

# Managing Liquidity in Foundations & Endowments

Martin Leibowitz, the Chairman of the Marcus Evans Foundations & Endowments Investment Summit 2010, addresses some of the concerns shared by endowment and foundation investment executives in North America today. Interview with: Martin Leibowitz, Managing Director, Morgan Stanley Miami, FL, February 20, 2010 - FOR IMMEDIATE RELEASE

Whether managing a foundation or endowment, large or small, diversified or plain vanilla, at the end of the day, having the right level of liquidity in the fund is crucial. It is a challenge to find the right balance of illiquid and liquid assets to take advantage of investment opportunities, according to Martin Leibowitz, Managing Director at Morgan Stanley. The Chairman of the Marcus Evans Foundations & Endowments Investment Summit 2010, taking place in Florida, April 18-20, Martin Leibowitz shares his thoughts on liquidity planning, asset allocation strategies and his projections for the year.

What are some of the challenges shared by foundation and endowment investment executives in North America, and what solutions would you recommend?

Martin Leibowitz: Foundations and endowments differ far more than is often recognized. Many universities have little dependence on their endowments and in some cases not at all. This translates to a big difference on the kind of issues they face. However, if you have a small percentage of your budget dependent upon your endowment, it does not necessarily mean that you are in a position to take more or less risks or that you are in a better position. That small percentage may be the difference between the university operating comfortably or having to be more stringent with the budget. Foundations are more uniform in one sense. They are subject to a rather complex set of rules and are required to distribute five per cent of their endowment income over a certain period of time. Even then, it depends a lot on their granting strategies. Regarding foundations that have long-term commitments to various projects, their spending will not just be a percentage but a fixed amount with very little degree of flexibility. Others may have relatively short term or more flexible commitments that they can cut back without too much difficulty for at least a brief period of time.

Before 2008, there was a long run of very good returns in the markets for diversified endowments and foundations. Meeting the five per cent requirement was relatively easy. The biggest long-term problem for foundations is that if they spend five per cent of their assets and want to maintain an inflation adjusted spending power, they have to earn five per cent plus inflation. This puts them in the seven to eight per cent range. On a long term basis, that is a big challenge, given the kind of risks that one might have to accept in doing so. Normal market assumptions make earning eight per cent nominal on a risk adjusted basis, challenging it is a pretty high threshold.

What long-term strategies would you recommend to foundation and endowment investment officers?

Martin Leibowitz: Investors should consider their investment strategy on a case by case basis. The larger funds have recently learnt that much more attention has to be paid to having adequate liquidity to ride over the almost inevitable severe bumps in the markets. Many foundations and even more endowments encountered various forms of liquidity strains, which I think they have learnt to overcome. But it was a tough lesson. Chief investment officers will now be paying more attention on how much liquidity they can afford to forgo. Giving up liquidity makes sense for a long-term fund if they have enough liquidity to manage. If you choose the right kinds of illiquid investments, they should in theory give you significantly better returns than the corresponding liquid assets. It is a challenge to be able to get the right balance of illiquid and liquid assets and be sure that those illiquid assets have the long-term earning power that justifies the sacrifices and illiquidity. People have come to the realization that they can easily get into a situation where their commitment to liquid assets can exceed their ability to maintain the necessary liquidity.

What asset allocation strategies would you recommend?

Martin Leibowitz: Regardless of how diversified a fund is, just about every fund is dominated by equity volatility, with about 90 per cent of the short-term risks related to equity movements. This is true for even the most diversified funds. A diversified fund has the same sensitivity to equity movements as a traditional 60/40 fund consisting of just fixed income and equity. Diversification does not help you reduce short-term volatility. When you have had a very bad market like we did in 2008, in addition to the illiquidity problem, the correlation between these multiple asset portfolios got worse. Ironically, in a very bad market, the degeneration in a diversified fund can be even worse than in a traditional fund. On the other hand, diversified funds have had a much better return over a long period of time. For a fund that can afford to be truly long term, incremental return is the best defense against risk. But that means you have to be able to survive those downward spikes as well. That brings us back to the liquidity issues you need to have sufficient liquidity, sufficient backing from your board and sufficient resources to stay on course and take advantage of the long term opportunities that exist.

What are your projections for 2010?

Martin Leibowitz: Any regulation introduced in the markets will have an impact upon all investors. Foundation and endowment investors typically invest on a wide range of asset classes that are both in and beyond the public markets, thus regulation change in any area is likely to affect them. On the other hand, their vulnerability to regulation in any one area is likely to be somewhat diversified. Nevertheless, all markets are tied together and so a change in regulation, in any form, will affect all investors in foundations and endowments, without exception.

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About the Foundations & Endowments Investment Summit 2010  
This unique forum will take place at the Doral Golf Resort & Spa, Miami, Florida, April 18-20, 2010. Offering much more than any conference, exhibition or trade show, this exclusive meeting will bring together esteemed industry thought leaders and solution providers to a highly focused and interactive networking event. The summit includes presentations on liquidity planning, and reassessing asset allocation and investment strategies. For more information please send an email to [info@marcusevanscy.com](mailto:info@marcusevanscy.com) or visit the event website

at<http://www.foundations-endowmentssummit.com/MartinLeibowitzInterview>Please note that the summit is a closed business event and the number of participants strictly limited.About marcus evans Summitsmarcus evans Summits are high level business forums for the worlds leading decision-makers to meet, learn and discuss strategies and solutions. Held at exclusive locations around the world, these events provide attendees with a unique opportunity to individually tailor their schedules of keynote presentations, think tanks, seminars and one-on-one business meetings. For more information, please visit <http://www.marcusevans.com>All rights reserved. The above content may be republished or reproduced kindly inform us by sending an email to [press@marcusevanscy.com](mailto:press@marcusevanscy.com)

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