DiligenceVault

Winning During Crisis

20TH MAY 2020

WEBINAR TAKEAWAYS

WINNING DURING CRISIS

SIX KEY TAKEAWAYS

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01

INVESTMENT OFFICES IN QUARANTINE

- BCP planning was helpful, and the team has transitioned to remote working with Zoom, Webex, and phone calls
- Including periodic work from home exercises as part of a BCP plan has allowed offices to seamlessly operate remotely
- Governance has increased with more virtual meetings with the Investment Committee, but less governance oversight from the broader organization (University / Government) as they have their issues separate from investment office
- Utilizing technology for automating dashboards and exhibits to communicate the impact on portfolio with Investment Committee Board Members
- Culture is holding up for teams yet differs depending on size
- Hiring has not been an issue yet as there are strong candidates seeking opportunities, but may be a bit challenging virtually when trying to onboard new team members and assimilate them in the culture

02 LIQUIDITY DEMANDS

- Universities with sports teams would require greater dependency on the endowment. Government funding is helping bridge the gap
- Capital calls in the first few weeks were 3-4x larger than ones during normal course of business as PE firms were using the capital to pay back their liquidity / credit lines
- Re-visiting a pacing plan of capital deployments will be an important

03 EXISTING VS. NEW INVESTMENTS

- Having an existing pipeline of managers has helped maintain a regular deployment schedule. If the crisis extends, diligence methodology would change
- Existing investment monitoring will continue to be virtual, but the in person and body language insights are limited while virtual and especially difficult for new manager relationships
- Greater focus on more well-known managers as it is difficult to allocate to niche managers that you cannot meet in person. This is resulting in increased re-up rate and commitment sizing to existing managers
- Having relationships with toggle managers and SMA have helped Toggle managers are ones with a flexible mandate who can do more than one thing, and do them well, will attract capital in this environment as allocators do not have to hire a new manager and can change the investment guidelines to broaden the opportunity set
- Austin, TX allocator community is close-knit with CIOs and senior investment professionals that leverage peer group's due diligence experiences and discuss potential opportunities. The collaboration and sharing of resources is across investor type: pensions (TMRS, ERS, TRS, COAERS, TCDRS), endowments (TTU, UTIMCO) and wealth funds (Texas Permanent, Texas Treasury)

04 ASSET PRICING AND ALLOCATION

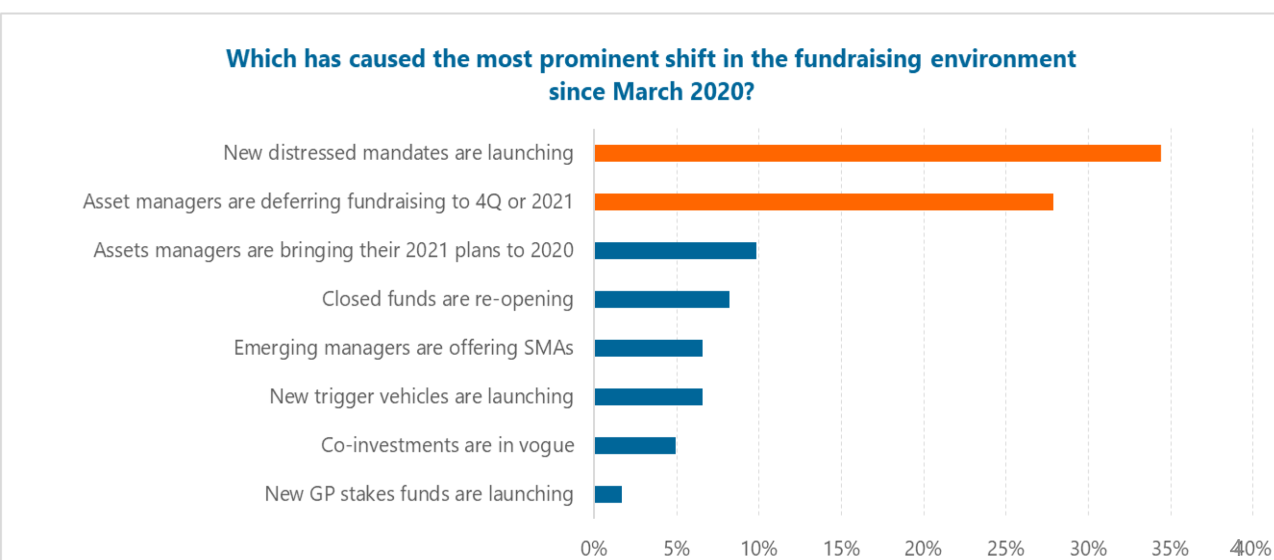
- The CIOs had ceased to reach for yield because of asymmetric nature of the opportunity set
- Equity markets way ahead of fundamentals and trading on hope. Being overweight to equities is exposed to volatility and drawdown risk due to geopolitical uncertainty. Trimming public equity exposure, especially from the non-US portion, to increase cash position
- GDP and unemployment data coming out may have a very negative impact on asset valuations

05 NEW AREAS OF OPPORTUNITY

- Private credit, opportunity funds and distressed are areas of focus but entry point is very important and will be more prominent in the second half of 2020
- Several opportunities have had accelerated timelines of less than one week to capture a very specific market opportunity
- Not shifting overall portfolio allocation, but finding one off opportunities and taking advantage of the complexity premium
- Macro hedge funds can take advantage of the volatility in currency markets
- TALF: not expected to provide sufficient returns for long-term at scale and is becoming a crowded space. Niche TALF strategies would provide mid-teens returns and, on a risk-adjusted basis provide better returns than some of the larger levered TALF funds
- Structured and asset backed exposure can be a good substitute to TALF funds
- Focusing on active managers who can cherry pick good securities rather than passive managers

06 TRENDS TO WATCH

- Need to be cautious of manager strategy creep. Managers shifting structure for liquidity purposes is more acceptable
- There were limited warnings from managers about potential market sell off
- Expectation of a long and slow recovery
- Managers are changing fundraising strategy



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