
ESSAY 1 of 1

ID: 445

A graduate student is learning about endowment funds. Some of the material covered in the class addresses characteristics of endowment funds, the endowment model of investing, rebalancing endowment portfolios, and ways of reducing illiquidity and tail risks associated with endowment funds. The student's teacher gives the following quiz in class.

QUESTION A

- i. Describe the concept of maintaining intergenerational equity, and its relationship to an endowment's spending rate. **(1.5pts)**
- ii. State the target return for endowment funds. **(0.5pts)**
- iii. State how endowments and foundations in the U.S. differ in terms of their spending rates. **(1pt)**

YOUR RESPONSE

3 points

QUESTION B

Other than accepting liquidity risk and having access to a network of talented professionals, state two factors that contributed to the outperformance of large endowments.

YOUR RESPONSE

1 points

QUESTION C

- i. Briefly describe the endowment model of investing.
- ii. Explain why David Swensen does not include investment-grade bonds in the Yale endowment fund portfolio.

YOUR RESPONSE 2 points

QUESTION D

Briefly describe the process of rebalancing an endowment portfolio and state a challenge associated with rebalancing an endowment portfolio.

YOUR RESPONSE 1.5 points

QUESTION E

Describe the tiered approach to reducing illiquidity risk associated with endowment funds, and give an example of a Tier 2 asset.

YOUR RESPONSE 1.5 points

QUESTION F

The endowment fund manager is assessing ways to reduce the fund's tail risk. He does not want to allocate more to cash and risk-free debt due to the drag that will have on the fund's performance. Also, his fund already has allocations within the asset classes that reduce tail risk exposure. State one other approach the manager can adopt to reduce the fund's tail risk.

YOUR RESPONSE

1 points

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