

# LESSONS FROM THE US ENDOWMENT MODEL

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# LONG-TERM INVESTMENT GOALS

- 1 **Investment Approach:** Focus on preservation of capital and prudent growth
- 2 **Payout Uses:** Scholarships, professorships, student support
- 3 **Target Returns:** Annual payout plus educational inflation

## ENDOWMENT RETURN TARGETS:

$$\begin{array}{ccc} \begin{array}{c} \text{Annual Payout} \\ \sim 5\% \end{array} & + & \begin{array}{c} \text{HEPI}^{(1)} \\ \sim 3\% \end{array} & = & \begin{array}{c} \text{Minimum Target} \\ \sim 8\% \end{array} \end{array}$$

(1) Higher Education Price Index (HEPI) is an inflation index designed specifically to track the main cost drivers in higher education

# INVESTMENT ADVANTAGES

## Long Time Horizon

- Capitalize on the power of compounding and illiquidity premium
- Provide capital to opportunities when markets are constrained

## Allocation Model

- Allocation to diverse asset classes creates all weather portfolio
- Flexible portfolio construction

## View of Risk

- Accept higher short-term volatility / uncertainty...
- For potential long-term excess returns

## Embracing Complexity

- Complexity reduces competition
- Capture complexity premium

## Partnership

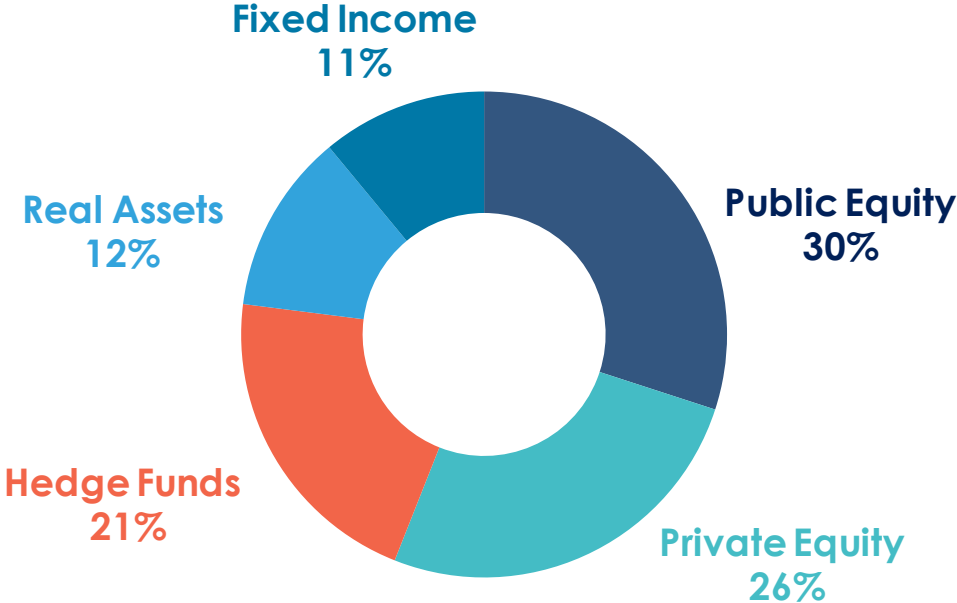
- Partner with underlying managers
- Provide seed capital to strategies / managers for better economics

# ALTERNATIVES ALLOCATION

## LARGE ENDOWMENTS HAVE A HIGH ALLOCATION TO ALTERNATIVES

### Endowments > \$1 Billion<sup>(1)</sup>

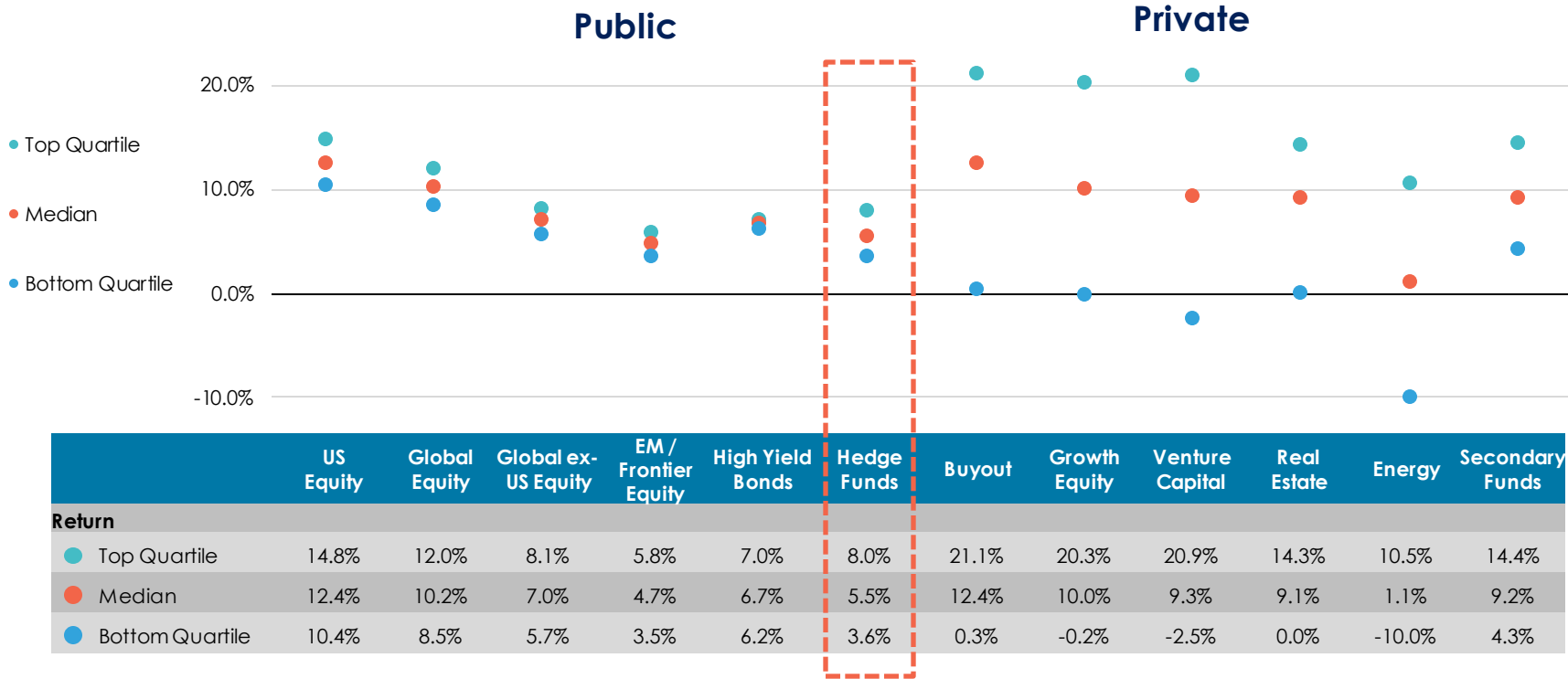
**59%**  
allocation to Alternatives



(1) Source: NACUBO, as of June 30, 2020.

# RETURN DISPERSION

## 10-YEAR ASSET CLASS RETURN DISPERSION<sup>(1)</sup>



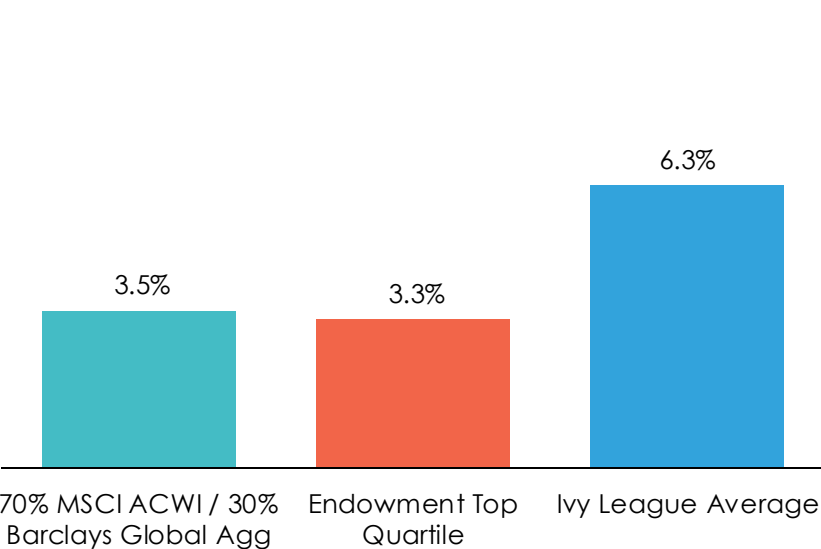
Source: Cambridge Associates. Public data as of June 30, 2020; private data preliminary as of June 30, 2020. **Past performance is not indicative of future results.**

(1) Returns shown for private asset classes are IRRs, while public asset classes show compound annual returns.

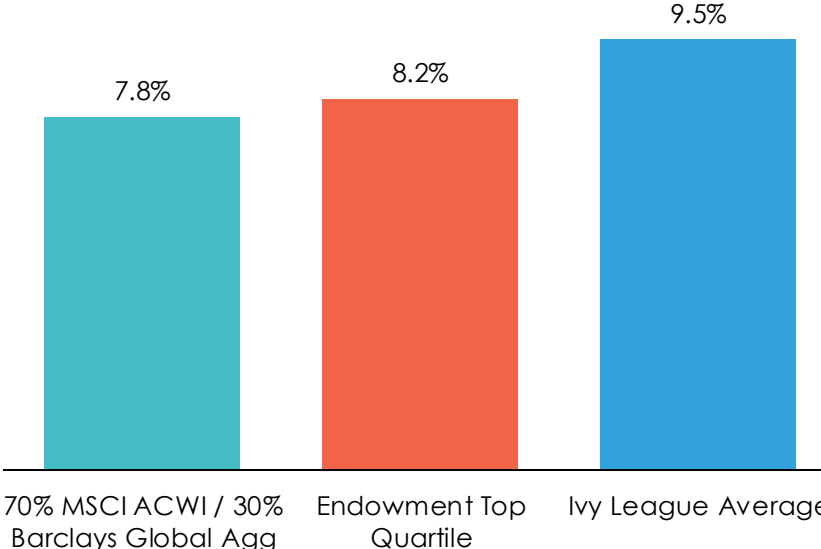
# TOP ENDOWMENT RETURNS

## OUTPERFORMANCE VS. TRADITIONAL PASSIVE PORTFOLIOS

1-Year Annualized Return



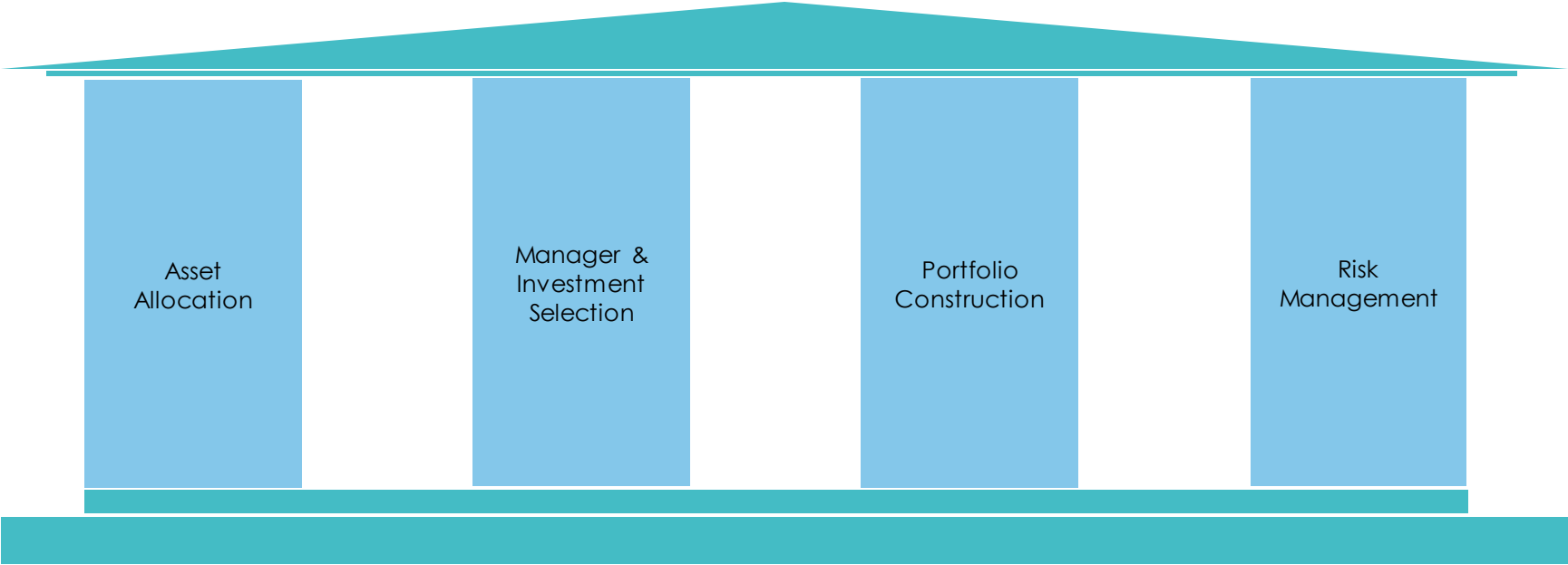
10-Year Annualized Return



Source: NACUBO, as of June 2020. **Past performance is not indicative of future results.**

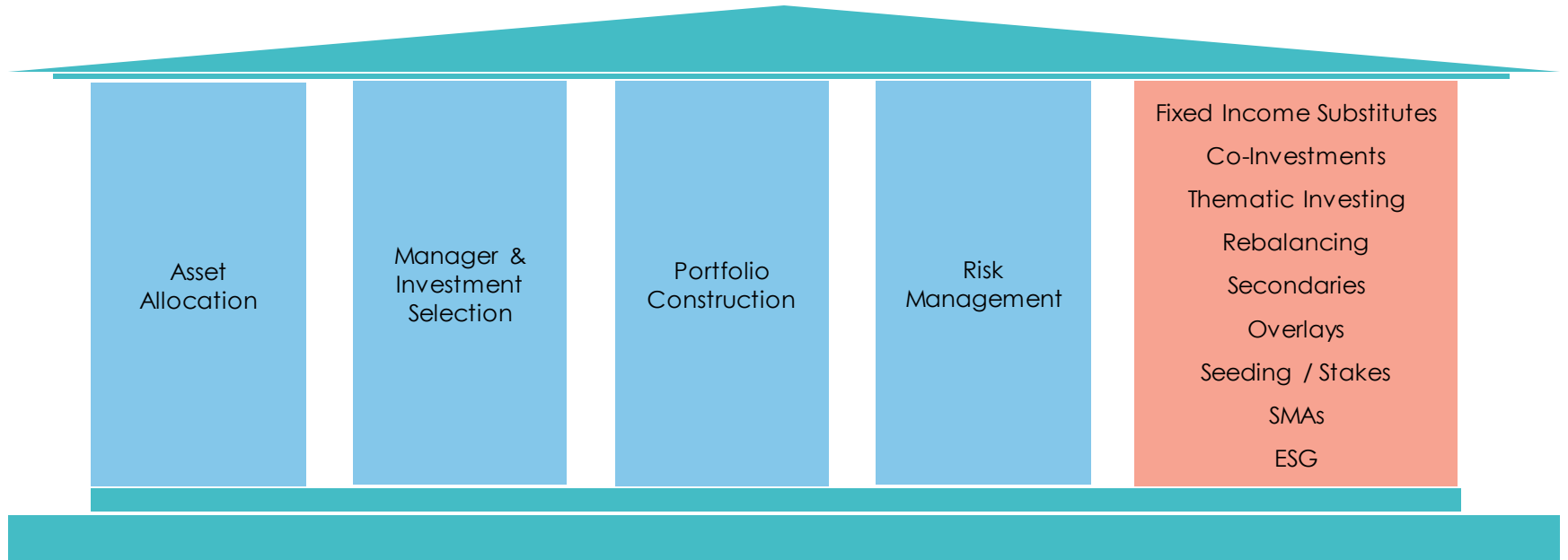
# PORTFOLIO MANAGEMENT

## FOUR CORE PILLARS OF ENDOWMENT PORTFOLIO MANAGEMENT



# PORTFOLIO MANAGEMENT 2.0

FIFTH PILLAR SEEKS TO ENHANCE RISK-ADJUSTED EXPECTED RETURNS





# STRATEGIC PARTNERSHIPS

## CREATE DEEP RELATIONSHIPS WITH MANAGERS

**LP Commitments** • Long-term, strategic partnerships with high-performing managers

**Co-Investments** • Knowledge share and high-conviction co-investment opportunities

**GP Economics** • Alignment of interests through revenue shares and minority equity stakes

# ENDOWMENT INVESTMENT PRINCIPLES



Seek to maximize compounding by maintaining a long-term investment horizon



Balance risk mitigation and growth objectives



Focus on differentiated manager selection across asset classes



Robust portfolio construction



Partner with managers who are passionate about investing and aligned



Utilize 5th pillar toolbox

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