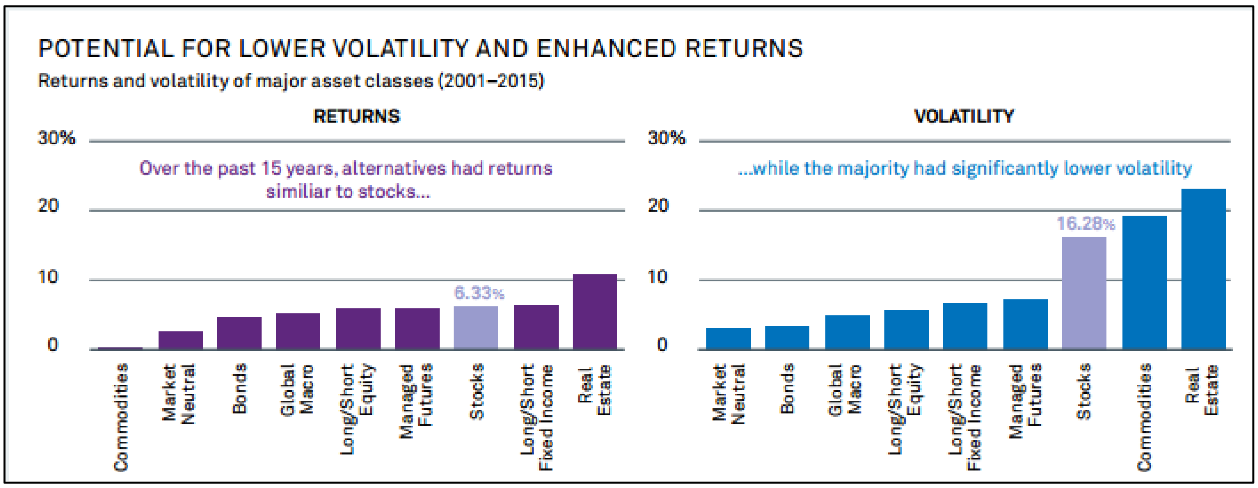
The Role Alternatives Can Play

Leveraging the time horizon to decrease portfolio volatility & capture illiquidity premium

Liquidity, and more broadly, illiquidity are both critical concepts for an endowment that allow it to meet its long-term objectives and the needs of the organization it supports. At the core, an investment committee is charged with ensuring that the endowment has adequate liquidity to provide for the annual spend while protecting the corpus from crippling drawdowns. This may be done through prudent asset allocation and portfolio construction that encourages growth over the long-term.

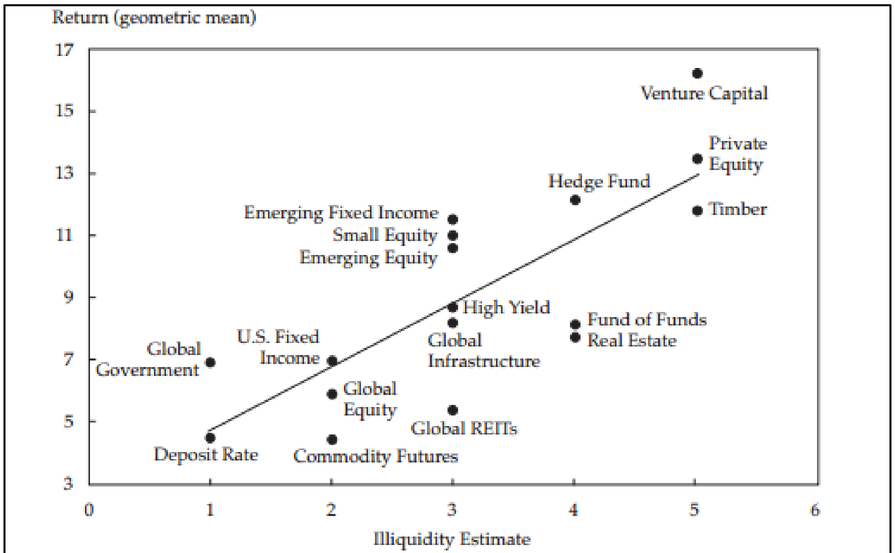
Since the recovery from the Global Financial Crisis, a traditional 60/40 or even 80/20 asset allocation to S&P 500 Stock Index and Barclays Capital U.S. Aggregate Bond Index respectively, has provided solid results as the rising tide has lifted many boats. This approach, however, carries with it a higher degree of volatility and drawdown risk that, in conjunction with the annual spend, can have a severe impact on the corpus in down markets. Research has illustrated the addition of uncorrelated return streams such as alternative investments, may lower overall portfolio volatility and enhance return opportunity.



Source: Informa Investment Solutions. Blackrock, Alternative Investments: Myths & Misconceptions
For information on indices used and performance information, please see Risk Factors & Disclosures

"Illiquidity induces appropriate long-term behavior" (David Swensen, CIO Yale University)
Many endowments and foundations have the ultimate advantage of holding a perpetual pool of capital. These institutions are the supreme long-term investor; with essentially no assets it cannot hold. Shorter term investors, those with shorter dated liabilities, are innately denied this luxury. This truly long-term view opens up the endowment investor to a broader palette of uncorrelated assets that may allow it to broadly diversify the portfolio and lower volatility, while simultaneously capturing an illiquidity premium previously forgone. Such assets may include but are not limited to, absolute return strategies/hedge funds, private equity, venture capital, timber, and real estate. Properly sized, illiquid assets may provide uncorrelated balance and opportunity to the typical 60/40 portfolio, which may otherwise reach for yield by doubling down on correlated equity exposure instead of leveraging the endowment's ad infinitum time horizon.

Compounded Annual Return for Various Asset Classes plotted on Illiquidity Estimate, 1990-2009



Sources: Based on data from Bank of America Merrill Lynch, Barclays Capital, Bloomberg, Cambridge Associates, Citigroup, FTSE, Global Property Research, Hedge Fund Research, Ibbotson Associates (Morningstar), Ilmanen (2011), J.P. Morgan, Kenneth French's website, MIT-CRE, MSCI Barra, NCREIF, Standard & Poor's, and UBS.

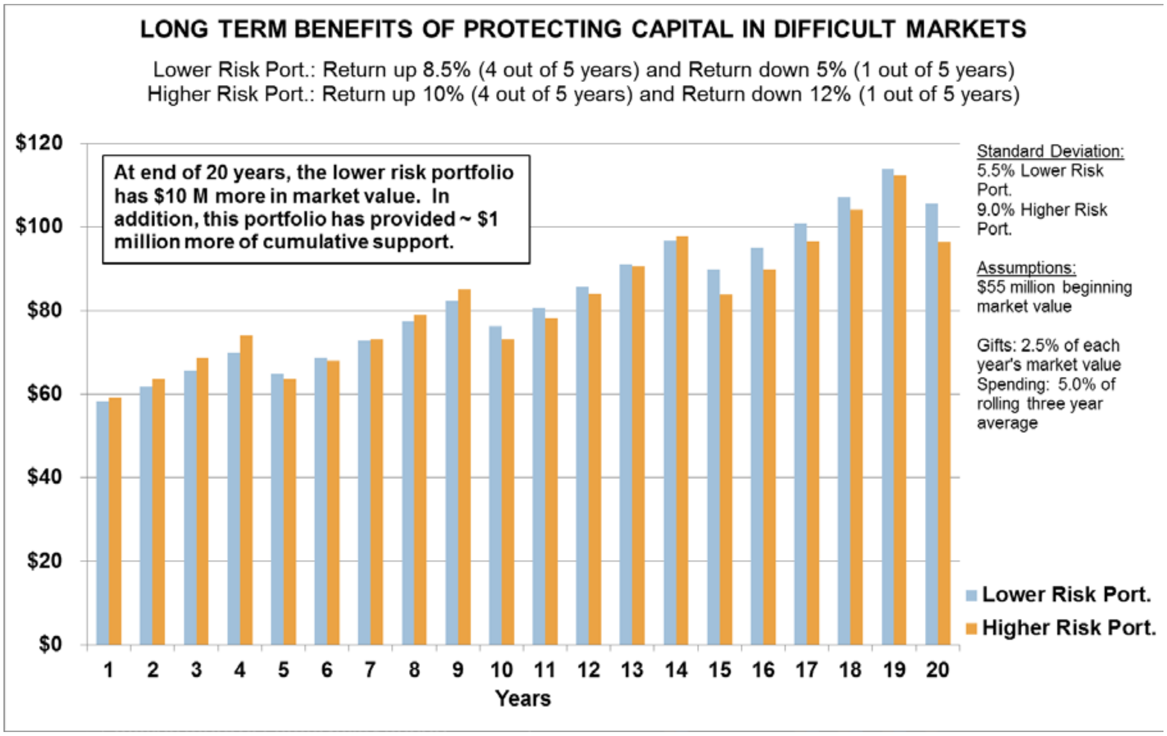
Source: CFA Institute, Understanding Expected Return, Antti Ilmanen June 2012

In his book, *Expected Returns: An Investor's Guide to Harvesting Market Rewards (2011)*, Antti Ilmanen argues that diversification away from concentrated equity market risk is the optimal path to reducing broader portfolio risk and creating an opportunity to harvest broader return premiums. Verger Capital agrees with this assertion as does Mr. Swensen who noted in 2009, "Even in times of normalcy, investors receive unreasonably large incremental returns in illiquid securities".

Just as important as the time horizon is the appetite for risk. How much downside potential can the asset owner tolerate over the entire time horizon? Risk matters, and negative compounding can have a severe impact when you are dipping into an endowment corpus for a 5% annual spend. But for those investors who have a longer investment horizon, an "antifragile" investment portfolio should benefit from the randomness of life by making many small bets across multiple markets, strategies, factors or asset classes. An antifragile investment portfolio possesses optionality. Optionality means the portfolio possesses real options that provide necessary investor liquidity in all markets and should allow them to make opportunistic investments when others are looking for buyers at any price. An antifragile investment portfolio is neither inherently passive nor active in its strategy. It is one that can have small losses from time to time but may avoid catastrophic ones.

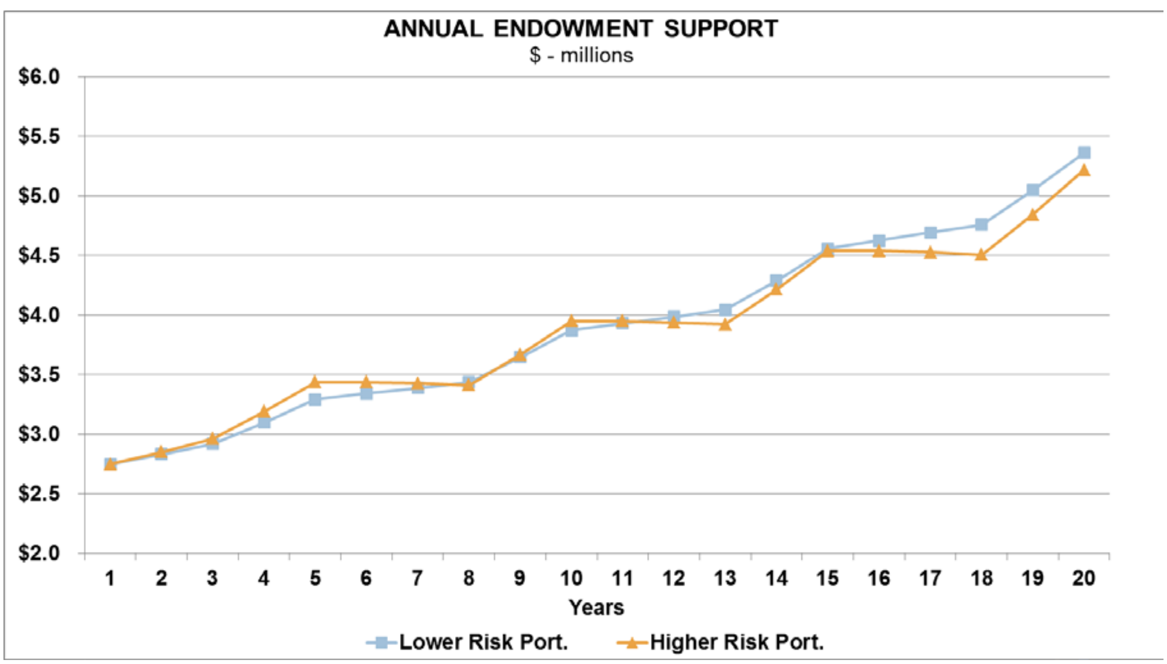
To illustrate the impact that volatility has on returns and the corpus over time, we have modeled out corpus growth over 20 years given specific assumptions;

- Initial market value of $55,000,000
- Two portfolios with 5.5% volatility (blue) and 9% volatility (red)
    - Return & drawdown assumption embedded in table
- Spend rate of 5% & gifts of 2.5% of corpus per annum



*Source: Verger Capital Management***

You will note that over the 20-year period, and despite the higher risk portfolio delivering higher returns in up-years, over time, the lower risk portfolio outperforms in the long-run driven by shallower drawdowns when the market retreats. The smoothing of returns generated by a lower volatility portfolio may also contribute more stability in budgeting future endowment draws as illustrated in the table below.



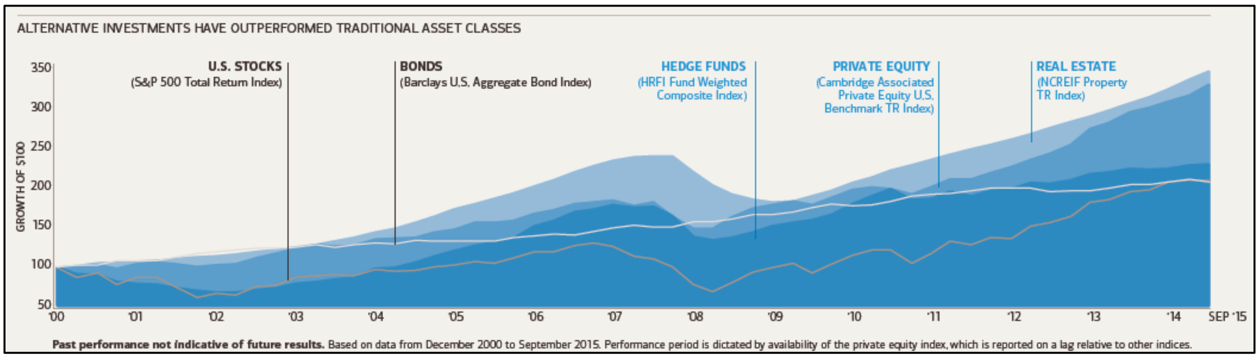
*Source: Verger Capital Management***

**This is based on a hypothetical situation using hypothetical assumptions. The hypothetical data was calculated by Managing Director, Craig Thomas. There are inherent risks in the presentation of hypothetical data because the data many not reflect the impact of material economic and market factors. The negative return years are every 5th year in the table; all other years illustrate positive performance years. Lower risk portfolio is one which has a lower standard deviation of 5.5%. Higher risk portfolio has a higher standard deviation of 9.0%.

Adding Alternatives, Skipping the J-Curve, & Liquidity

One of the biggest challenges that face many institutions when considering the addition of alternatives to a portfolio is how to do so in the most efficient and cost effective manner. Too frequently for endowments that are <$100M that challenge is exacerbated by lack of access to top tier managers and strategies and little if any ability to negotiate more favorable fees. These hurdles regrettably often end with a return to the easier path and traditional status quo.

Verger Capital views alternatives not as an asset class per se, but as a vehicle to access uncorrelated returns, risk factors, and investment talent. At present, Verger Capital has roughly 55% allocated to alternatives inclusive of absolute return strategies and private investments. We utilize direct investments into alternative mangers in our equity, credit and real assets allocations.



Source: US Trust

Index descriptions can be found in the Risk Factors and Disclosures

Rather than building a private capital program from scratch, the Verger Capital model has the potential to be immediately additive to achieving the organization’s goals and objectives. The benefits include immediate access to a seasoned allocation to private capital strategies and established investments in real assets and hedge funds, mitigating execution risk and the J-curve effect of private investments. There is the opportunity to have a pro-rata share of a mature private capital program containing a range of vintage years across areas such as buyouts, growth equity, venture capital, energy, real estate, and agriculture/farmland in addition to hedge funds.

Paramount to our portfolio construction process is the understanding of liquidity. We use proprietary models to actively monitor projected liquidity positions and employ sensitivity analysis to project liquidity over multiple scenarios and time periods. Finally, we look at liquidity as an offensive tool which, when managed properly, can provide “dry powder” which could be deployed when liquidity is at a premium.

Having adequate liquidity for the annual distribution support provides for the needs of an institution. We view our ongoing, proactive management of portfolio liquidity as a competitive advantage by allowing us to take advantage of “forced selling” by other institutions (e.g., during the market crisis of late 2008/early 2009) that were over exposed to illiquid investments. At the asset segment level we determine on an ongoing basis how much is liquid over multiple time horizons (e.g., weekly, monthly, quarterly, etc.). For illiquid investments, we track and monitor the amount of our unfunded commitments. Additionally, Verger Capital deploys a dynamic hedge overlay. The hedge actively utilizes a variety of strategies that seek to maximize drawdown protection while minimizing cost. The hedge assists to provide adequate liquidity to: (1) meet distribution needs, (2) meet unfunded capital commitments for private investments, and (3) proactively take advantage of market disruptions to buy certain assets at attractive prices. The hedge also helps reduce overall volatility.

Risk Factors & Disclosures

Statistical Information

Past Performance. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** THE INFORMATION PROVIDED IS HISTORICAL AND SHOULD NOT BE TAKEN AS AN INDICATION OF FUTURE PERFORMANCE. ANY INVESTMENT INVOLVES RISKS, INCLUDING LOSS OF THE ENTIRE INVESTMENT. There can be no assurance nor should it be assumed that future investment performance of any fund or strategy will conform to any performance examples set forth in this presentation or that the investments of any fund or strategy will be able to avoid losses. The investment results and portfolio compositions set forth in this presentation are provided for illustrative purposes only and may not be indicative of the future investment results or future portfolio composition. The composition, size of, and risks associated with an investment in any fund or strategy may differ substantially from the examples set forth in this material. An investment in any fund or strategy can lose value.

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Index Comparisons. Other market indexes are included solely to provide a comparison to general market results during the periods indicated, and their inclusion is not meant to suggest similarity in either composition or elements of risk. Index Data. Index performance shown reflects the reinvestment of dividends and other income. An index does not reflect the deduction of fees, replication costs, other expenses or taxes – the compounded effect of which would materially reduce cumulative net returns over time. Because an index is a statistical composite, you cannot invest directly in an index.

Index Definitions. <u>Bonds</u> are represented by the unmanaged, market-weighted Barclays US Aggregate Bond Index, is composed of investment-grade corporate bonds (rated BBB or better), mortgages and US Treasury and government agency issues with at least 1 year to maturity. <u>Commodities</u> are represented by the unmanaged Bloomberg Commodity Index, which reflects the return on fully collateralized positions in the underlying commodity futures. <u>Managed Futures</u> are represented by the HFRI Macro: Systematic Diversified Index, which is composed of strategies that seek to profit from opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes, including equity, fixed income, hard currency and commodity markets. <u>Long/Short Fixed Income</u> is represented by the HFRI Relative Value Fixed Income Corporate Index, which is composed of strategies that seek to profit from a spread between related financial instruments in which one or multiple components of the spread is a corporate fixed income instrument. <u>Global Macro</u> is represented by the HFRI Macro Index, which is composed of strategies that seek to profit from predicted or future movements in underlying economic variables and their subsequent impact on equity, fixed income, hard currency and commodity markets. <u>Long/Short Equity</u> is represented by the HFRI Relative Value Index, which is composed of strategies that seek to profit from a pricing discrepancy between multiple related securities, ranging broadly across equity, fixed income, derivative or other security types. <u>Market Neutral</u> is represented by the HFRI Equity Hedge: Equity Market Neutral Index, which includes strategies that employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. <u>Real Estate</u> is represented by the NAREIT All Equity REITs Index, a free-float adjusted, market capitalization weighted index of U.S. Equity REITs. Constituents of the Index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property. <u>Stocks</u> are represented by the unmanaged S&P 500 Index, a capital-weighted index that includes 500 stocks representing all major industries. Returns are denominated in USD and include dividends. The Index is a proxy of the performance of the broad US economy through changes in aggregate market value.

The performance information shown is based on annualized quarterly returns for 2001-2015. Use of other beginning or ending points or of a longer or shorter period would result in different relative performance among the asset class. Indices of managed products, and hedge funds in particular, have material inherent limitation and should not be used as a basis for investment decisions.

Barclays Capital U.S. Aggregate Bond Index (f/k/a the Lehman Brothers U.S. Aggregate Bond Index), which is a market-capitalization weighted, intermediate term index that covers the U.S. Dollar-denominated, investment-grade, fixed-rate, taxable bond market. Data source: Bloomberg (ticker: LBUSTRUU).

S&P 500 Total Return Index with dividends. It is an unmanaged market-capitalization weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. Data source: Bloomberg (TR ticker: SPTR).

HFRI Fund of Funds Composite Index, a benchmark designed to reflect the net performance of over 450 U.S. and offshore fund of funds by constructing equally weighted composites of constituent funds, as reported by fund of funds managers listed within the Hedge Fund Research. Inc. database. HFRI incorporates fund removal rules designed to limit survivorship bias. Many indices aggregating fund performance tend to experience a degree of survivorship bias, a problem which arises when only 'good' funds remain in an index. Data source: Bloomberg (ticker: HFRIFOF).

NCREIF Property Index (one quarter in arrears) a very large pool of individual commercial real estate properties.

Cambridge Associates Private Equity US Total Return: Performance data is calculated quarterly by Cambridge Associates and published by Thomson Reuters Venture Economics' Private Equity Performance Database, which tracks the performance of thousands of US and European venture capital and buyout funds formed since 1969. Sources are financial documents and schedules from Limited Partners investors and General Partners. All returns are calculated net to investors (net of fees and carried interest) by Thomson Venture Economics from the underlying financial cash-flows using both cash on cash returns (distributions and capital calls) and the unrealized net asset value of funds as reported by private equity fund managers. The "US" category includes only US funds. The "All Venture" category includes data from early / seed, and later-stage financing. Historical data is revised when funds are added or removed.

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Alternative investments (e.g. hedge funds or private equity investments) are complex instruments and may carry a very high degree of risk. Such risks include, among other things: (i) loss of all or a substantial portion of the investment due to the extensive use of short sales, derivatives and debt capital, (ii) incentives to make investments that are riskier or more speculative due to performance based compensation, (iii) lack of liquidity as there may be no secondary market for hedge fund and private equity interests and none is expected to develop, (iv) volatility of returns, (v) restrictions on transfer, (vi) potential lack of diversification and resulting higher risk due to concentration, (vii) higher fees and expenses associated that may offset profits, (viii) no requirement to provide periodic pricing or valuation information to investors, (ix) complex tax structures and delays in distributing important tax information and (x) fewer regulatory requirements than registered funds. Hedge funds and private equity investments are intended only for investors who understand and accept the associated risks.

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The investment manager is registered with the Commodity Futures Trading Commission (CFTC) as a commodity pool operator and is a member of National Futures Association. Eligibility to invest in a pool operated by the investment manager is limited to qualified eligible persons (QEPs) under CFTC rule 4.7.

RISK FACTORS
Objectives. There can be no assurance that the investment manager (or any associated fund or strategy) will achieve its investment objectives, outperform other investments or that losses will be avoided.

Speculative Investment. An investment in any fund or strategy is speculative and may not be suitable for certain investors. Every investment carries some degree of risk and the potential for greater returns comes with greater risk.

Opinion. Statements made are the opinions of its author or the source cited, and are not to be relied upon by anyone as the basis for an investment decision. No guarantee of any kind is implied or possible where opinions as to past or future market conditions/events are provided.

Illiquid Investment. A fund investment is relatively illiquid because interests and shares are not generally transferable without the consent of the investment manager and the withdrawal and redemption rights of the members or shareholders are restricted.

Limited Operating History. The outsourced CIO solution is a new enterprise and each fund operated by the investment manager is newly formed, each having a limited operating history. The past experience of our investment professionals in managing other portfolios cannot be relied upon as an indicator of future success.

Key Personnel. Investment performance depends largely on the skill of key personnel and investment professionals of the investment manager, including, in particular, James Dunn.

Investment Discretion. Investment discretion may be employed incorrectly or to the detriment of a fund or strategy, causing losses or missed opportunities.

Risk Management and Hedging Strategies. There can be no assurance that risk management techniques or hedging strategies will be successful in reducing risk and they may involve significant expense. The success of any hedging strategy will depend in part on the investment manager (or the manager of an underlying fund or a sub-adviser) to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments being hedged.

Reliance on Underlying Funds and Sub-Advisers. Research, due diligence and monitoring cannot entirely eliminate the inherent uncertainty that arises from reliance on third-party managers over which the investment manager may have only limited access to information or control. Success depends not only on the ability of the investment manager to select and allocate to underlying funds and sub-advisers but also on the performance of these unrelated entities, of which there can be no guarantee.

Portfolio Examples. The performance, composition, size of, and risks associated with an investment may differ substantially from the examples set forth in this presentation.

Correlation. There is no necessary degree of correlation, non-correlation or negative correlation between the results of any investment or strategy of the investment manager and other asset classes or inflation. Markets can and do move together over a number of individual months and can cause large losses under certain market conditions.

Leverage. While leverage presents opportunities for increasing returns, it may magnify losses as well.

Volatility. Markets can be highly volatile. Market volatility brings with it more risk and the potential for greatly increased losses, particularly over short periods.