

Instructions for the Foote School Case

Read the Foote School Endowment case and address the following issues:

1. Asset Allocation

Evaluate the rationale for including alternative assets in the Foote School portfolio. What are the pros and cons?

2. Extended diversification

A. Take as given the correlations and standard deviation for the Absolute Return asset class. What is the beta of Absolute Return with respect to U.S. equities?

B. Given this beta, what is the alpha for Absolute Return implied by the expected return given in the case?

3. Manager Selection. For this section, refer to the supplemental pdf file linked to the syllabus. **This file cannot be distributed beyond this class.** You may have to input some quarterly data by hand.

A. What is the Sharpe Ratio of the TIFF Multi-Asset Fund [MAF]? What is the Sharpe Ratio of the Foote portfolio over the same time period?

B. Does TIFF MAF have a positive alpha over its history? To answer this, you may construct an alpha that you believe is appropriate to the fund.

C. Some information about the relative performance of TIFF MAF managers is provided. How good are they?

D. Is the TIFF MAF benchmark appropriate as a measure of performance?

4. Manager Evaluation. For this section, you may use the monthly data for the Canyon fund available for download on the syllabus.

A. What is the monthly VAR of the Canyon fund at the 95% interval?

B. What risk factors is Canyon fund sensitive to?

C. What is the risk-adjusted return of Canyon fund? Use a systematic risk model of your own choice.

