WESTERN MICHIGAN UNIVERSITY FOUNDATION

Investment Strategy

Asset Categories	*Primary Role*	*Risk Premium*
Total Portfolio	**Long-Term Real Return > Spending + Fees**	**Asset Allocation**

Investment Strategy	**Rationale**
Set Broad Policy Asset Allocation	
• Strategic long-term	• Target allocation sets an anchor: "best" portfolio if all markets are trading at equilibrium
	• Target allocation should achieve consistent growth over time and allow for management of expected risks as well as unexpected volatility
	• Target allocation should achieve diversification by risk factors, with each asset category playing a different role in the portfolio
	• Equity bias needed to generate a real return that meets the investment objective
	• Broad target ranges allow some flexibility while ensuring diversification by risk factors (equity, rates, credit, etc.)
Actively Manage Asset Allocation	
• Intermediate-term	• Asset class risk is not constant, changing primarily due to valuations, sentiment and fundamentals
• Risk management	• Monitor exposures within asset categories (leverage, sectors, geography, etc.) and make adjustments when appropriate
	• Develop a process for risk management:
	- Quantitative (rebalance to target allocation) as well as,
	- Qualitative (manage market exposure within ranges based on perceived risk)
Set Liquidity Policy	
• Strategic long-term planning, short-term impact	• Understand cash flows and liquidity constraints when investing and making private capital commitments
	• Many investment opportunities come with liquidity constraints: the opportunity/liquidity tradeoff must be considered
	• Maintaining sufficient liquidity to meeting spending needs may impact investment selection and returns earned

Global Equity	**Total Return**	**Equity**

Investment Strategy	**Rationale**
Public Equity	
• Fundamental weighted and capitalization weighted index funds for market exposure	• Most traditional equity managers underperform their benchmark
• Long/short hedge funds for active management	• Unconstrained management to provide equity market returns with less volatility
• Emerging Markets bias	• Greater return potential segment of equity markets due to risk, economic growth and demographics
• Small cap bias	• Greater return potential segment of equity markets due to risk, and ability to grow quicker than larger companies
• Value tilt	• Classic Graham and Dodd "margin of safety" investing increases return potential
Private Equity	
• Buyout funds for active management	• Higher probability approach to "outperform" the market (vs. traditional long-only public equity) when investing with top tier managers
• Venture capital as higher risk/return equity	• Higher probability approach to "outperform" the market (vs. traditional long-only public equity) when investing with top tier managers

Global Fixed Income - High Quality/Rate Sensitive	**Deflation Protection**	**Interest Rates**

Investment Strategy	**Rationale**
• Treasury bonds as "insurance"	• In periods of deflation or equity market declines, rates typically decline and a "flight to quality" often occurs driving up treasury bond prices
• Opportunistically use other high quality bonds (corporate, MBS, etc.)	• At times the cost of "insurance" via treasuries is too expensive: introducing some credit risk or foreign bond exposure could be appropriate

Global Fixed Income - Credit/Distressed	**Total Return**	**Credit**

Investment Strategy	**Rationale**
• Understand capital structure and invest when risk-adjusted returns are attractive	• While credit and equity risk are correlated, credit risk provides more downside protection
• Active managers exclusively (includes hedge funds and distressed debt)	• Seeks to avoid significant loss resulting from defaults and credit downgrades

Real Assets	**Inflation Protection**	**Inflation**

Investment Strategy	**Rationale**
Real Estate	
• Global public REITs for liquid market exposure	• Provides diversified exposure to real estate in a liquid vehicle (but higher correlation to public equity market)
• Private real estate for active management	• Added diversification and opportunity to increase return through value enhancements in an inefficient market
Natural Resources	
• Private energy for active management	• Provides exposure to commodity prices/inflation with the ability for skillful managers to add value in inefficient markets
• Private timber as a low risk-return inflation hedge	• Key drivers of return (biological growth, supply/demand) have low correlation to financial markets
• Master Limited Partnerships (MLPs) for liquid market exposure	• Provides diversified exposure to mid-stream energy in a liquid vehicle, but higher correlation to public equity market than private energy

Diversifying Strategies	**Risk Diversification**	**Unconstrained Active Management**

Investment Strategy	**Rationale**
"Absolute Return" Hedge Funds	
• Risk management	• Managers concerned with "absolute" performance, rather than "relative" to an index
• Flexible	• Gives skillful managers the flexibility to use any tool available to express their views (shorting, leverage, derivatives, etc.)
• "Alternative beta"	• Provides exposure to different risks (alternative betas) such as merger arbitrage, convertible arbitrage, etc.
• Capture short-term opportunities	• Allow skillful managers to take advantage of short-term mispricing across asset classes
• Select managers that utilize low levels of leverage	• Leverage magnifies both gains and losses. Excessive leverage can reduce managers ability to withstand market volatility