



US Endowment Funds

Update for 2010

PREPARED APRIL 2010

1. Introduction

This document is designed to update key charts and tables contained in the original research document “The US University Endowment Funds: Review and Analysis”, produced in 2007.

1.1 Summary

Section 2 – Latest Asset Size and Performance

All endowment funds suffered losses during the 2009 financial year. The average endowment with assets over \$1bn returned -20.5 percentage points, the Top 20 by size returned -21.4 percentage points and Top 5 by performance -22.8 percentage points. Harvard and Yale lost -27.3 and -24.6 percentage points respectively.

As a result of the significant losses the market value of endowment assets have fallen dramatically. Nevertheless, the Top 5 endowment funds by size remain unchanged. However, by performance Stanford has fallen out of the Top 5 (falling from 4th to 9th) and Notre Dame has been included (increasing from 7th to 5th).

Section 3 – Key Groups

There are a number of changes to the constituents of the various groups analyzed.

Notre Dame is now included in the top 5 performing endowments at the expense of Stanford. The other notable endowment not included in the top 5 by performance is Harvard, which has not featured in this group since 2007.

Section 4 – Changes in Asset Allocations

There have been dramatic changes in the actual asset allocations of many endowment funds. It is difficult to disentangle the drivers leading to these changes in actual allocations; the recent losses and liquidity pressures have resulted in some forced selling of some asset classes, which may not be reflective of an endowment’s long-term investment views.¹

Additional information is included in this analysis for 2010 on the dollar amounts invested by asset classes and on the target/policy allocations. Emphases this year should be placed on the target or policy allocations as it is felt these will be more representative of asset allocations in the future.

The most pronounced developments have been a moderate decline in target allocation for hedge funds and a moderate increase in those for commodities.

¹ For example, Harvard is known to have faced significant liquidity pressure at the end of 2008 and implemented forced sales of their liquid equities and fixed income, after they could not reduce their private equity holdings. Examining changes in their actual allocations may lead to a biased view of their investment approach, as it may not be consistent with long-term allocations and views.

A stylized summary of other changes for the top performing and largest endowments is:

Global Equities:	Slight decrease
Global Bonds:	Moderate Increase
Emerging Equities:	Mixed and small changes, overall flat
Emerging Bonds:	Slight increase
Global Real Estate:	Mixed and small changes, overall flat
Commodities:	Moderate increase
Hedge Funds:	Moderate decrease
Private Equity:	Mixed and small changes (some exceptions)

Section 5 – News and Developments

In 2008 - 2009 endowment funds incurred large losses, resulting in some distressed selling. The impact on portfolios in the long-term appears to be unchanged for the majority. This is illustrated in the policy weights, as well as through the issuance of bonds to fund capital requirements rather than sell assets and change their asset allocations.

There is greater emphasis on accessing alternative asset classes using more liquid instruments and increased transparency within the portfolios.

1.2 Data Quality

A special note needs to be made about the reduced quality of data occurring in this report relative to previous years. A number of endowments have stopped reporting in-depth information or altered the information substantially so that comparisons to previous years are difficult. In addition, NACUBO information has also been altered and limited relative to previous years.

Nevertheless, the groups Top 2 and Top 5 by Performance and Top 2 by Assets still provide meaningful information on actual allocations, and focusing on these groups is advised. The best group to analyze for Target or Policy allocations (and indeed all types of information) is the Top 2 by Assets (Harvard and Yale), as they have the greatest disclosure and consistency of reporting over time periods.

Those endowments for which information is particularly difficult to source or analyze are listed below.

Stanford (Top 5 by Assets)

Texas System (Top 5 by Assets)

Emory (Bottom Four By Returns)

Pennsylvania

2. Latest Asset Size and Performance

	Asset Size			
	Asset Size (\$bn)		Rank	
	2009	2008	2009	2008
Harvard	25.7	36.6	1	1
Yale	16.3	22.9	2	2
Stanford	12.6	17.2	3	3
Princeton	12.6	16.3	4	4
Texas System	12.2	16.1	5	5
MIT	9.5	10.1	6	6
Michigan	6.0	7.6	7	8
Columbia	5.9	7.1	8	9
Northwest	5.4	7.2	9	8
Pennsylvania	5.2	6.2	10	12
Chicago	5.1	6.6	11	11
Texas A&M	5.1	6.7	12	10
California	4.9	6.2	13	14
Notre Dame	4.8	6.2	14	13
Duke	4.4	6.1	15	15
Emory	4.3	5.5	16	16
Washington	4.1	5.4	17	18
Cornell	4.0	5.4	18	17
Rice	3.6	4.6	19	19
Virginia	2.6	4.6	20	20
Top 20 Ave	7.7	10.2		
Greater than \$1bn Ave	3.7	3.9		

Annual Returns

	Annual Return		Rank	
	2009	2008	2009	2008
Texas A&M	-13.2%	-5.0%	1	20
Columbia	-16.1%	2.0%	2	14
Northwest	-16.9%	3.0%	3	11
MIT	-17.1%	3.2%	4	10
California	-17.7%	-1.9%	5	17
Rice	-18.2%	2.2%	6	13
Pennsylvania	-20.1%	-1.9%	7	19
Notre Dame	-20.8%	5.8%	8	6
Virginia	-21.0%	5.9%	9	5
Emory	-21.0%	-1.0%	10	16
Texas System	-22.6%	-3.1%	11	18
Chicago	-23.2%	3.6%	12	9
Washington	-23.3%	1.9%	13	15
Michigan	-23.4%	6.4%	14	2
Princeton	-23.5%	5.6%	15	7
Duke	-24.3%	6.2%	16	3
Yale	-24.6%	4.5%	17	8
Cornell	-26.0%	2.7%	18	12
Stanford	-27.0%	6.2%	19	4
Harvard	-27.3%	8.6%	20	1
Top 20 Ave	-21.4%	2.7%		
Greater than \$1bn Ave	-20.5%	0.6%		

Note: Endowments report returns for their fiscal year which runs from July 2 2008 to June 30 2009.

10 Year Annualised Returns

	10 Yrs Ann. Return		Rank	
	2009	2008	2009	2008
Yale	11.8%	16.3%	1	1
Duke	10.1%	15.6%	2	2
Princeton	9.7%	14.9%	3	3
Virginia	9.5%	14.0%	4	5
Notre Dame	9.4%	13.5%	5	7
MIT	9.3%	13.3%	6	8
Harvard	8.9%	13.8%	7	6
Michigan	8.9%	13.2%	8	9
Stanford	8.9%	14.3%	9	4
Columbia	8.0%	10.6%	10	12
Northwest	7.1%	11.0%	11	11
Chicago	7.1%	11.5%	12	10
Rice	6.0%	9.0%	13	15
Washington	5.5%	10.0%	14	13
Texas A&M	4.8%	7.6%	15	17
Cornell	4.3%	8.8%	16	16
Pennsylvania	3.9%	7.4%	17	18
California	3.4%	7.0%	18	19
Emory	1.8%	2.6%	19	20
Texas System	-1.0%	7.5%	20	14
Top 20 Ave	6.9%	11.1%		
Greater than \$1bn Ave	6.1%	9.5%		

3. Key Groups

The Top 5 largest endowments ranked by asset size remain the same.

	Rank by Assets	Assets (\$bn)	Rank by 10 Yr Returns
Harvard	1	25.7	7
Yale	2	16.3	1
Stanford	3	12.6	9
Princeton	4	12.6	3
Texas System	5	12.2	20

The Top 5 performing endowments ranked by the 10 year annualized returns has changed. Included for the first time is Notre Dame, with Stanford excluded. Virginia also moved from 5th to 4th and is also included in the group "Small Endowments with High Returns" (see later). A notable exclusion from this group is Harvard.

	Rank by Returns	10yr Ann. Return	Rank by Assets
Yale	1	11.8%	2
Duke	2	10.1%	15
Princeton	3	9.7%	4
Virginia	4	9.5%	20
Notre Dame	5	9.4%	14

The group 'Large Funds Low Returns' has been disbanded, as their returns have been so low they are no longer considered large! Instead, a new group has been created for analytical purposes: 'Bottom Four By Returns'. Contrasting assets allocations between the top and bottom performing endowment funds helps to illustrate the benefits of diversification and alternative asset classes in particular. We have expanded the number of endowment funds in this group to include four; the additional endowment included is Emory.

Bottom Four By Return (June 2009)

	10yr Ann. Return	Rank by Returns	Assets (\$bn)	Rank by Assets
Texas System	-1.0%	20	12.2	5
Emory	1.8%	19	4.3	16
California	3.4%	18	4.9	13
Pennsylvania	3.9%	17	5.2	10

Constituents in the group "Small Funds with High Returns" (SMHR) remain the same.

Small Funds High Return (June 2009)

	10yr Ann. Return	Rank by Returns	Assets (\$bn)	Rank by Assets
Virginia	9.5%	4	2.6	20
Duke	10.1%	2	4.4	15
Notre Dame	9.4%	5	4.8	14

4. Changes in Asset Allocation

This section reviews changes in asset allocations for the groups highlighted in the original report "US Endowment Funds; Review & Analysis 2008".

4.1 Global Equities

The Top 5 endowments by performance have reduced their actual and target allocations to Global Equities. Other groups have followed a similar pattern.

The averages hide some selected exceptions. Harvard, for example, has reduced its actual allocation by 4 percentage points although their target allocation remained the same (mostly likely indicating some forced selling for liquidity reasons). Virginia is the only endowment in the Top 5 by performance to have increased its actual allocation by around 5 percentage points.

Actual (%) - Global Equities

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	16.9%	18.6%	14.4%	14.3%	32.6%	13.0%	23.5%	29.7%
2009	12.6%	20.1%	11.9%	12.3%	39.1%	13.2%	23.7%	22.3%
<i>Change</i>	-4.3%	1.6%	-2.5%	-2.1%	6.5%	0.2%	0.2%	-7.4%

Target (%) - Global Equities

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	19.0%	22.9%	14.3%	13.3%	38.8%	11.8%	25.2%	N/A
2009	16.8%	23.8%	12.0%	13.1%	39.1%	13.3%	23.3%	N/A
<i>Change</i>	-2.3%	0.9%	-2.3%	-0.2%	0.3%	1.5%	-1.9%	N/A

4.2 Global Fixed Income

In general most endowment funds have increased their target and actual allocations to fixed income.

A notable exception is Harvard, which has kept its target allocations unchanged but reduced its actual by over 2 percentage points (as mentioned previously because of liquidity pressures). Yale has kept its actual and target allocations largely unchanged. The only other endowment of note is Duke, which has engineered a dramatic change by increasing its actual allocation by 13 percentage points, mostly in domestic bonds. Duke's previous allocation to Fixed Income was non-existent.

Actual (%) - Global Fixed Income

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	9.9%	7.5%	1.7%	3.4%	15.6%	3.9%	9.6%	11.1%
2009	8.9%	10.6%	8.3%	6.2%	19.2%	9.2%	12.6%	9.8%
<i>Change</i>	-1.0%	3.1%	6.5%	2.8%	3.6%	5.3%	3.0%	-1.3%

Target (%) - Global Fixed Income

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	6.8%	8.6%	1.7%	4.3%	15.5%	4.8%	9.8%	N/A
2009	6.7%	11.8%	8.3%	7.4%	19.3%	10.0%	12.8%	N/A
<i>Change</i>	-0.1%	3.2%	6.5%	3.2%	3.8%	5.2%	3.0%	N/A

4.3 Emerging Equities

Changes to Emerging Equities are mixed but small. The largest changes to target allocations are for the groups Small Fund large Return, which has increased its allocation, and the Top 2 by Assets which have decreased. Other points of interest are for the Top 5 by performance; Yale decreased its policy weight by 3% whereas Duke increased their actual allocation by 2%. Harvard has kept its target and actual weight the same.

Actual (%) - Emerging Equities

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	9.1%	9.4%	8.8%	7.1%	10.2%	6.0%	8.4%	6.1%
2009	7.3%	9.4%	8.4%	6.7%	9.9%	7.3%	7.5%	3.7%
<i>Change</i>	-1.8%	0.0%	-0.4%	-0.4%	-0.3%	1.3%	-0.9%	-2.4%

Target (%) - Emerging Equities

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	10.0%	9.0%	8.8%	7.1%	6.1%	6.2%	7.3%	N/A
2009	8.5%	9.8%	8.5%	7.4%	6.9%	7.4%	7.3%	N/A
<i>Change</i>	-1.5%	0.8%	-0.3%	0.3%	0.8%	1.2%	0.0%	N/A

4.4 Emerging Bonds

The breakdown between Global and Emerging Fixed Income is difficult to obtain for many endowment funds. Below is the best estimate of changes in allocations.

Average allocations to Emerging Bonds have tended to increase slightly, in-line with rises in that for Global Fixed Income. A note of caution, however, as it is notoriously difficult to separate changes in Global and Emerging Fixed Income. Harvard, for which detailed information is available, has kept its target allocation to Emerging Fixed Income unchanged.

Actual (%) - Emerging Bonds

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	2.6%	1.2%	1.2%	0.7%	1.8%	0.5%	0.8%	0.2%
2009	3.4%	1.6%	2.0%	1.1%	1.7%	0.9%	1.0%	0.2%
<i>Change</i>	0.8%	0.4%	0.8%	0.4%	-0.1%	0.5%	0.2%	0.0%

Target (%) - Emerging Bonds

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	1.7%	1.0%	1.2%	0.7%	1.3%	0.5%	0.6%	N/A
2009	1.8%	1.0%	2.0%	1.2%	1.2%	1.0%	0.7%	N/A
<i>Change</i>	0.1%	-0.1%	0.8%	0.4%	-0.1%	0.5%	0.1%	N/A

4.5 Real Assets

Real assets comprise commodities, real estate and timber allocations. Many endowment funds do not provide detailed information on the separation beyond this broad classification.

Target allocations have increased for many endowment funds and anecdotal information suggests this is mostly in commodities.

There are some exceptions to the general increases. For the group top 5 by performance Virginia is the only endowment to decrease its policy weights by 0.5 percentage points. Harvard (in the Top 2 by Assets) also decreased its policy weight by 3 percentage points from 26 to 23. We believe that both of these changes have occurred in real estate. Yale provides a contrast as it has increased its allocation by 8 percentage points, mostly in commodities but with a 1.8 percentage point rise for real estate.

Actual (%) - Real Assets

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund High Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	24.1%	20.6%	24.8%	19.7%	7.9%	16.7%	15.2%	15.8%
2009	25.2%	22.5%	26.9%	21.1%	8.7%	16.9%	15.3%	15.3%
<i>Change</i>	1.1%	1.9%	2.1%	1.4%	0.8%	0.2%	0.2%	-0.6%

Target (%) - Real Assets

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	27.5%	22.1%	24.6%	20.3%	7.5%	16.8%	16.0%	N/A
2009	30.0%	24.0%	29.4%	22.3%	8.9%	17.2%	16.4%	N/A
<i>Change</i>	2.5%	1.9%	4.8%	2.1%	1.5%	0.4%	0.3%	N/A

4.6 Global Real Estate

Available data illustrates no clear pattern in changes for this asset class, with some endowments increasing target exposures and others decreasing, although it is often difficult to obtain granular information. Overall the feeling is that this asset class is unchanged.

Actual (%) - Real Estate

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	13.4%	10.9%	11.8%	9.3%	4.5%	7.1%	8.4%	7.5%
2009	12.0%	10.3%	11.9%	9.2%	4.3%	7.0%	8.1%	7.9%
<i>Change</i>	-1.4%	-0.6%	0.1%	-0.1%	-0.2%	-0.1%	-0.4%	0.4%

Target (%) - Real Estate

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	15.6%	12.7%	11.7%	9.6%	4.3%	7.3%	9.0%	N/A
2009	12.9%	11.4%	13.1%	9.7%	5.0%	7.1%	8.8%	N/A
<i>Change</i>	-2.7%	-1.2%	1.3%	0.1%	0.6%	-0.1%	-0.2%	N/A

4.7 Commodities

Available information suggests a near unanimous and moderate increase in allocations to Commodities. For the top performing and largest endowments the average increase has been significant, by between 2 percentage points and up to 5 percentage points.

Notable examples are Yale increasing their policy weight by 6 percentage points and Harvard increasing their policy weight by 4 percentage points.

Actual (%) - Commodities

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	10.7%	9.6%	12.9%	10.5%	4.0%	9.6%	7.3%	8.3%
2009	13.2%	12.1%	14.9%	12.0%	5.0%	9.9%	7.8%	7.3%
<i>Change</i>	2.6%	2.5%	2.0%	1.5%	0.9%	0.3%	0.5%	-1.0%

Target (%) - Commodities

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	11.9%	9.4%	12.9%	10.7%	3.1%	9.5%	7.1%	N/A
2009	17.1%	12.6%	16.3%	12.6%	4.0%	10.1%	7.6%	N/A
<i>Change</i>	5.2%	3.2%	3.4%	2.0%	0.9%	0.6%	0.5%	N/A

4.8 Hedge Funds

There is a fairly unanimous and moderate decrease in average allocations to Hedge Funds. For the Top 5 by performance, Notre Dame is the only endowment to increase its actual weight, with both Duke and Yale reducing allocations substantially by 6 and 16 percentage points respectively. Harvard reduced their policy weight by 2 percentage points.

There have also been a number of announced changes in the method by which hedge fund exposures will be gained. See section 7 for more detail.

Actual (%) - Hedge Funds

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund High Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	21.9%	24.6%	27.9%	32.3%	23.2%	36.7%	25.2%	23.1%
2009	20.6%	16.7%	19.4%	27.2%	15.8%	29.9%	21.9%	27.5%
<i>Change</i>	-1.3%	-7.9%	-8.5%	-5.2%	-7.4%	-6.9%	-3.2%	4.4%

Target (%) - Hedge Funds

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	19.5%	20.9%	25.9%	31.4%	19.7%	37.1%	23.8%	N/A
2009	15.5%	14.7%	14.8%	26.0%	15.8%	30.0%	21.9%	N/A
<i>Change</i>	-4.0%	-6.2%	-11.1%	-5.4%	-3.9%	-7.0%	-1.9%	N/A

4.9 Cash

Generally all endowment funds have increased both their actual and target allocations to cash. Harvard has implemented one of the most dramatic changes, increasing its target allocation by 5 percentage points from -2 to 3 percentage points. Yale has also increased its target weight slightly by 0.5 percentage points to 0.5.

Actual (%) - Cash

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	-3.2%	-1.0%	-0.4%	1.1%	7.1%	2.6%	2.5%	-0.6%
2009	0.8%	1.0%	0.5%	1.1%	7.8%	1.5%	4.4%	3.0%
<i>Change</i>	<i>4.1%</i>	<i>2.0%</i>	<i>1.0%</i>	<i>0.0%</i>	<i>0.7%</i>	<i>-1.2%</i>	<i>1.9%</i>	<i>3.6%</i>

Target (%) - Cash

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	-1.5%	-0.1%	1.5%	1.1%	2.5%	1.9%	1.5%	N/A
2009	1.3%	0.5%	1.7%	0.6%	1.9%	0.8%	1.9%	N/A
<i>Change</i>	<i>2.8%</i>	<i>0.6%</i>	<i>0.2%</i>	<i>-0.6%</i>	<i>-0.6%</i>	<i>-1.1%</i>	<i>0.4%</i>	<i>N/A</i>

4.10 Private Equity

Care must be exercised when analyzing allocations for this asset class as its illiquid nature means that some reported attempts to sell exposure by endowment funds has not eventuated.

On average the Top 2 endowment funds by size and performance have increased their target and policy allocations slightly, while the top 5 by performance have remained largely unchanged. Of the Top 2 by size, Yale has increased their target allocation by 5 percentage points while Harvard's has remained unchanged.

Actual (%) - Private Equity

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	18.7%	19.2%	21.5%	21.3%	9.8%	20.6%	16.1%	14.6%
2009	21.1%	18.1%	22.6%	24.3%	5.2%	21.2%	16.2%	18.3%
<i>Change</i>	<i>2.4%</i>	<i>-1.1%</i>	<i>1.0%</i>	<i>3.0%</i>	<i>-4.6%</i>	<i>0.6%</i>	<i>0.1%</i>	<i>3.7%</i>

Target (%) - Private Equity

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	17.0%	15.7%	21.9%	21.7%	8.7%	20.9%	15.6%	N/A
2009	19.5%	14.4%	23.4%	21.9%	6.8%	20.2%	15.7%	N/A
<i>Change</i>	<i>2.5%</i>	<i>-1.3%</i>	<i>1.5%</i>	<i>0.2%</i>	<i>-1.9%</i>	<i>-0.7%</i>	<i>0.1%</i>	<i>N/A</i>

4.11 Alternative Asset Classes

Target allocations to alternative asset classes have increased slightly for the Top 2 endowments by assets, reflecting a rise in real assets (in commodities) and small increases in private equity, offsetting a decline in hedge fund exposures.

The other groups have reduced their target allocations to alternative assets, driven mainly by reductions in hedge fund exposure.

Actual (%) - Endowment Allocation to Alternative Asset Classes						
	Ave by Assets		Ave by 10yr Return		Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5		
2008	65%	64%	74%	71%	57%	54%
2009	67%	57%	69%	69%	54%	61%
<i>Change</i>	2%	-7%	-5%	-2%	-3%	8%

Target (%) - Endowment Allocation to Alternative Asset Classes						
	Ave by Assets		Ave by 10yr Return		Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5		
2008	64.0%	58.7%	72.4%	73.5%	55.5%	N/A
2009	65.0%	53.1%	67.6%	70.3%	53.9%	N/A
<i>Change</i>	1.0%	-5.6%	-4.9%	-3.1%	-1.5%	N/A

4.12 Illiquid Asset Classes

Highly illiquid assets include physical real estate, certain commodities and private equity.

Very interestingly, the target allocations to illiquid assets have increased, coming mostly through an increased allocation to real assets and commodities in particular. (It may be useful to reconsider the method by which endowment funds gain exposure to commodities, as this may be through more liquid means than the traditional partnership structures they have used in the past.)

Actual (%) - Highly Illiquid Asset Classes

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	42.8%	38.0%	46.3%	40.4%	13.8%	36.6%	30.7%	29.5%
2009	46.3%	38.9%	49.4%	45.0%	9.0%	37.9%	29.6%	33.6%
<i>Change</i>	3.5%	0.9%	3.1%	4.6%	-4.8%	1.2%	-1.1%	4.1%

Target (%) - Highly Illiquid Asset Classes

	Ave by Assets		Ave by 10yr Return		Bottom 4 by Return	Sml Fund Lge Return	Top 20 Ave	Greater \$1bn Ave
	Top 2	Top 5	Top 2	Top 5				
2008	44.5%	37.8%	46.5%	42.0%	16.2%	37.7%	31.6%	N/A
2009	49.5%	38.4%	52.8%	44.3%	15.7%	37.5%	32.0%	N/A
<i>Change</i>	5.0%	0.6%	6.2%	2.3%	-0.4%	-0.2%	0.4%	N/A

5. News and Developments

The data used in the previous analysis for the period to June 2009 suggests moderate changes in endowment's actual and target asset allocations. This could have two explanations, either the endowments have changed their long term asset allocations or the changes are as a result of liquidity requirements during the crisis of the proceeding period. Anecdotal reports in late 2008 suggested distressed selling by some endowment funds and problems with illiquidity in endowment's hedge fund and private equity asset classes.

This section examines the recent media information and considers the possible impact on investment philosophy, long-term asset allocations and other aspects of the endowment funds.

Analysis of Media Reports

Summary: The impact on portfolios in the long-term is varied. Larger funds which have been committed to the multi-asset class investment ethos for many years will keep policies largely unchanged. Those funds new to investing in alternative asset classes may move out of these asset classes as shown by Texas System and Northwestern, which reduced its exposure to hedge funds by 23 and 4 percentage point respectively.

There are a number of news items that suggest an increased desire for liquidity in the portfolios that may change the way endowments access these asset classes in the future, although as yet this has not been reflected in hard numbers or in annual reports by the investment managers.

Reconsider Investment Philosophy?

Last year we noted that the market volatility would result in large endowment fund losses. As the funds monitored in this report are long-term investors who favor diversification across asset classes and geographical regions, we believed these funds would maintain their investment philosophies with sizeable exposures to alternative and international assets.

After reporting substantial losses for the 2008/2009 fiscal year, the large endowment funds who had been invested in alternative asset classes for many years, reiterated their commitment to the investment philosophy, maintaining allocations in alternative asset classes. A strong case in point is Yale, which has reaffirmed its commitment to its "core skills" and increased its exposure to alternative assets (though not hedge funds).

Reconsider Long-Term Asset Allocations?

Last year we noted that some endowment funds that are new to investing in alternative assets would re-evaluate their policy asset allocation weights in the long-run.

This has been seen in Texas System, which no longer allocates assets to hedge funds or private equity. Similarly the 'Bottom Four By Returns' have substantially decreased both actual and target asset allocation in private equity and hedge funds. As confidence returns in the market these allocations may get readjusted.

Interestingly, Harvard has also reduced its target exposure to alternative assets from 57% to 52%. Yale has gone in the opposite direction and increased its target allocation from 71% to 78%. The top 5 endowments by performance have decreased their allocations by an average of 3%.

Reconsider the Liquidity Profile of their Portfolios?

Last year we noted that endowment funds will try to better match the liquidity profile of their investments with their funding responsibilities.

There have been many announcements of an intention to increase the liquidity of the alternative asset classes within their portfolio, although this is yet to be reflected in hard numbers. Harvard plans to increase transparency and liquidity by managing more money internally along with the sale of a portion of its physical real estate allocation. Stanford on the other hand is seeking alternative vehicles to obtain private equity like returns with similar risk profiles. Anecdotal reports of cancellations of private equity secondary sales shows that the larger endowments will not make dramatic changes to allocations to illiquid asset classes.

Reconsider Method of Accessing Asset Classes?

Last year we noted some endowment funds would reconsider their method of accessing certain asset classes in order to manage their liquidity requirements.

Endowments, such as Stanford, report to be seeking alternative vehicles to obtain private equity like returns with similar risk profiles. This is a direct result of the financial crisis

Selected Media Reports

Selected media reports are summarized below.

- According to Bloomberg (October 2009) Stanford's Hennessy is contemplating alternative asset vehicles to private equity and commercial real estate, without making strategic changes to the portfolio.

Analysis: Long term asset allocations will remain unchanged however they will seek to increase liquidity bringing the investment style closer to that at Frontier.

- According to the Bloomberg (December 2009) Stanford cancelled a private equity stake sale it began in October, due to increased confidence in their liquidity situation.

Analysis: Cancelling the sale of private equity holdings in the secondary market suggests a reiteration of Hennessy's statement in October 2009 that Stanford will not make strategic changes to their portfolio.

- According to the Bloomberg (September 2009) Princeton President Tilghman stated 'marginal, not radical changes may be warranted' to the investment strategy emphasizing the importance of maintaining sufficient liquidity.

Analysis: This emphasizes that the long term asset allocations will remain unchanged, however they may seek to alter the way they access the private equity asset class allowing cash to be freed up more easily.

- According to Reuters (August 2009) Harvard seeks to manage more hedge fund, private equity and other money manager money internally, whilst reducing the overall endowments exposure to private equity.

Analysis: This relates to a desire to increase liquidity and transparency within their portfolio, bringing the endowments philosophy closer to that of Frontier.

- According to a Bloomberg (February 2010) Harvard, Yale and University of Michigan issued bonds due in July 2025.

Analysis: This indicates the endowments are willing to take on debt as opposed to liquidating positions in their portfolios to fund capital spending at the university. Bonds had been previously sold by Stanford (April 2009) and Princeton (January 2009).

- According to Bloomberg (February 2010) Harvard is to raise 'several hundred million' from property sales, after failing to get acceptable offers for its private equity holdings in 2008.

Analysis: This report corresponds with the 2010 policy portfolio allocation as released in the 2009 Harvard annual report; this confirms the decision to put more emphasis on endowment policy weights.

- According to Reuters (January 2010) The UK University Superannuation Scheme - the second largest pension plan in the UK - is expected to increase fixed income exposure to 15% from 10%, with hedge fund investments also set to rise to 5% from 1%.

Analysis: This report shows that as an effect of the crisis in 2008, a greater desire for diversification by both asset classes and geography. The article also states a desire from Roger Gray, Chief Investment Officer, to boost emerging market investments from 5% 'by a couple of percentage points over time'.

About Frontier Capital Management LLP

Frontier Capital Management LLP is an independent, privately owned and entrepreneurial business established in 2004 to bring diversified and low-cost multi-asset and alternative investment solutions to the wider investment community.

The key components (“Four Pillars of Investing”) of Frontier Capital’s investment philosophy are:

- Traditional and alternative asset classes generate long run real returns
- Strategic asset allocation drives portfolio return and risk
- Multi-asset class investing lowers risk and increases risk adjusted returns
- Index investing outperforms the majority of actively managed funds

Frontier Capital’s Multi-Asset Funds

Key Points

- Strategic asset allocation fund providing access to both traditional and alternative asset classes
- Asset allocation inspired by the US University Endowment Funds
- Asset classes accessed through low cost index investing and advanced index replication techniques
- Highly diversified across 8 asset classes providing exposure to multiple geographies and securities
- Underlying asset class currency exposures hedged back into sterling
- Based on Frontier Capital’s Four Pillars of Investing

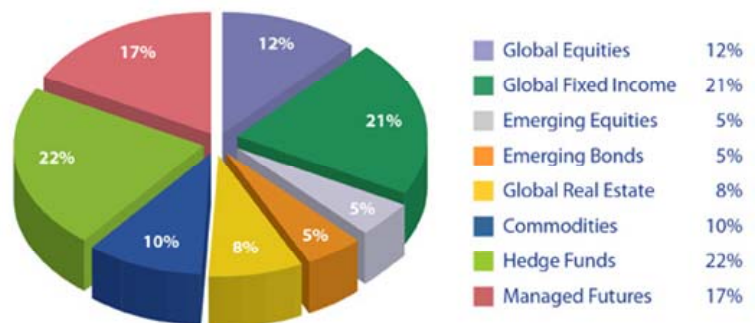
By combining investments across the range of asset classes available, a highly diversified, low volatility portfolio can be achieved. The Funds also gain exposure across a range of geographical areas. The Funds take a strategic longer term approach to asset allocation which is combined with disciplined rebalancing techniques

The Asset Allocation Process

The asset allocation of the Fund is determined on an annual basis. Frontier Capital takes inspiration from the largest and most successful US University Endowment Funds, undertakes its own quantitative research and considers the views of its experienced Asset Allocation Committee.

Quantitative research is focused on achieving an asset allocation with a high probability of achieving the fund’s volatility target. Frontier Capital also uses a dynamic rebalancing strategy in order to minimise both transaction costs and tracking error.

Current Policy Asset Allocation



For further information on Frontier Capital’s investment philosophy or product range, write to info@frontiercm.com or visit www.frontiercm.com.

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