

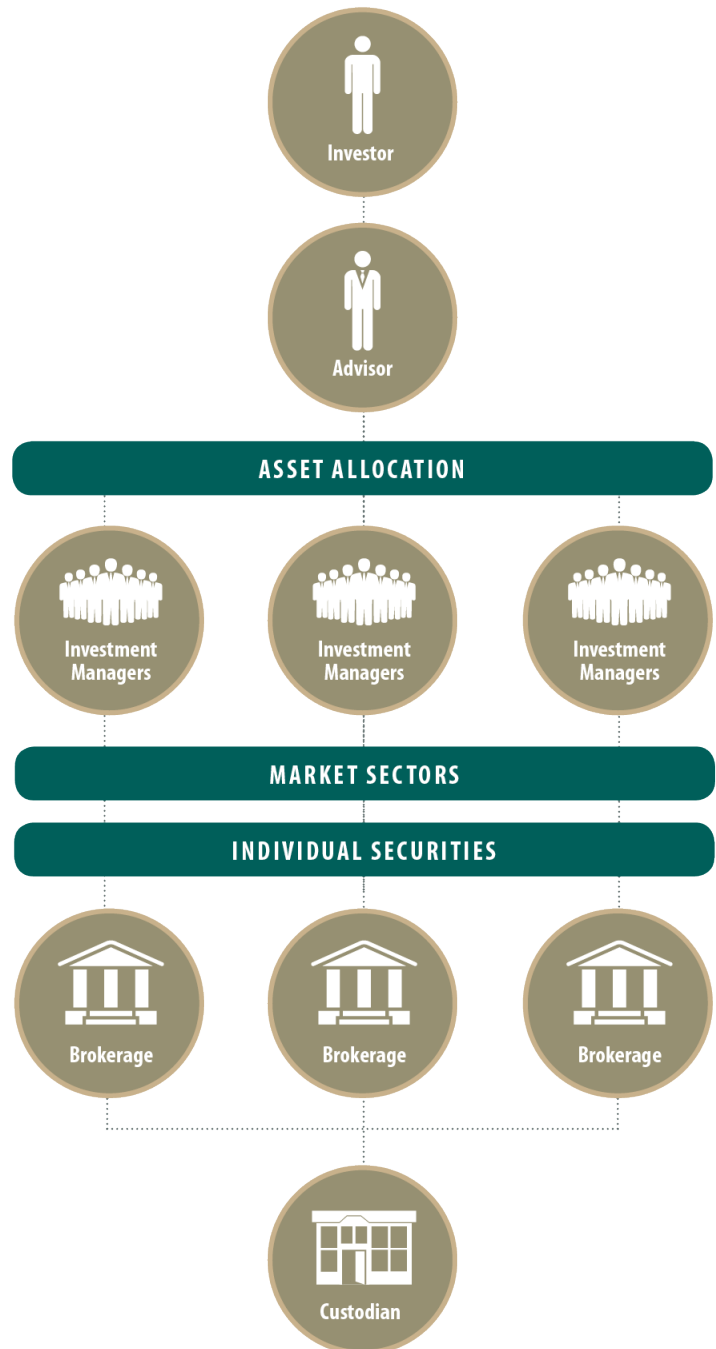
# Endowment Approach

## INVESTMENT STRATEGY

Endowment funds are governed by a board of directors who will usually delegate the development of investment strategy to their investment committee. As fiduciary investors, the investment committee will often adopt the optimal investment structure to separate the roles and responsibilities of the various investment service providers (investment consultants, investment managers, investment brokers and custodians). They will also define and document an investment policy that includes diversification by both asset class and by individual security. They do not usually select individual securities but instead use asset allocation to develop broadly-diversified portfolios and then retain professional investment managers to implement the specific asset class strategies.

These institutional investors tend to use low-cost, passively-managed investment strategies in the more traditional (and efficient) asset classes of stocks and bonds. Then they will introduce alternative investments to try to lower the portfolio volatility which may improve the risk-adjusted rates of return and may also introduce new sources of expected investment returns. The utilization of alternative investments to provide broader diversification to lower portfolio volatility and include new sources of expected investment returns has frequently been referred to as the “endowment model.”

## Endowment Model



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