

Keeping ASIAM Financially Healthy

Investment Policy

Benjamin Franklin suggested that death and taxes represent life's only certainties. Managers of foundation assets would take exception to old Ben's assertion: most foundations aspire to exist in perpetuity, and most endowed assets enjoy exemption from taxes. The perpetual nature of foundations makes endowment management one of the investment world's most fascinating endeavors. Balancing the tension between preserving long-run asset purchasing power and providing current operating support provides a rich set of challenges, posing problems unique to foundations.

With those challenges in mind, ASIAM Foundation's investment advisor D.B. Root & Company has structured ASIAM's investment portfolio using a combination of academic theory and informed market judgment. The theoretical framework relies on a strategic asset allocation approach, often employed by university endowments, developed by Nobel laureates James Tobin and Harry Markowitz. Using statistical techniques, ASIAM employs rigorous analysis to estimate risk and return profiles of various asset classes.

Because investment management involves as much art as science, qualitative considerations play an extremely important role in portfolio decisions. For example, the definition of an asset class is quite subjective, requiring precise distinctions where none exist. And returns and correlations are difficult to forecast given an ever changing investment environment.

All that considered, the combination of quantitative analysis and market judgment employed by ASIAM produced the following portfolio as of September 2007:

<u>Asset Class</u>	<u>September 2007</u>	<u>Current Target</u>
Absolute Return	20%	23%
Domestic Equity	17%	12%
Fixed Income	4%	4%
Foreign Equity	17%	15%
Private Equity	6%	16%
Real Assets	35%	28%
Cash	1%	2%

The target mix of assets produces an expected real (after inflation) long-term growth rate of 6 percent with a risk (standard deviation of returns) of 11 percent.

The need to provide resources for current operations as well as preserve purchasing power of assets has dictated investing for higher returns, causing the Foundation to be biased towards equity. In addition, the Foundation's vulnerability to inflation further directs the Foundation away from fixed income and toward equity instruments. Hence, 96.0 percent of the Foundation is targeted for investments in assets expected to produce equity-like returns, through holdings of domestic and international securities, real assets, and private equity.

Over the past decade, ASIAM reduced dramatically the Foundation's dependence on domestic marketable securities by reallocating assets to nontraditional asset classes. In 1999, 75 percent of the Foundation was committed to U.S. stocks, bonds, and cash. Today, target allocations call for 16 percent in domestic marketable securities, while the diversifying assets of foreign equity, private equity, absolute return strategies, and real assets dominate the Foundation, representing 84 percent of the target portfolio.

The heavy allocation to nontraditional asset classes stems from their return potential and diversifying power. Today's actual and target portfolios have significantly higher expected returns and lower volatility than the 1999 portfolio. Alternative assets, by their very nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management. The Foundation's long time horizon is well suited to exploiting illiquid, less efficient markets such as private equity, emerging markets, commodities, and real estate.

Long time friend and advisor to Dr. Savio and Pattie Woo, D. B. Root & Company is an independent wealth management firm focusing on Family Office Services for the mMillionaire(SM). Headquartered in Pittsburgh, Pennsylvania, it was founded in 1994 by David Root, Jr. D. B. Root's mission is carefully crafting financial plans and asset allocation strategy to help meet each client's personal needs. D. B. Root has been recognized as one of the top-ranked advisor teams in America by Research Magazine and Barron's.