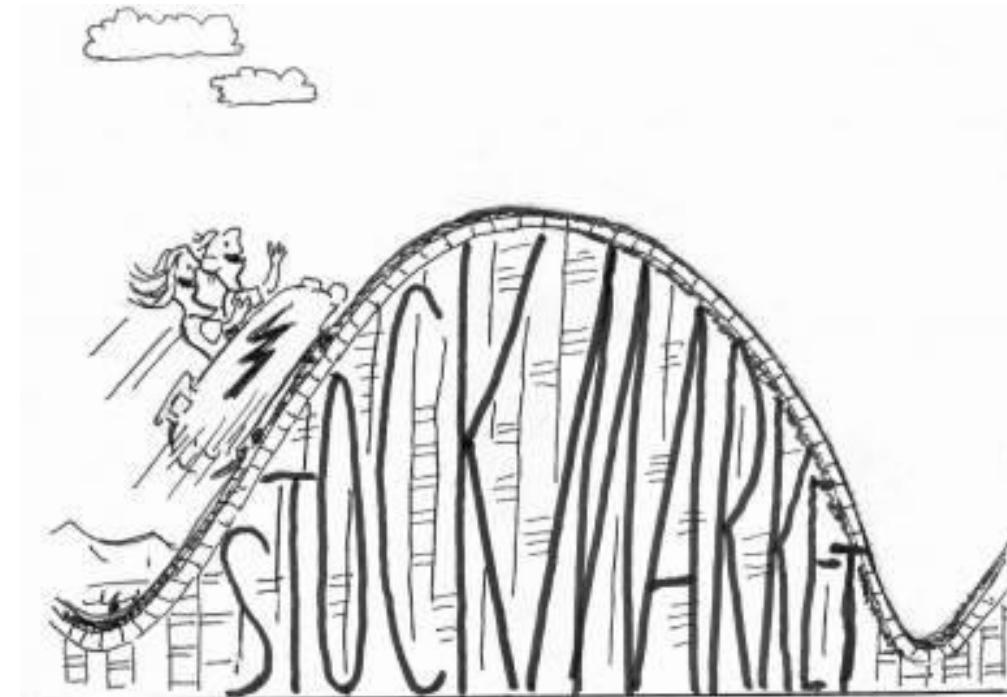
Why is Rebalancing Important?

Rebalance Because...

- Rebalancing seeks to control risk.
- Rebalancing helps trustees avoid taking unplanned risks.
- Rebalancing helps Trustees keep their pension plans asset mix closer to target.

Rebalance Because...

- Rebalancing helps reduce the chances of the roller coaster ride.



Rebalance Because...

- Trustees have a Fiduciary Responsibility to the plan participants.



- Don't gamble with your colleagues' retirement.

How Do You Do It?

Rebalancing Policy

- Provide details in your IPS.
- There are different types of Rebalancing:
 - Calendar Rebalancing,
 - Range Rebalancing,
 - Combination,
 - Tactical.

Calendar Rebalancing

- Monthly
- Quarterly
- Annually

Range Rebalancing

Allocation vs. Targets and Policy					
	Current Balance	Current Allocation	Policy	Policy Range	Within IPS Range?
US Equity	\$138,649,172	22.8%	24.0%	17.0% - 31.0%	Yes
Developed Market Equity	\$68,895,357	11.3%	12.0%	7.0% - 17.0%	Yes
Emerging Market Equity	\$40,745,063	6.7%	10.0%	5.0% - 15.0%	Yes
Frontier Market Equity	\$10,297,426	1.7%	2.0%	1.0% - 3.0%	Yes
Investment Grade Bonds	\$69,898,326	11.5%	10.0%	5.0% - 20.0%	Yes
TIPS	\$38,728,689	6.4%	5.0%	3.0% - 7.0%	Yes
Emerging Markets Bonds (local)	\$21,208,343	3.5%	4.0%	2.0% - 6.0%	Yes
Emerging Markets Bonds (major)	\$24,247,121	4.0%	2.0%	1.0% - 3.0%	No
High Yield Bonds	\$45,441,727	7.5%	4.0%	2.0% - 6.0%	No
Bank Loans	\$16,542,362	2.7%	2.0%	1.0% - 3.0%	Yes

- Rebalance once assets have moved outside an acceptable range.

Combination Rebalancing

- Exactly what it sounds like.
- Combination of the calendar rebalancing and range rebalancing.

Tactical Rebalancing

- Don't do it!
- Trying to time the market.
- Challenging.
- Potential to get whipsawed.

Implementation

- Rebalancing costs money (most directly in the form of trade costs).
- Minimize costs by using ordinary cash flows.
- Money coming into the plan? If so, add to underweight asset classes.
- Index funds are often easy to trade.

Conclusions

Remember...

- **Set** asset allocation, **rebalance** back to target.
- Rebalancing is designed to control risk. Not enhance returns.
- Use ordinary cash flows to reduce trading costs.
- Common types = calendar rebalancing, range rebalancing, or a combination of both.

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Questions?

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