# Keeping It Simple

There is plenty of attention paid to the investment sophistication within many American university endowments, and with good reason. Institutions such as Harvard and Yale have terrific long term track records investing across a broad swath of assets, moving into previously unconventional domains in search of either excess or uncorrelated returns. In fact, you might be surprised to hear that, as a group, these institutions have long since moved away from investing primarily in domestic stocks and bonds. The National Association of College and University Business Officers (NACUBO) is an industry group that tracks the endowment portfolios from over 800 educational institutions across the United States. They recently reported the asset mix of these institutions for the year 2015, shown in the table below.

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| Domestic Equities | 16% |
| Fixed Income | 9% |
| International Equities | 19% |
| Short Term Securities / Cash | 4% |
| Alternative Investments | 52% |

Source: NACUBO

Slightly over half of the investment portfolio for the typical endowment is comprised of "Alternative Investments", a broad category that includes private equity, venture capital, distressed debt, commodities, and real estate. Directing capital into these areas requires either keeping a seasoned and experienced investment team internally, or selecting a network of external managers with expertise within each subset. It can be fairly advanced stuff, and is also generally unavailable to a typical private investor. But is this necessarily to the detriment of investment performance for the average individual?

We performed a simple test to find out. Assume that our individual investor has only two investment choices, and vanilla ones at that – domestic stocks, and domestic bonds. As this is a US comparison we used the S&P 500 index and 10 Year US Treasury Bond to represent each, and assumed that our investor rebalances their portfolio just once a year, on January 1st, to a mix of 60% stocks and 40% bonds, for the past decade. The outcome of this downright unexciting, unsophisticated portfolio management scheme? A return of 7.2% annually over the past decade – perhaps not bad, considering that this period includes the worst global financial crisis experienced in several generations!

And how did these university endowments fare with their more complex asset mix? An annual return of 6.3% over the same timeframe. It should be emphasized that this return is net of fees, so one could estimate that, after taking that into consideration, these endowments experienced roughly the same investment performance as our rather simple individual investor who could not access the myriad of "alternative investment" options.

This is not to denigrate the sphere of alternative investments or the investment acumen of university investment committees, both of which have well-earned pedigree. And while our example is focused south of the border, our premise likely holds true regardless of region - investing does not have to be overly complicated to achieve desired results.