NORTHERN TRUST
ASSET MANAGEMENT

CASE STUDY

MAKING AN ENDOWMENT PORTFOLIO DYNAMIC AND EFFICIENT

"How can our endowment portfolio keep up with changing market conditions and rebalance, given our limited resources?"

The Client

A Florida-based charitable society.

The Challenge

Managing a portfolio with limited internal resources.

Our Approach

Make portfolio management both more effective and efficient.

Overcoming investing challenges

A philanthropic organization with a $13 million investment portfolio found managing their investments in-house challenging. The investment committee was looking to make improvements. We had a solution.

Managing the portfolio more efficiently

When a Florida-based philanthropic organization ran its $13 million multi-manager portfolio in-house, it lacked the resources needed to make swift investment decisions. While it received monthly recommendations from a leading asset management firm — backed by capital market assumptions and risk forecasts — its stretched capabilities delayed any action. With limited resources, the investment committee took as long as six months to act on advice about asset allocation and underlying asset managers. This delay meant that it missed financial market opportunities. What's more, the organization was similarly slow to act on recommendations to switch out of underperforming asset managers.

Beyond these practical difficulties, the portfolio was inefficient: in terms of costs and generating alpha.

An active solution, using cost-efficient ETFs

To make its portfolio management both more effective and efficient, the philanthropic organization chose Northern Trust Asset Management to provide a multi-asset turnkey solution. It decided to migrate from a static portfolio that invested in both active and passive mutual funds to a dynamic and factor-based approach, using exchange-traded funds (ETFs).

Specifically, the organization selected the Northern Trust Diversified Strategist Portfolios (DSP). This solution invests according to a time-tested dynamic asset allocation process, using ETFs that deliver a systematic investment approach intended to generate a similar level of alpha to active managers but at a far lower cost, as well as higher risk-adjusted returns than a typical blended overall portfolio benchmark.

DSP seeks to outperform traditional passive portfolios in three ways. First, it diversifies beyond traditional stocks and bonds into asset classes such as real assets, high yield bonds, and Treasury Inflation Protected Securities. Second, the dynamic asset allocation can add value as market conditions change. Third, it invests in ETFs which target factors that have outperformed passive market indices.

DSP'S THREE STAGES OF IMPLEMENTATION

For illustrative purposes only. Please note that this information reflects current processes and that all steps of the analysis may not be taken for each investment.

The asset allocation process is managed by Northern Trust Asset Management's Investment Policy Committee (IPC), a global team of investment experts. The committee meets annually to optimize portfolios according to a long-term (five-year) outlook and meets at least monthly to adjust that outlook based on near-term (one-year horizon) market conditions. The investment committee issues regular updates monthly, or more often in volatile markets.

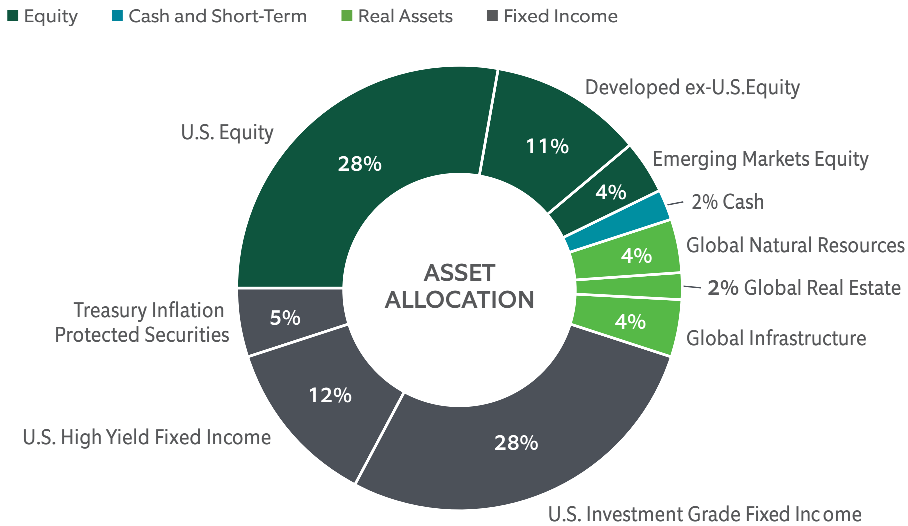
Our Solution

The Diversified Strategist Portfolios (DSP) offer factor-based portfolios that are globally diversified across a range of asset classes.

A liquid portfolio targeting growth and income

In an effort to increase efficiency in terms of costs, the portfolio is invested in ETFs, which are liquid and often have lower expense ratios than mutual funds. In addition, the ETFs are efficiently rebalanced alongside approximately four to six tactical asset allocation changes a year.

ASSET ALLOCATION: BLENDING CAPITAL APPRECIATION AND RISK CONTROL



Source: Northern Trust. As of 8/13/2022. For illustrative purposes only. Information is provided to illustrate typical sectors and securities in which the portfolio may invest. It should not be considered investment advice or a recommendation to buy or sell any security. There is no guarantee that securities remain in the portfolio or that securities sold have not been repurchased. It should not be assumed that any investments were profitable or will prove to be profitable, and past performance does not guarantee future results.

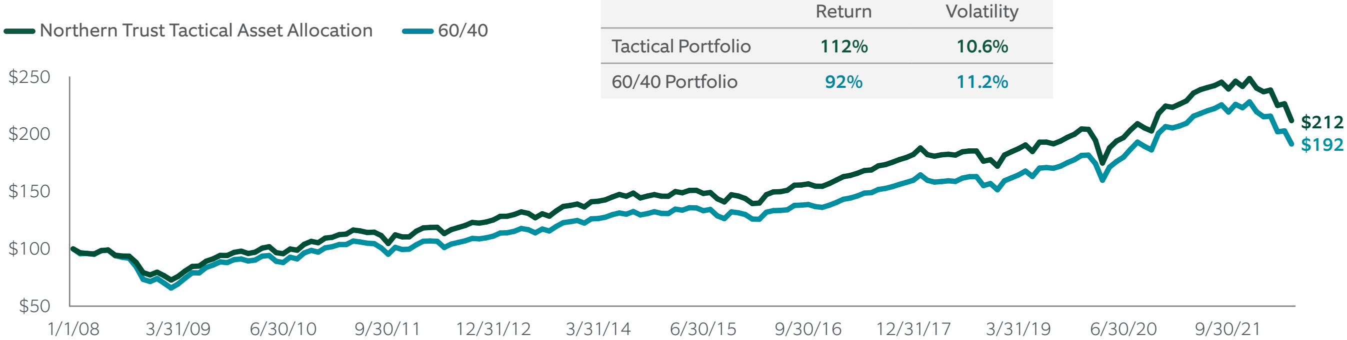
The philanthropic organization opted for a portfolio with a growth and income investment objective, which has about 60% of its assets focused on long-term capital appreciation and 40% focused on risk control to steady the portfolio.

DYNAMIC ASSET ALLOCATION DECISIONS: MORE VALUE WITH LESS RISK

Northern Trust's time-tested Tactical Asset Allocation process has added more than 20% cumulatively with less risk over the past 14 years.

Cumulative Hypothetical Growth of $100

	Cumulative Return	Annualized Volatility
Tactical Portfolio	112%	10.6%
60/40 Portfolio	92%	11.2%



Source: Northern Trust Investments, Bloomberg. Performance data through 6/30/2022. Volatility data through 6/30/2022. Start date is based on the inception of the hypothetical model portfolio, 12/31/2007. The Tactical model portfolio asset class hypothetical expected returns are developed annually by Northern Trust's Capital Market Assumptions Working Group. Tactical Portfolio is a hypothetical model portfolio based on Investment Policy Committee asset allocation decisions and asset class index proxies, which cannot be directly invested in and may change over time; return figures are gross of fees and exclude any potential transaction costs or expenses. Hypothetical performance results do not reflect actual trading and have certain inherent limitations. **Please see important information on Hypothetical Returns at the end of this presentation.** The 60/40 portfolio comprises the MSCI ACWI total return and Bloomberg Barclays U.S. Aggregate indices, respectively. All volatility figures are annualized and use weekly data. Past performance is not indicative of future results. There are risks involved in investing including possible loss of principal. There is no guarantee that the investment objectives of any fund or strategy will be met. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

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