

2019 Spring Investment Advisory Board Summit

The Windrose Investment Summit is a full day of investment dialogue, including members of the investment team and the Investment Advisory Board. The Board consists of leading investors from well-known groups such as M.I.T., Boston Children's Hospital, Boston College, Bowdoin College, D.E. Shaw and Union Park Capital. The day of meetings is followed by a keynote speaker at dinner and includes Windrose clients.

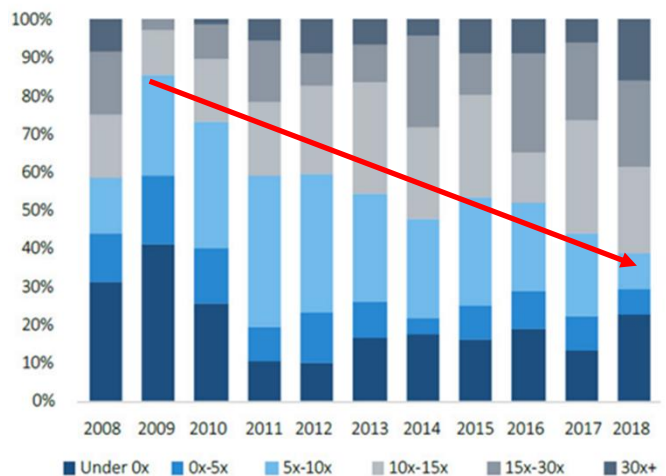
Windrose Advisors hosted a one-day Investment Advisory Board (IAB) Summit in May 2019. The event provided a venue for sharing investment ideas, discussing market opportunities and the current economic environment. The discussion focused on a number of current topics, including recent market conditions and private investments. The cross-pollination of investment ideas and market opinions between the WA Investment Team and the IAB should continue to enhance portfolio positioning and manager selection for WA clients through changing market environments. To supplement the IAB's discussions, WA hosted Paul Clifford of Income Research + Management (IR+M) to share thoughts on the current interest rate environment and the crossover solution available to WA clients. IR+M is a Boston-based, employee-owned, institutional fixed income manager that was founded in 1987 and oversees more than \$71 billion in assets.

The following are key takeaways from the Advisory Board discussion:

Private Equity's Outperformance to Public Peers:

- The historical median private equity fund has delivered returns of 16.9% over the last decade, significantly outperforming the returns of fixed income at 4.4%, hedge funds at 6.3%, and equities at 13.2%.
- As a result, surveys indicate a trend to higher prospective allocations to private equity, mainly at the expense of hedge funds.
- Larger amounts of capital in private equity have been driving up valuation multiples, as shown in the chart to the right. Investors need to be increasingly selective.

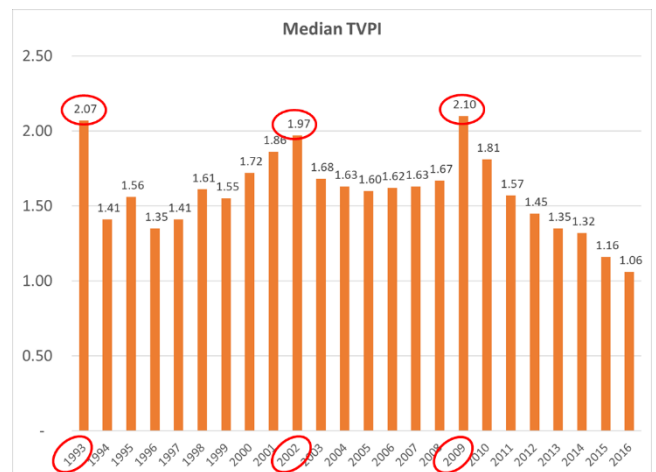
US PE deals (#) by EV/EBITDA bucket



Source: Pitchbook

Private Equity During Recession:

- The best vintage years for private equity outcomes seem to take place in years following a recession, as shown on the chart to the right.
- This is intuitive as investors hoard liquidity in a crisis and hesitate to commit to private assets, lowering valuations and offering a good entry point for high returns.
- It remains crucial to reserve liquidity in good markets, in order to deploy capital in private markets when the opportunity arises.
- Equally as important is diversifying exposure by vintage year and keeping a consistent investment program, as the timing of recessions is unpredictable.



Source: Cambridge Associates

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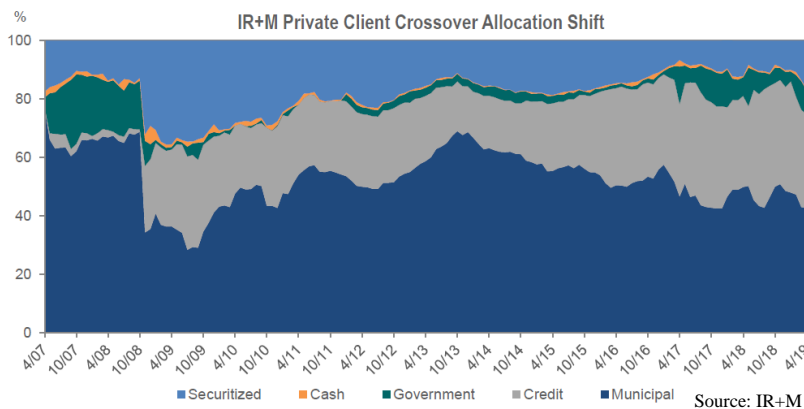
Paul Clifford, CFA serves as a Principal and Senior Portfolio Manager at IR+M with over 33 years of experience.



The following are key takeaways from our discussion with Paul:

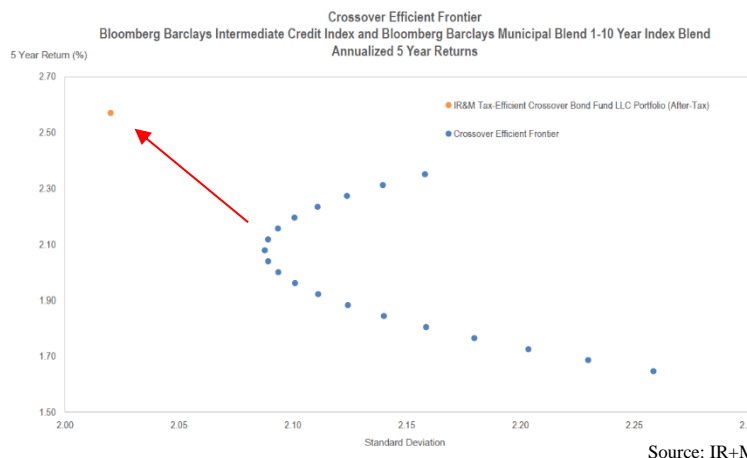
Case for the Crossover Portfolio:

- The Crossover fund was launched in February 2007 and integrates the firm's municipal, credit, and securitized teams to achieve superior after-tax¹ risk-adjusted returns relative to stand-alone municipal or taxable fixed income portfolios.
- IR+M diversifies and balances the after-tax relative value of opportunities across taxable and tax-exempt markets to optimize portfolio allocations over time, as seen on the right.



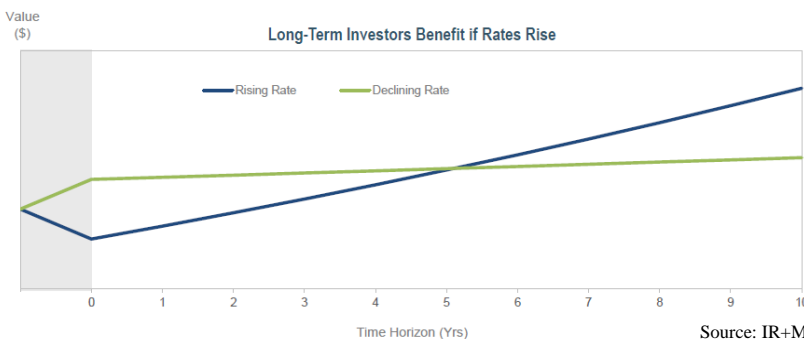
Crossover Fund Efficient Frontier:

- Static allocation portfolios between taxable and tax-exempt markets (e.g. 50% constant allocation to each market) do not optimize risk adjusted returns over time.
- As shown on the right, active management in the crossover strategy, by varying sector allocation based on valuation opportunities, can provide higher returns at lower levels of volatility than a static portfolio.



Interest Rate Environment:

- Like many active managers, IR+M does not make bets on the direction of interest rates. Instead, portfolio performance will be driven by flexible sector allocation and security selection, which are more dependable.
- Rising rates can negatively affect the market value of a fixed income portfolio in the short-term. However, this allows a portfolio to create higher income by reinvesting at higher yields over time.
- Investors with an investment horizon exceeding portfolio duration may benefit over time, as depicted in the chart to the right.



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**Investment Research / Commentary Disclaimer:
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