Endowments and Foundations: Unique investing challenges call for a new approach

MORNEAU SHEPELL

Looking Back or Looking Forward: How are you preparing to meet your funds' investing challenges?

More than half of respondents of this year's Morneau Shepell Endowments and Foundations Survey indicated that their biggest concern is whether their investments will generate a sufficient return to meet their spending needs. Yet, many respondents also say they are maintaining current asset allocations to 60/40 equity and fixed income — despite a growing concern of low future returns in traditional fixed-income investments, which make up a significant portion of the asset mix in Canadian endowments and foundations.

Endowments and foundations face the contradictory challenge of maintaining a target spending rate and preserving the real value of the fund, while operating in an unpredictable financial investment environment. How can they continue to meet future funding needs and make much-valued investments in our communities when achieving adequate investment returns is challenging and volatility in many traditional asset classes make them an unpalatable and risky choice, potentially putting their principal at risk?

Canadian endowments and foundations now have a clear path to broader and more diversified returns. With the Canada Revenue Agency (CRA) recently lifting restrictions prohibiting endowments and foundations from investing in limited-partnership arrangements between investors and fund managers, endowments and foundations are now able to extend their funds' allocations to non-listed alternative assets.

Close the gap with alternatives

Over the last several years, alternatives have grown in popularity and now span a broad spectrum of risk and return. Alternative assets add diversity to portfolios, and can provide a higher return for the risk involved — and can provide stable cash flows and good potential for long-term growth.

Indeed, most American endowments and foundations with assets up to $1 billion allocate as much as 46% of their long-term investment strategies focused on alternatives, according to the National Association of College and University Business Officers (NACUBO) and Commonfund Institute.

> "Majority of endowments and foundations say their biggest concern is insufficient fund returns to meet their spend objectives
>
> Morneau Shepell Endowments and Foundations Survey 2015

Morneau Shepell predicts a fixed-income return of about

3.15%

over the next 15 to 20 years.

How will your organization fill the gap between expected returns and future spending needs?

What can Canadian endowments and foundations learn from their American counterparts?

Alternative investments can offer:

- Low correlation with traditional assets and more consistent returns
- Downside protection
- Absolute return targets vs. benchmark relative targets
- A potential hedge against inflation
- An opportunity to generate a stream of stable, positive cash flow

> "As far as we know, the Opportunistic Fund is the first fund in Canada to combine multiple categories of non-listed alternatives in one fund.
>
> Robert Boston, CFA, Managing Director

Morneau Shepell offers a unique investment vehicle for endowments and foundations

The Morneau Shepell Opportunistic Fund L.P. is a new fund dedicated to institutional investors, endowments and foundations seeking to invest in a diverse portfolio of alternative assets. On the heels of the CRA's recent regulatory change, the fund offers a new opportunity for endowments and foundations seeking to diversify their portfolios.

The fund identifies and capitalizes on niche opportunities in diverse asset classes — such as equity real estate and infrastructure, as well as opportunistic credit and private equity strategies — providing fund investors with access to a wider spectrum and higher expected returns than traditional core alternatives.

With a track record of innovation and leadership, Morneau Shepell Asset & Risk Management continues to build on its outcome-oriented solutions framework to offer investment options that address the unique challenges of endowments and foundations.

By providing a wider spectrum and higher expected returns than traditional core alternatives, Morneau Shepell Asset & Risk Management's Opportunistic Fund will give smaller-scale investors access to a unique and diverse choice of investments.

About Morneau Shepell Asset & Risk Management Ltd.

Established in 2012, Morneau Shepell Asset & Risk Management was launched as an extension of Morneau Shepell's asset and risk services department to help achieve targeted investment outcomes for clients and provide pension plan sponsors with a new investment approach and asset allocation. By pioneering the outcome-oriented style of investing, Morneau Shepell Asset & Risk Management assists investors by emphasizing downside protection, reduced volatility, and controlled risk.

Morneau Shepell is the only human resources consulting and technology company that takes an integrative approach to employee assistance, health, benefits, and retirement needs.

To learn more, contact Robert Boston at **416.380.2765**, email **msarminfo@morneaushepell.com**, or visit **morneaushepell.com**.