

University Endowment Fund Discussion

Presentation to Expert Committee

June 15, 2021

HHMI Background and Endowment Purpose

Mission: Promote knowledge in basic sciences for the benefit of mankind

- Support over 250 Investigators and their scientific labs
- Support science education through grants for students and faculty and the production of science-related films
- Support interdisciplinary research at Janelia Research Campus
- Over 2,200 employees
- Over \$700 million spending on research and grants in 2020
- Endowment assets over \$25 billion; sole source of income

Endowment Governance and Investment Office

- **Board of Trustees**

- Asset allocation policy, benchmarks, investment authority

- **Finance Committee and Investment Advisory Committee**

- Endowment oversight
- Quarterly economic and investment-related discussion
- Manager and strategy approval

- **Investment Department**

- Tactical investment decisions
- Manager and strategy selection
- Operations and due diligence
- \approx 15 investment professionals, \approx 15 operations professionals

Desired Spending Target

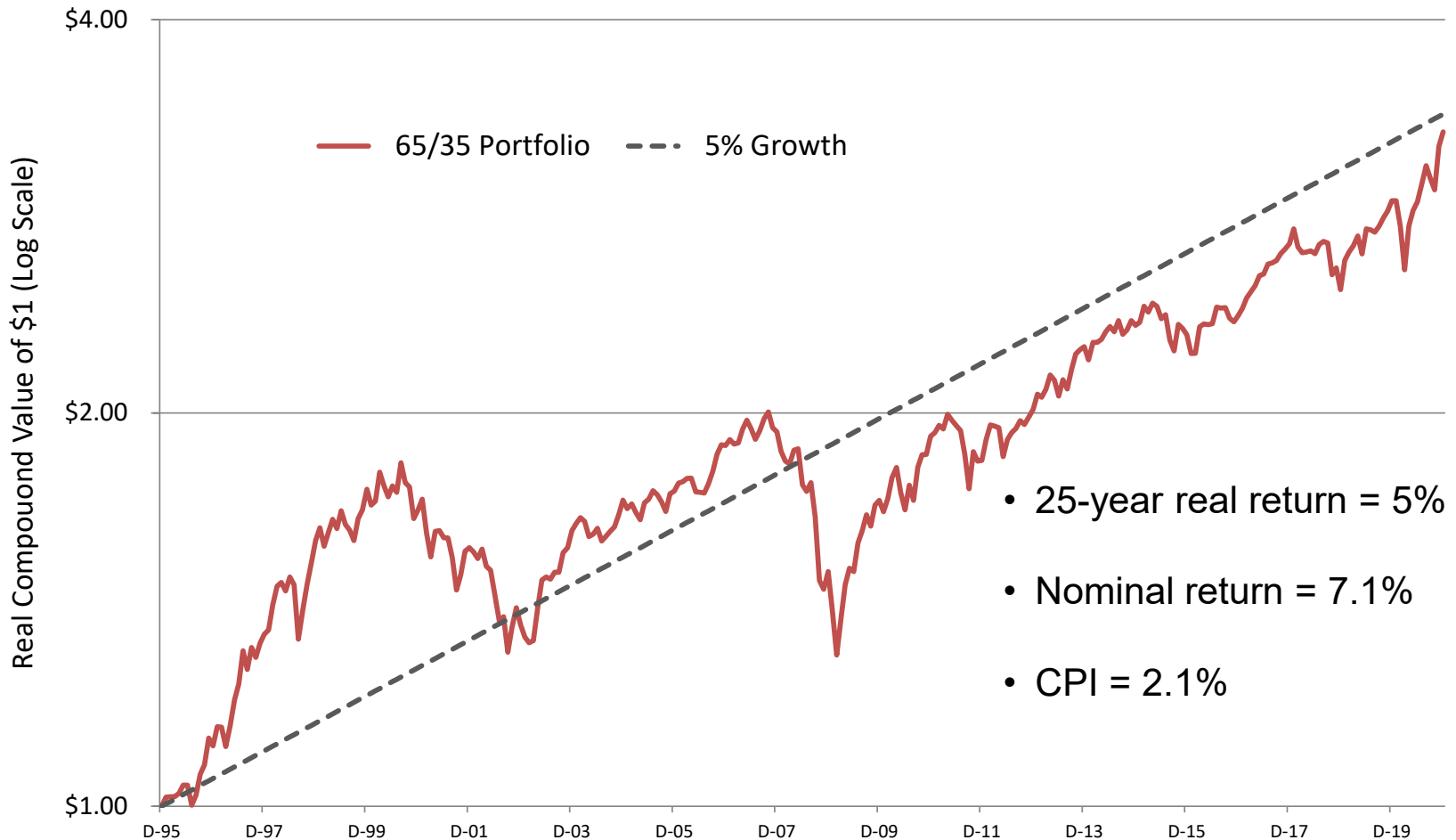
- HHMI is a nonprofit Medical Research Organization “MRO”
 - 3.5% annual required spending under US tax law
 - Must qualify as an MRO-eligible expense
 - Spending in direct support of scientific research
- 5% long-term total spending target
 - Includes educational grants, movie-making
- Budget-based spending governed by MRO requirement
 - No mechanical payout rule

Questions that Determine Policy Allocation

1. What mix of public stock and bond indices produces the long-term spending target?
2. What is the risk of that portfolio?
3. How can we maximize portfolio returns without exceeding that risk level?

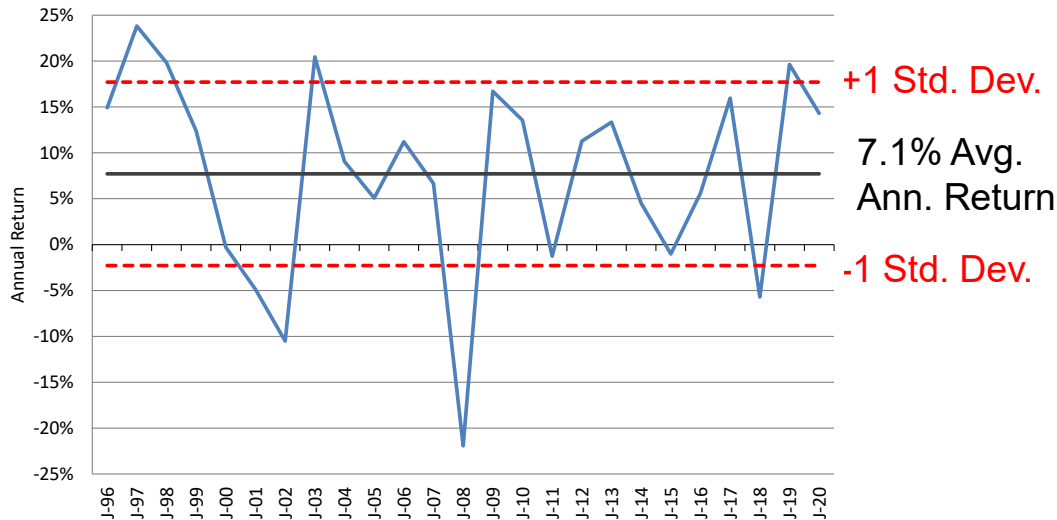
Q1. What Stock/Bond Mix Produces the Long-Term Spending Target?

65/35 Stock/Bond index Portfolio Real Return



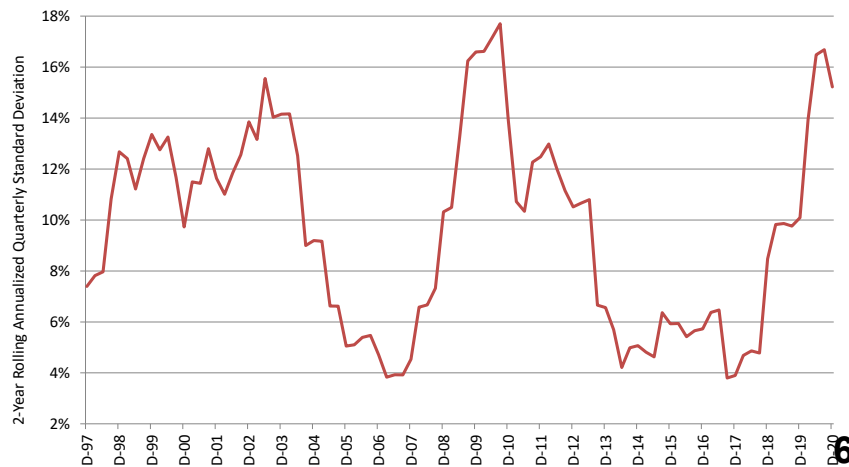
Q2. What Is the Risk of a 65/35 Portfolio?

Annual 65/35 Stock/Bond Nominal Return



- 25-Year annual standard deviation $\approx 10\%$

2-Year Rolling Quarterly Std. Deviation



- 2-Year quarterly standard deviation can be much higher or lower depending on market conditions

Q3. How Can We Maximize Returns Without Exceeding 65/35 Risk Level?

Increase allocation to assets that produce equity risk premium over bonds

Reasons to allocate capital to strategies other than stocks:

- (1) earn a higher return per unit of risk
- (2) derive a high proportion of uncorrelated returns

Asset Group Performance Expectations

<u>Asset Group</u>	<u>Long-Term Return & Risk Expectations</u>
High Risk/Return Assets	ACWI + 5%, 1.5x Volatility
Global Developed Equity	ACWI, 1.0x Volatility
Diversifying Assets	ACWI, 0.5x Volatility
Bonds	Intermediate Treasuries


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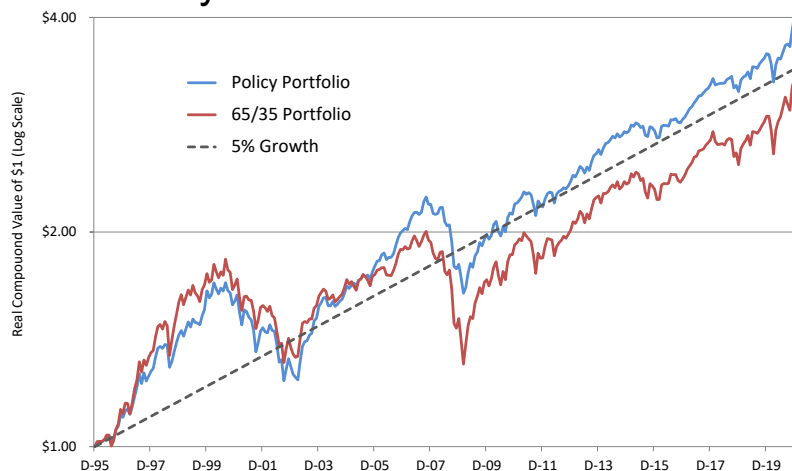
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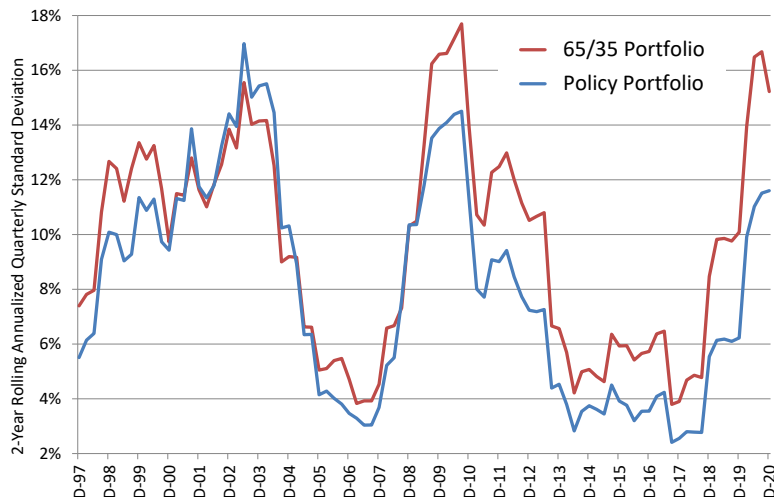
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Policy & 65/35 Portfolio Real Return



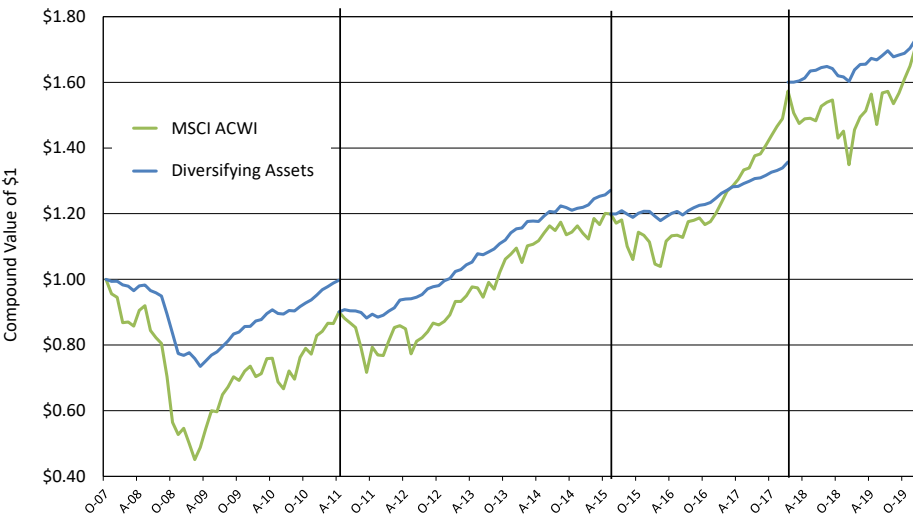
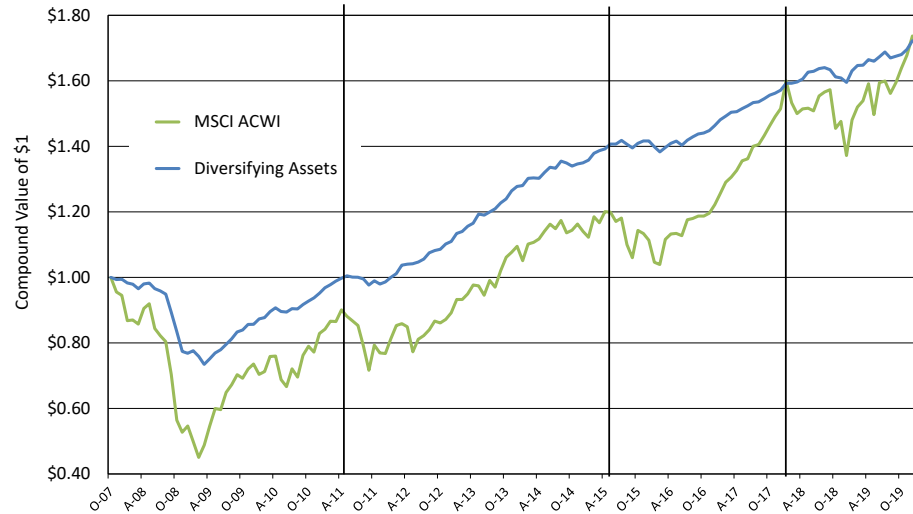
- Policy portfolio:**
- risk similar to 65/35
 - higher return expectation

Policy & 65/35 Portfolio 2-Yr Std. Dev.



<u>Asset Group</u>	<u>Allocation</u>
High Risk/Return	20%
Global Equity	30
Diversifying Assets	35
Bonds (+cash)	15
Equity + Equity-Like Assets	85

What Are Diversifying Assets?



Credit Strategies

- High yield credit
- Long / short credit
- Bankruptcies & distressed assets

Hedged Equity Strategies

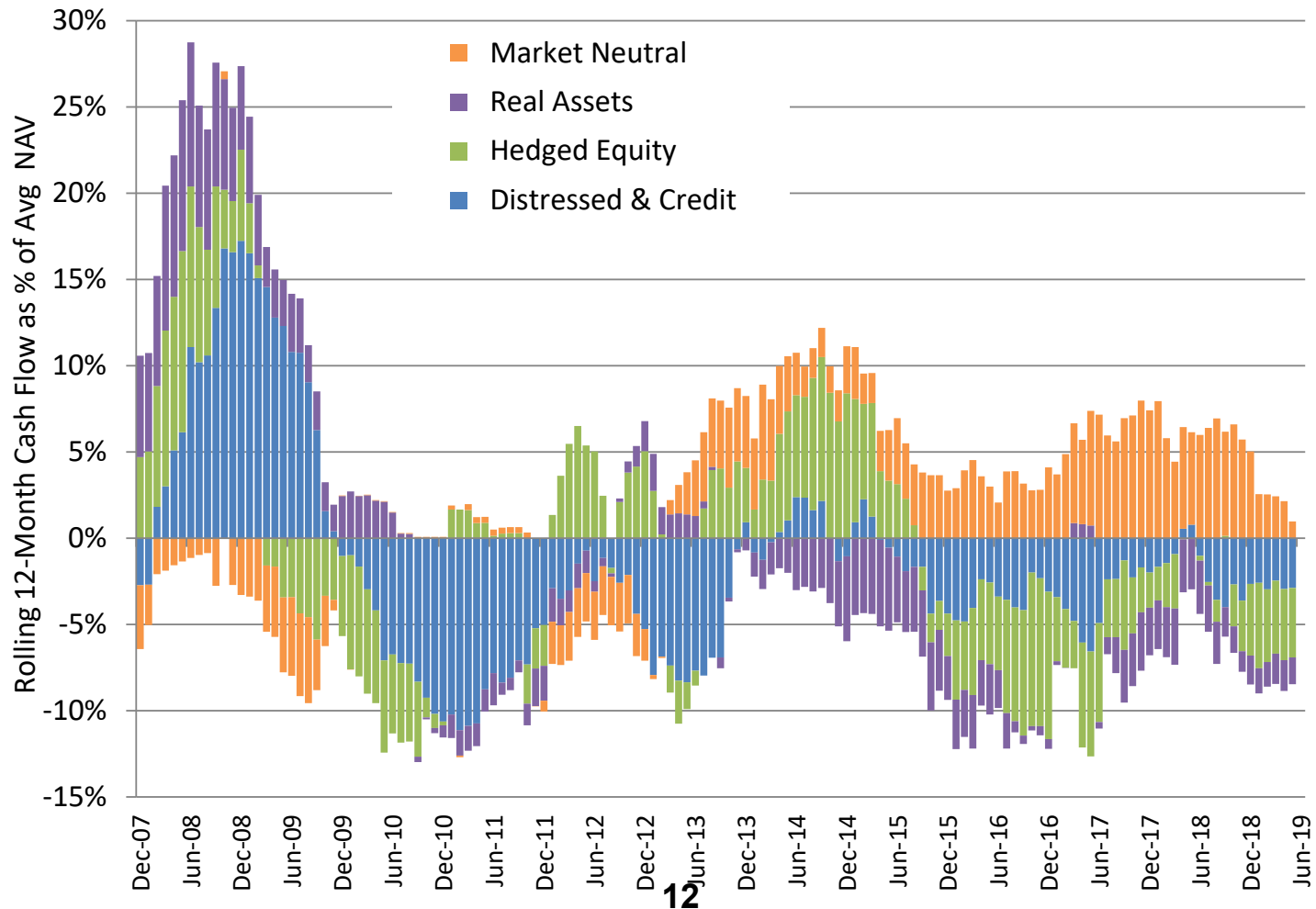
- Long / short equities
- Event-driven multi-strategy
- Relative value multi-strategy
- Market neutral arbitrage

Real Asset Strategies

- Real estate
- Power and utilities
- Energy reserves
- Commodities
- Infrastructure

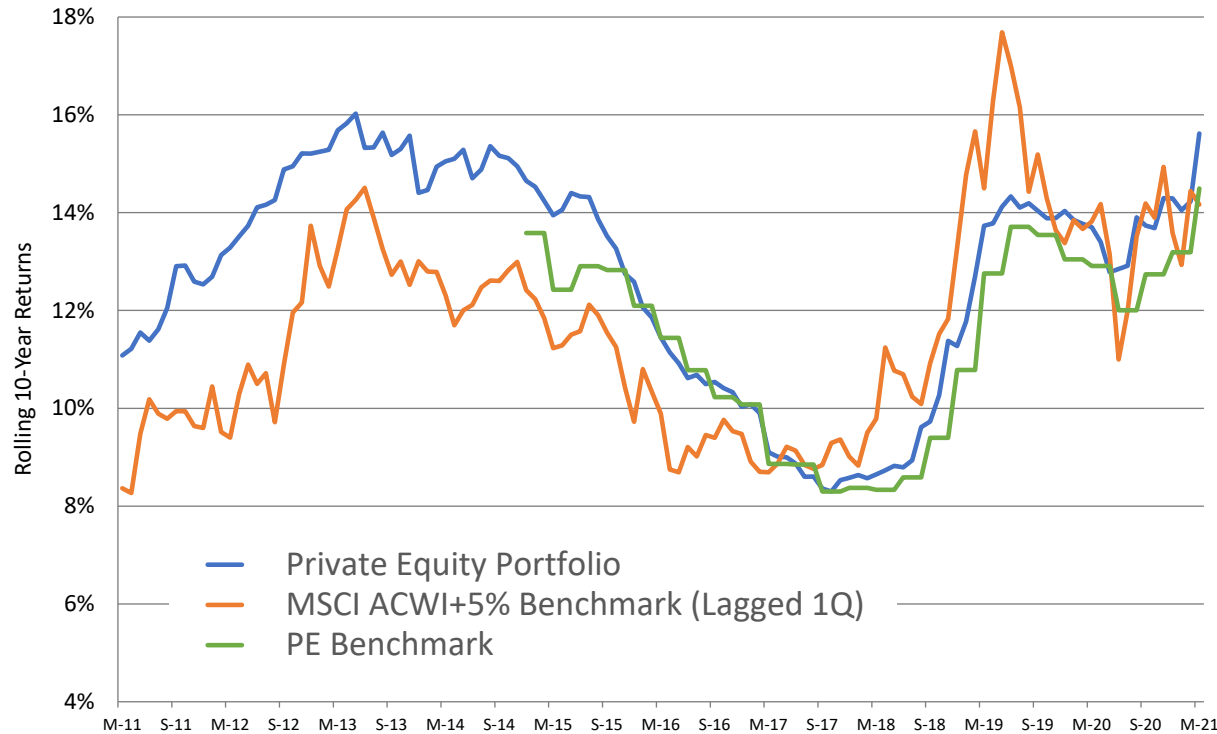
Allocation to Diversifying Asset Strategies

Tactical Strategy Allocations



Undisclosed

What Are High Risk/Return Assets?



Leveraged Buyouts

Venture Capital

Energy

Real Estate

Bio Tech

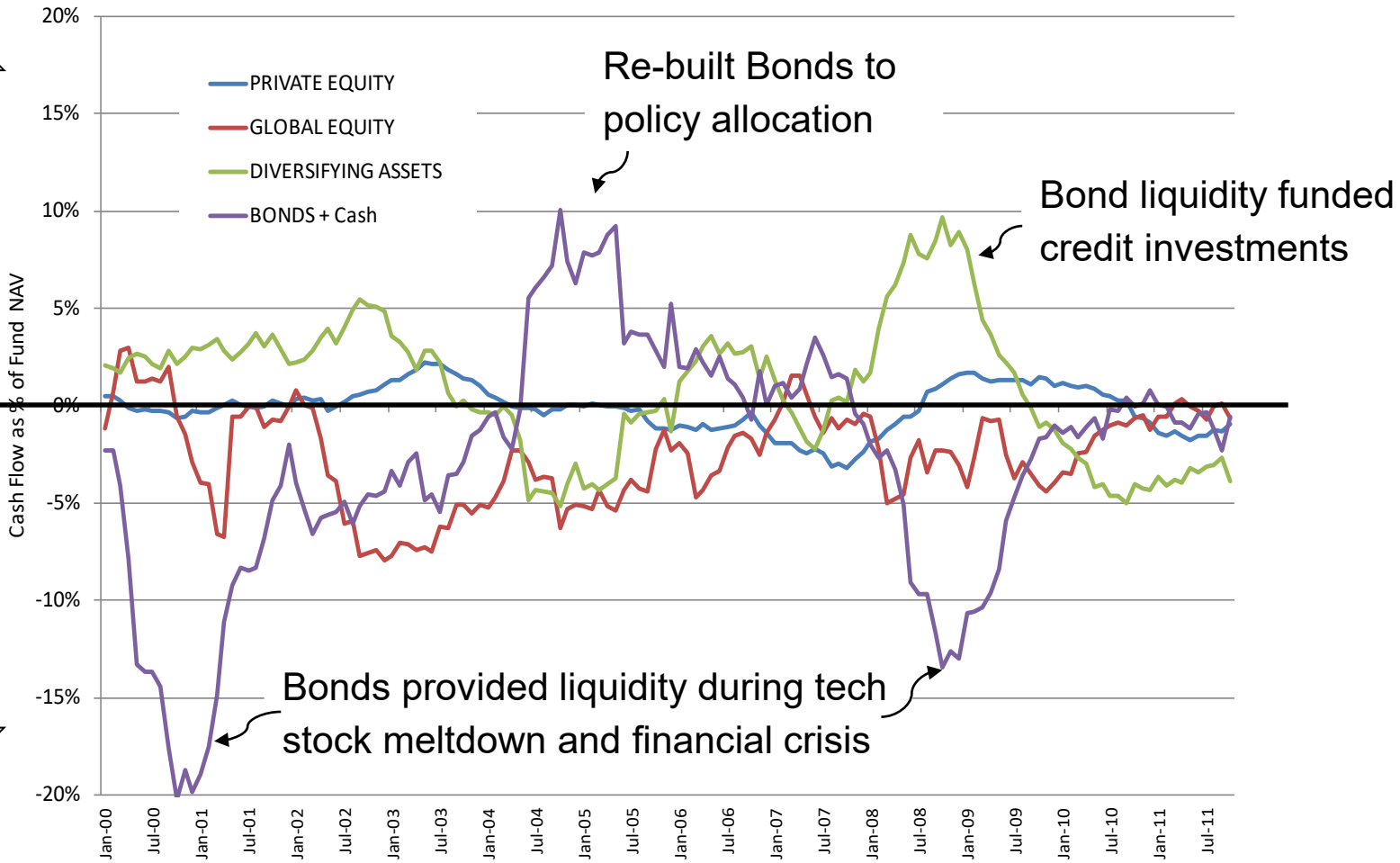
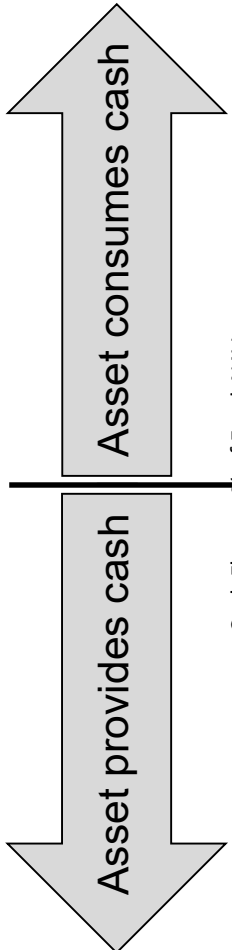
Sources of Liquidity

Endowment Is Sole Source of Income

- Bond portfolio – US Treasuries only
- Other bond-like strategies
- Short-term borrowing via Repo market
- Private equity net distributions

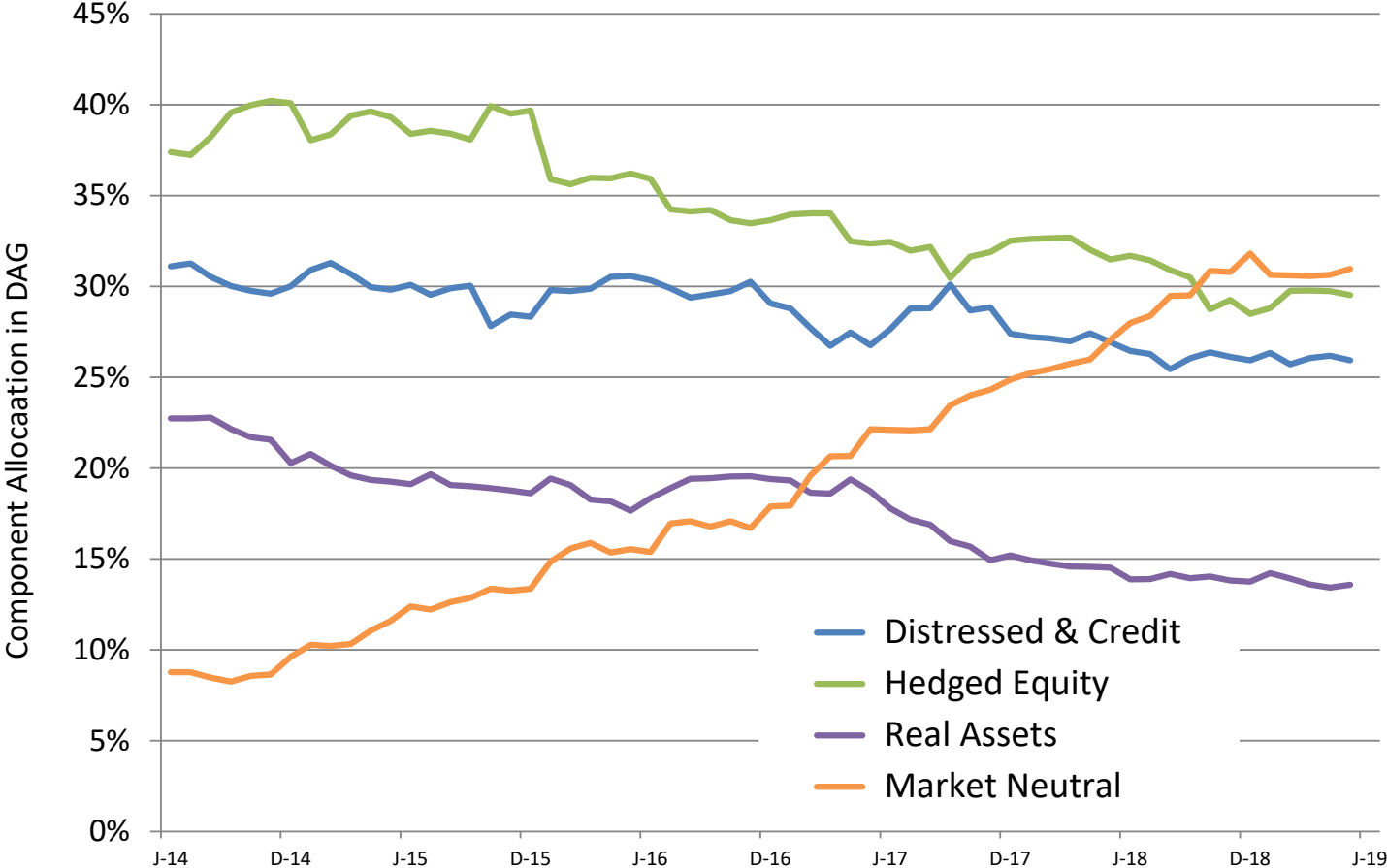
Bonds (UST) Provide Liquidity During Crisis

Rolling 12-Month Net Cash Flow



Market Neutral Strategies as Bond Substitute

Diversifying Assets Strategy Allocation



2020 Liquidity Strategy Example

Three related liquidity and investment goals:

1. Increase liquidity to meet spending and capital needs
2. Rebalance risk assets to policy
3. Opportunistically deploy capital into attractive investments

Undisclosed

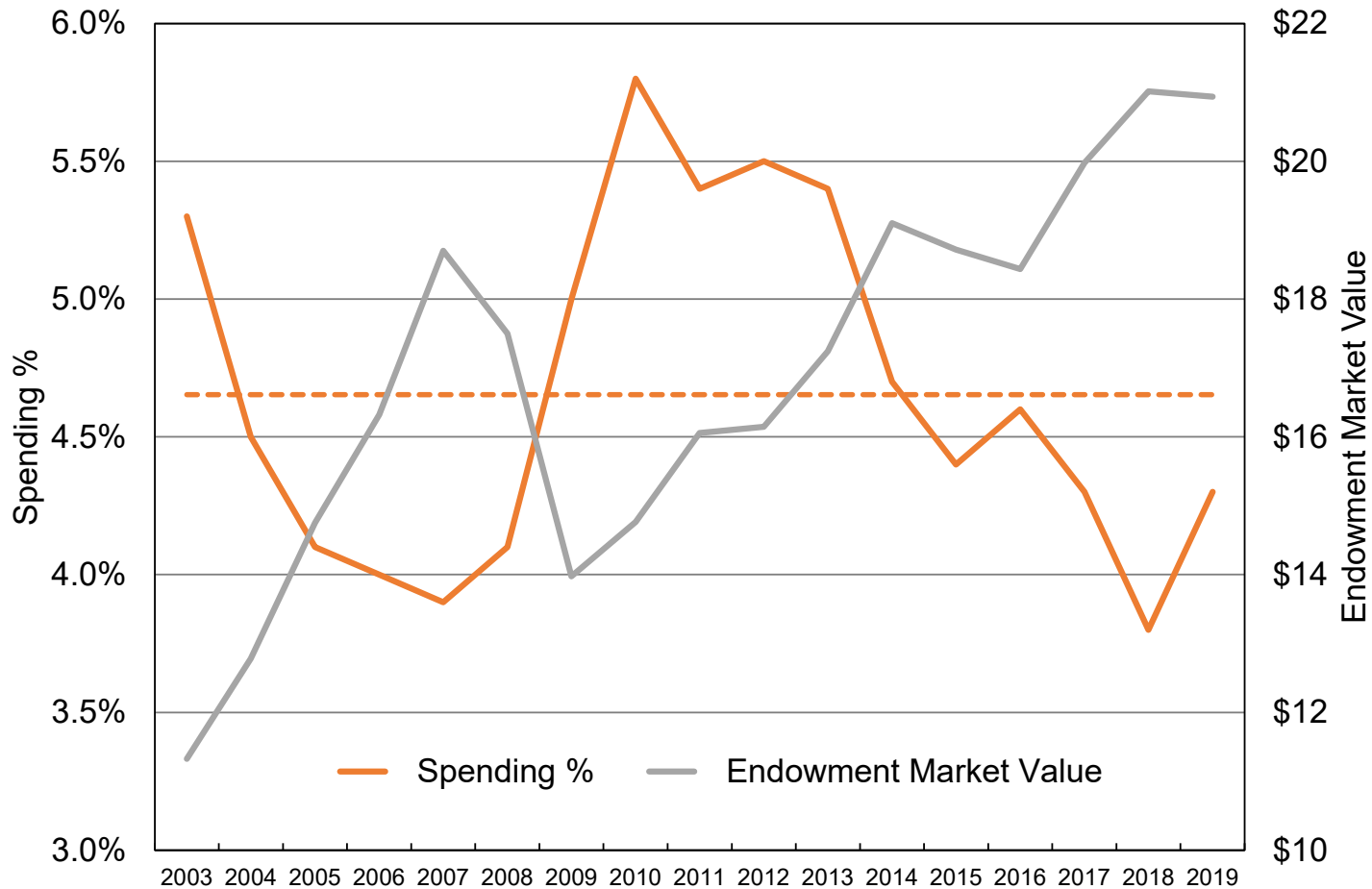
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Spending and Endowment Market Value Are Counter-Cyclic

But ideally, spending is managed



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