

# THE UNIVERSITY OF TEXAS

## *Introduction to Cambridge Associates*

- Founded in the 1970's by a consortium of six colleges and universities to provide independent investment research and advice
- Recognized leader in providing independent investment advice to endowed non-profit organizations
- Today: Over 600 clients, 557 employees, 5 offices
  - approximately \$800 billion under advisement
  - 174 investment professionals of the consulting staff
  - 79 dedicated research professionals
  - 45 of 50 Largest college and university endowments are clients

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## *Review of UTIMCO Goals and Objectives*

- Preserve or enhance the purchasing power of the funds so as to provide an equal or greater level of future support for UT system programs
- Legal mandate to preserve purchasing power of the PUF over rolling ten-year periods
- Long-term investment objective of 5.5% real (inflation adjusted) in line with objectives of peer institutions.

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## *Asset Allocation: Over Time, Less Reliance on Domestic Equities And Broader Diversification*

	<u>March, 1996</u>		<u>December 1998</u>		<u>July 2002</u>	
	Start	Finish	Start	Finish	Start	Finish
U.S. Equity (Long Only)	54%	35%	45%	32.5%	32.5%	21%
# Asset Classes	7		10		13	

Allocation to domestic equities peaked at 58% of the LTF in June of 1998. By the start of the bear market in March of 2000, that allocation had been reduced to 34%.

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## *Expectations for the future*

### *Near-term (next 5 years)*

- Era of diminished expectations
- Meeting goal of 5.5% real will be a challenge
- The importance of Opportunistic or Tactical moves

### *Long-term (next 30-40 years)*

- Owners make more than lenders
- More diversification better than less
- Increased market efficiency

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## *What if we're wrong?*

Ability to forecast market conditions over multiple year periods difficult

- Assessing alternative arguments and viewpoints is critical
- Importance of a more nuanced view of risk which includes shortfall analysis, risk of permanent loss, and benchmark risk as well as the traditional metric of volatility
- Create an asset allocation that is flexible enough to be adapted to changing conditions while steering a steady course

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## *Creating the Flexible Asset Allocation Framework*

- Rich mix of assets to provide greatest possible opportunity set
- Avoid building “single scenario” portfolios
- Allow opportunistic moves to profit from short-term market dislocations

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## *What does it mean to be more opportunistic?*

- Acknowledge that it is a more complex world than just stocks, bonds, and bills
- Exploit the value that can be added from manager selection and allocation to inefficient markets
- Search for outperformance in less efficient markets and strategies, and rely on passive or structured exposures in the more efficient asset classes.
- Know the strengths of the institution and play to those strengths

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How can you be opportunistic and not lose sight of long-term goals?

- Be clear about the functional roles of managers and asset classes
  - Assets that serve to reduce risks in the portfolio
    - Deflation protection (high quality bonds)
    - Protection against unexpected inflation spikes (energy, real estate, TIPS)
    - Portfolio stabilizers (absolute return)
  - Assets that drive returns
    - Assessment of where value can be added by active management
    - Use of innovative structures to implement equity exposures
    - Rich asset mix
- Amount of portfolio allocated to “Drivers of Return” should be fairly constant over time. Allocations to asset classes within that category can be more dynamic, although subject to ranges around the long-term targets