Quarterly Summary

The Endowment Pool had a positive first quarter (ending March 31, 2014) returning 1.2% for the period. Global equities slowed from their aggressive march upward at the end of 2013 due to a fear of a slowdown in China, sluggish economic data, and unrest in the Ukraine. Japan turned negative during the quarter as its economy slowed from estimates and consumer confidence fell ahead of its consumption tax increase. US equity markets rose 1.8% after having the worst month in two years (January) as cold weather and China worries weighed on the benign domestic environment. As worries of weakening Chinese economic data contributed to a flight to quality, domestic bond prices increased during January-February but lagged in March. European equities rose for the third consecutive quarter as GDP picked up; Italy’s consumer confidence was the highest in three years. The first quarter couldn’t match Q4 2013 as the markets slowed from their rally, but finished positive.¹

Investment Strategy

The purpose of the University’s Endowment Pool is to provide a stable and increasing investment cash flow to support the University’s operating budgets today and into the future. The Investment Office pursues a conservative investment strategy by selecting an appropriate asset mix to meet the risk/return goals of the Endowment. The portfolio allocation includes a diverse mix of assets with a target of 45% Global Marketable Equities, 30% Global Marketable Fixed Income, and 25% Alternative Investments (hedge funds, private equity, etc.). As part of its strategy, the Investment Office seeks new investments in alternative assets on an opportunistic basis. Over time, investment capital will be shifted from Global Marketable Equities and Global Fixed Income into Alternative Investments to achieve the targeted allocation.

Asset allocation plays a vital role in providing diversification for the Endowment Pool and maintaining an appropriate balance of risk and return. The Endowment Pool’s strategy seeks to offer a high probability of achieving the stated return objective over a rolling ten-year period, which is to exceed the rate of inflation by 5% per year on average. This objective should be reached while keeping the frequency and magnitude of temporary declines at acceptable levels.

Outlook

Central banks remain accommodative in trying to reflate their economies; this continues to provide liquidity across markets. We continue to favor emerging market equities over developed markets as emerging markets look to have relatively attractive valuations. We maintain a defensive position in domestic equities given the duration of corporate profit and financial market cycles. Fixed income investments of intermediate duration offer meaningful carry, however we remain cognizant of duration risk in the portfolio if interest rates start to rise. We continue to add non-marketable alternative assets such as real estate and growth equity. In marketable alternatives, we are cautious on high yield and continue to add to hedge funds. Overall, we remain conservatively positioned in the portfolio as we try to find attractive opportunities that align with our strategy.

For more information regarding the Endowment Pool and the Investment Management Office, please visit our website at invest.utah.edu

¹ Sourced from Wellington Management
² Global 60/40 index: 60% MSCI ACWI Index / 40% Barclays Aggregate Index
³ US 60/40 index: 60% S&P 500 Index / 40% Barclays Aggregate Index