

# LIQUID ENDOWMENT MODEL

## STOCK/FUND SELECTION PROCESS

The Liquid Endowment Model seeks to approximate the investment strategies and asset allocation policies of traditional endowment funds through the use of liquid securities in the traditional and alternative asset classes.

### STRATEGIC ASSET ALLOCATION

- Assess Return and Risk potential for each asset class (US equities, Int'l developed, Int'l EM, Real Estate, Private Equity, Absolute Return, Commodities, Fixed Income) and correlations between asset classes
- Macro risks, valuation, liquidity, business cycle, economic indicators
- Develop strategic asset allocation (target weights for each asset class) at least annually

### TACTICAL ASSET ALLOCATION

- Tactically shift exposure from strategic asset allocation to take advantage of shorter-term dislocations or reduce risk on an ongoing basis

### BOTTOM UP SECURITY SELECTION

- Determine investable universe for each asset class, filtering out stocks with market caps below \$250M and funds with limited track records and/or AUM below \$100M (~225 Real Estate Stocks, ~150 Absolute Return MFs/ETFs, ~5 Liquid Private Equity MFs/ETFs, ~750 Equity Commodity Stocks, ~30 country/theme specific Dev Mkts ETFs, ~40 country/theme specific EM ETFs, ~100 Fixed Income ETFs, ~4,000 US equities and ADRs).
  - For stocks, utilize screens to narrow universe.
    - Assign grades through quantitative models incorporating Economic Margin, Relative Valuation, Earnings Quality, Management Quality, Economic Margin Momentum, Price momentum.
    - Focus on top quintile – positions then selected through bottom up research with ongoing monitoring
  - For funds, utilize screens to narrow focus on area of interest
    - Analyze track records, performance attribution, correlations
    - Portfolio look-through analysis, due diligence and ongoing monitoring.

### PORTFOLIO TENDENCIES

<b>US EQUITIES: 15-30%</b>	<b>PRIVATE EQUITY*: 10-30%</b>
<b>INT'L DM EQUITIES: 5- 15%</b>	<b>ABSOLUTE RETURN: 10-30%</b>
<b>INT'L EM EQUITIES: 5- 15%</b>	<b>COMMODITIES (EQUITY COMMODITY STRATEGY): 5- 15%</b>
<b>REAL ESTATE SECTOR: 5- 15%</b>	<b>FIXED INCOME: 10-20%</b>

\*Private Equity illustrates positions in publicly traded private equity companies and a levered portfolio of public US growth stocks seeking to provide return/risk characteristics similar to venture capital?

### POSITION SIZES

<b>SINGLE NAME EQUITY: 1 – 5%</b>	<b>FOREIGN COUNTRY SPECIFIC FUNDS: 1 – 5%</b>
<b>DIVERSIFIED* FUND: 5 – 15%</b>	<b>~35 PORTFOLIO HOLDINGS</b>

