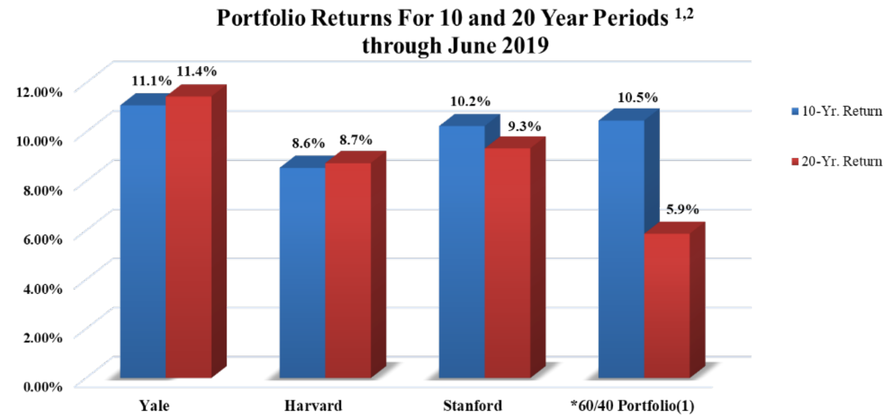
The Endowment Model Portfolio Strategy

Wildermuth ADVISORY

Endowment Performance

College endowments such as Yale, Harvard and Stanford enjoyed excellent investment success from July 1998 – June 2019.

In contrast, a large percentage of traditional investment strategies using only U.S. Stocks and Bonds produced smaller gains.



*60/40 portfolio rebalanced annually

Key Endowment Model Strategy Goal:

Increase portfolio performance while, lowering portfolio volatility

Key Portfolio Changes

Diversify performance assets (assets expected to provide strong, long-term returns) away from solely U.S. stocks into low (or lower) correlation[3] performance-oriented assets such as:

1. Foreign developed market stocks
2. Emerging market stocks
3. Real assets such as real estate, commodities, and energy related holdings
4. Private equity (holdings in private companies that do not trade on the public markets)
5. Absolute return investments such as managed futures and hedge funds that seek to earn returns less correlated to the stock market
6. Other low correlation assets such as debt instruments with yields linked to interest rates.

Minimize bond holdings with low return expectations and unfavorable inflation exposure.

1. Reduce traditional bond holdings.
2. Diversify remaining holdings Internationally in an attempt to increase yield, raise total return, provide currency diversification, and lower inflation risk

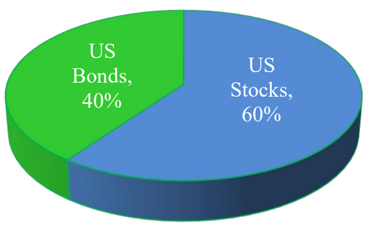
Incorporate assets with limited liquidity that may provide higher performance and lower volatility for a given level of risk.

1) The Yale Endowment Report for years 1998-2019, Harvard University Financial Report for years 1998-2019, The Stanford Management Company Report for years 1998-2019, press releases for Yale and Harvard for June 2019 data. (Endowments measure returns from July 1st through June 30.)
2) U.S. stocks refer to the S&P500. All data used was supplied directly by Standard and Poor. Bonds returns are calculated from the Barclays Capital U.S. Aggregate Bond Index, and all bond data was supplied by Barclays Capital.
3) Correlation is a statistical measure of how two securities move in relation to each other.

Hypothetical Portfolio Designs

Traditional Investor Portfolio:

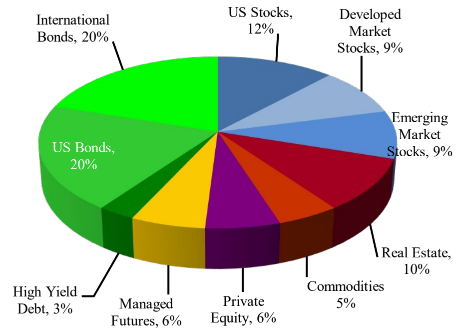
60% US Stock, 40% US Bond



Traditional 60% stock and 40% bond portfolio commonly employed by many investors.

Performance Assets Diversified, 40% Diversified Bonds Retained:

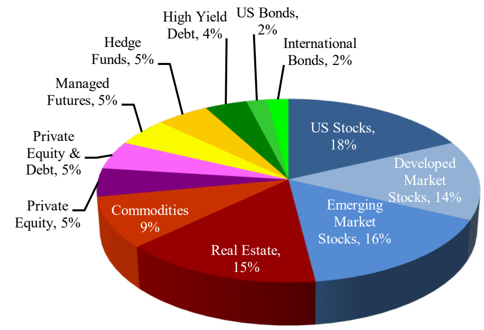
Seeks to Reduce Volatility and Improve Portfolio Performance



This portfolio seeks to improve performance through diversifying performance-oriented assets and fixed income positions. Total bond holdings are left at the same level.

Portfolio More Similar to an Endowment:

Seeks to Improve Performance While Lowering Volatility



The portfolio seeks to emulate the general investment strategy widely employed by endowments and institutions. Diversified performance-oriented assets comprise a much greater percentage of the portfolio.

Potential Improvements: Including low (or lower) correlated performance assets can decrease portfolio volatility, improve performance potential and provide more inflation protection. The bond portfolio can be diversified lessening exposure to low U.S. rates.

Potential Risks: Alternative investments may be illiquid, are not suitable for all investors, and may require larger minimum investment. Investments in foreign markets entail special risks such as currency, political, economic, and market risks. All investments can create adverse tax consequences. All investments create the risk of loss.

Customizing: Your needs, resources, risk tolerance, and experience will differ from Endowments and Institutions. You must construct and manage your portfolio to serve your specific situation.