Endowment Pool Investment Update

June 30, 2014

Quarterly (Q2) Market Summary
Global equities improved from their sluggish performance during Q1. Robust earnings, manufacturing, housing and employment data helped offset the negative GDP revision from Q1. US equity markets rose 5.2%, ending the quarter near an all-time high. European equities rose for the fourth consecutive quarter even as record high unemployment, declining consumer confidence, and low inflation persisted. Global bonds returned 2.5% as yields declined in part due to concerns about a slowdown in China’s growth rate.

Endowment Portfolio Performance Summary
The Endowment Pool had a positive second quarter (ending June 30, 2014) returning 3.1% for the period. For the 2014 Fiscal year to date ending June 30, the Endowment returned 12.3%.

The Endowment Pool’s market value ended at $691 million for the quarter, an increase of $15.1 million from the previous quarter. This resulted from net transfers out of -$5.5 million and a net gain from investments of $20.6 million.

The Endowment Pool unit value of $100 has grown to $182 in 10 years, a 6.3% annualized rate of return. The chart below shows the growth rate of the Pool relative to the Global 60/40 index and the US 60/40 index.

Long Term 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 (marketable alternatives, private capital). 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.

Intermediate Term Outlook
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 assets 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

Data provided by LCG Associates

---

1. Global 60/40 index: 60% MSCI ACWI Index / 40% Barclays Aggregate Index
2. US 60/40 index: 60% S&P 500 Index / 40% Barclays Aggregate Index