Harvard case essay

[Economics](), [Financial Markets]()

Treasury bonds with the same maturity. The deference between selling TIPS and buying T-bonds will cover the Inflation risk losses thus effectively eliminates Inflation risk In the portfolio. TheHarvard's Policy Portfolio Includes much of the university endowment, pension assets, working capital, and portfolio contains 1 1 wide asset classes, Including domestic equity, foreign equity, private equity, domestic bonds, foreign bonds, emerging markets, real estate, commodities, absolute return, high yield, and cash.

This portfolio was determined by the board of the corporation for the long-run allocation, however, the manager can make short-run adjustment within the limits from the guideline. The reason that HAMS focus on real returns is HAMS want to exclude the influence of inflation and determine the return rate more precisely. As the formula nominal return = real return + inflation rate shows, choosing real return instead of nominal return can reveal the real purchasing power of the investment, thus help the manager to conduct more efficiently to prevent the evasion of the investment.

As we can see from Exhibit land Exhibit 2, domestic and foreign equity constitute the biggest part of the portfolio, and these two asset classes have high real returns as well as latterly larger standard deviations. And we know that equity premium indicates the difference between the expected return on the market portfolio of common stocks and the risk-free interest rate, and higher risk often indicates higher equity premium.

Based on Ham's assumption that the real growth rate of annual spending is 3% after inflation, and that gifts to the endowment are same as the historical average rate (1%), HIM has to maintain a real between 6% and 7% of the total investment In order achieve its preservation goal. Thus HIM has to invest a large portion in US and reign equity with higher premium, resulting in a short of cash. Yes, From inception in 1 997, TIPS had offered a real yield that ranged from. 2% to 4. 25%.