

# Tips: investment and asset class essay sample



**ASSIGN  
BUSTER**

DUE MONDAY, MARCH 4, 2013 (FOR ALL SECTIONS)

Please read the syllabus and case instructions for details on the expected format and content of the case analysis.

## STUDY QUESTIONS

Your case report should summarize the case and present a thorough analysis of the issues that you think are important. You can use the questions below to help you organize your analysis and discussion of the case. 1. Why does Harvard spend so many resources in managing its endowment? Why not simply invest it in Treasury bonds and be done? 2. How does HMC develop its capital market assumptions? Why does HMC focus on real returns? What do HMC's capital market assumptions imply for the U. S. equity premium and the foreign equity premium? 3. Let's assume the views of HMC management about expected returns, standard deviation, and covariance of real returns on asset classes. We will also assume that cash is riskless.

If the Board allowed HMC to invest in only one asset class, which asset class would you advise HMC to discard right away based on riskreturn considerations? How would you advise them to choose one among the rest? 4. If the Board allowed HMC to invest in cash and one other asset class, which asset class would you advise them to invest in? Why? 5. If the Board allowed HMC to invest only in 'run-of-the-mill' domestic equities and bonds, which combination of those assets would you advise them to invest in? Why? 6. If the Board allowed adding commodities to the mix, would you advise them to add this asset class? Why?

7. How would you advise HMC to combine cash with a portfolio of domestic equities, bonds, and possibly commodities? 8. How are TIPS different from regular T-Bonds? When do TIPS (out) underperform regular Treasuries? What are HMC assumptions about the expected real return on TIPS, its volatility, and its correlation with the real return on the other asset classes?

What do they imply about real interest rates and inflation risk? 9. What do HMC's capital assumptions imply about the optimal allocation to TIPS and other asset classes in a mean-variance framework? Should Harvard invest its endowment in TIPS? 10. Do TIPS have advantages or disadvantages beyond their mean-variance properties that make them an attractive asset class for investors with long investment horizons such as Harvard?