WHAT IF …

Sobering Stuff. The table below was prepared in connection with the publication of TIFF's *Commentary* for 1Q 2002 (available via the Education and Research section of TIFF's Website). The focal point of the aforementioned *Commentary* is identical to the focal point of the TIFF *Commentary* that immediately preceded it (for 4Q 2001): how can trustees of endowed charities deploy their assets in a manner that will give them a "fighting chance" of maintaining purchasing power while consuming 6% of endowment assets per annum? The initial essay in this series (i.e., TIFF's *Commentary* for 4Q 2001) was entitled "The Six-Percent Solution: An Asset Allocation Primer." It received this title because the "illustrative policy portfolio" that accompanied it contemplated a long-term real or inflation-adjusted return of 6% — a return sufficient to maintain endowment purchasing power in the face of customary withdrawal rates (5% for programs plus 1% for investment expenses plus related overhead). The return assumptions underlying this portfolio appear below, along with revised assumptions for certain asset classes and for the portfolio as a whole. (Figures through which horizontal lines appear are those that appeared in TIFF's *Commentary* for 4Q 2001.) TIFF has published the table below in order to answer an important question posed in the TIFF *Commentary* for 1Q 2002: "What if Peter Bernstein is right?" Mr. Bernstein is a respected economist and market historian who has argued that the assumed real return of 4.5% on marketable stocks embodied in "The Six-Percent Solution" is too high. **If** Mr. Bernstein is right, then at least two conclusions follow: first, the expected returns of asset classes and strategies whose performance is dependent (even in part) on global stocks' return must be adjusted downward; second, the overall portfolio's expected return must be adjusted downward also. TIFF members seeking to understand the logic (or lack thereof) underlying the adjustments shown below should direct inquiries to info@tiff.org.

ILLUSTRATIVE POLICY PORTFOLIO

- Assumes a 15-year investment horizon (2002–2016) and access to top-tier managers in all markets.
- Portfolio seeks to avoid peak-to-trough declines exceeding 25%.
- Assumes ILBs purchased near or below par to maintain their utility as deflation (and inflation!) hedges. See TIFF *Commentary* for June 30, 2000.

Segment / Eligible Assets	Allocation Ranges* Minimum	Normal	Maximum	Expected Gross Returns: Real Return	Value Added**	Real Total Return	Reason(s) Held	Benchmark
Total Return Segment	**55%**	**70%**	**80%**	**3.8% ~~5.8%~~**	**0.4%**	**~~6.4%~~ 4.2%**	Preserve and enhance	MSCI All Country
US Stocks	} 36%	40%	64%	3.0% ~~4.5%~~	0.8%	~~5.5%~~ 3.8%	purchasing power in	World Free Stock
Non-US Stocks							non-extreme market	Index (currently
Private Equity	11%	18%	25%	4.8% ~~8.5%~~	subsumed	~~8.5%~~ 4.8%	environments	roughly 50% non-US)
Absolute Return	5%	12%	19%	5.0% ~~6.5%~~	subsumed	~~6.5%~~ 5.0%		
Inflation Hedging Segment	**8%**	**16%**	**24%**	**5.6% ~~7.8%~~**	subsumed	**~~7.8%~~ 5.6%**	Preserve capital	10-year US Treasury
Real Estate	7%	12%	17%	6.0% ~~8.0%~~	subsumed	~~8.0%~~ 6.0%	values during	Inflation Protected
Resource-Related Assets	1%	4%	7%	4.5% ~~7.0%~~	subsumed	~~7.0%~~ 4.5%	periods of	Securities (TIPS)
							high inflation	plus 4%
Deflation Hedging Segment	**4%**	**7%**	**15%**	**2.5% ~~3.0%~~**	negligible	**~~3.0%~~ 2.5%**	Preserve capital	10-year US Treasury
US$ High Grade Bonds	4%	7%	15%	2.5% ~~3.0%~~	indexed	~~3.0%~~ 2.5%	values during	notes
Non-US$ High Grade Bonds	0%	0%	5%	2.5% ~~3.0%~~	indexed	~~3.0%~~ 2.5%	deflations	
All-Purpose Hedging Segment	**2%**	**7%**	**12%**	**3.3% ~~3.4%~~**	negligible	**~~3.4%~~ 3.3%**	Avoid forced sale of	10-year US Treasury
Inflation-Linked Bonds	2%	7%	12%	3.3% ~~3.4%~~	indexed	~~3.4%~~ 3.3%	other assets to meet	Inflation Protected
Cash Equivalents	?***	?***	10%	2.0% ~~1.5%~~	negligible	~~1.5%~~ 2.0%	cash flow needs	Securities (TIPS)
Total		**100%**		**3.7% ~~5.6%~~**	**0.3%**	**~~6.0%~~ 4.0%**		**Weighted average of segment benchmarks**

* Minimums and maximums for sub-segments may not sum to minimums and maximums for each segment because sub-segments serve as partial substitutes for each other.
** Expected value added from the use of assets or strategies that could cause a sub-segment's returns to deviate from the returns of its parent segment's benchmark.
*** Minimum and normal cash positions could be negative, subject to trustee discussion of appropriate leverage ratios. Endowed charities can lever their portfolios without incurring unrelated business taxable income — if they're clever about it. Of course, if leverage is permitted, non-cash ranges must be tweaked accordingly.

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