

Investment Strategies

Case Study: Improving Risk-Adjusted Returns

The Challenge Investors Face

Today's institutional investors face challenging economic conditions and evolving regulatory and governance requirements. Now more than ever, they are seeking holistic investment solutions that are tailored to their specific objectives, and that offer an improved risk and return profile.

Our Client:

- Well-known university with an endowment fund of \$100 million
- Seeks to generate steady returns in order to cover the ongoing operating costs of a research program
- **Concerns:**
 - Low interest rate environment
 - Heightened volatility of returns experienced in recent years
 - A change to government subsidies that has shortened the funding period, thereby lowering the longer-term predictability of the funding source

PH&N Assessment

The trustees and their PH&N institutional portfolio manager (IPM) met to discuss the investment environment and the impact of the change in the subsidy time frame. Together, they assessed and redefined long-term objectives for the endowment fund. Ultimately, the trustees wanted to ensure that their endowment would be in the best position possible to meet its long-term obligations to the research program. The IPM thus sought to develop a comprehensive portfolio solution to address the refreshed objectives of reducing volatility while preserving return expectations.

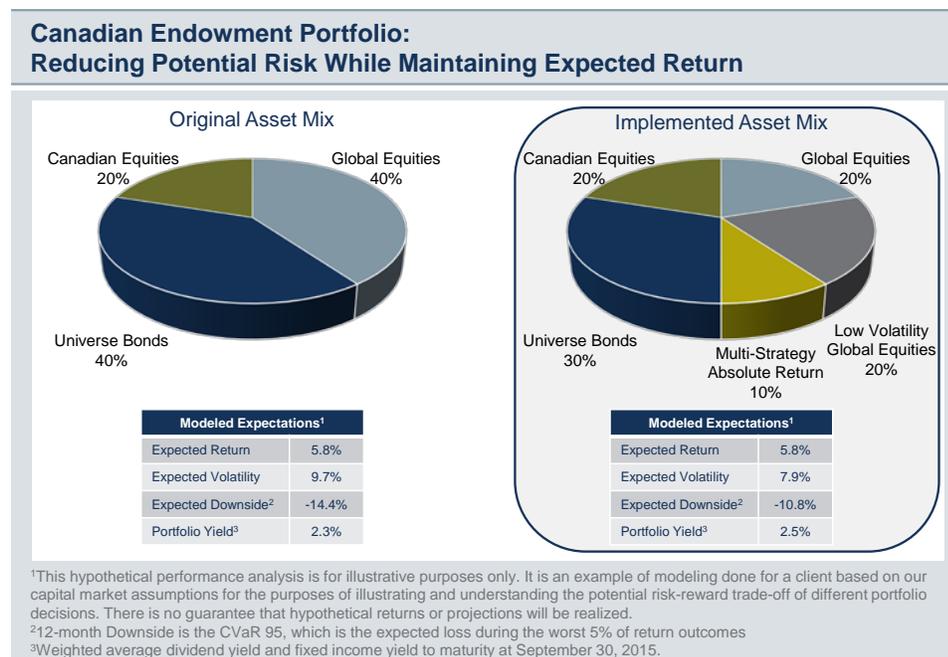
After meeting with the clients, the IPM consulted the relevant RBC Global Asset Management and PH&N experts to develop a comprehensive portfolio solution that would address the client's refreshed objectives. In this case, the IPM involved our PH&N Institutional Portfolio Solutions (IPS) group for in-depth scenario analysis and portfolio optimization. With the IPM's understanding of the client and the IPS group's sophisticated analytics, they worked together to develop a comprehensive strategy to tackle the client's goals.

PH&N Comprehensive Portfolio Solution

The recommended portfolio introduced exposure to low-volatility equities and multi-strategy absolute return strategies. These strategies helped reduce the portfolio's expected volatility and downside risk (i.e., the estimate of potential decline should market conditions change) while continuing to offer a consistent expected yield.

This adjustment in portfolio strategy offered enhanced predictability of returns (less expected volatility), without diminishing the expected returns needed to cover the research program's operating costs. This results in a more stable return profile, which in turn facilitates budgeting and program administration.

The charts below offer a comparison of the original (at left) and newly implemented (at right) asset mixes.



In summary, PH&N helped turn the client's need to address a change in funding predictability into an opportunity to refresh the endowment portfolio's strategy. The solution reduced the uncertainty in the endowment's anticipated returns (increasing cash flow stability), while preserving the amount of returns expected (its ability to cover the research program's future operating costs).

For additional details, please contact your PH&N institutional portfolio manager,
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