



# 2018 ANNUAL REPORT

For near term and long term time periods ended June 30, 2018, we are pleased with the absolute and risk adjusted results for our endowment and foundation clients. With realized volatility of a 60/40 portfolio, our client average net of fee returns have consistently exceeded that benchmark.

- In the 1 year period, client average net of fee returns were 8.5%, outpacing the 6.2% benchmark result by over 2% with equivalent volatility (5.0% v 4.9%).
- In the 5 year period, client average net of fee returns were 7.9%, outpacing the 6.6% benchmark result by over 1% with the same volatility (6.2% v 6.2%).
- In the 10 year period, a time frame including the market correction associated with the '08-'09 global financial crisis, client average net of fee returns were 6.2%, outpacing the 5.3% benchmark result by almost 1% with lower volatility (9.6% v 10.1%).

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## EXHIBIT 1: CONSISTENT OUTPERFORMANCE

With realized volatility of a 60/40 portfolio, our client average net of fee returns have consistently exceeded that benchmark



SOURCE Northern Trust Multi-Manager Solutions, MSCI. Annualized results for periods ended 6/30/2018. Northern Trust returns are net of fees. All history of terminated managers included. Fully reflects actual hiring, firing, rebalancing, and transaction costs (including manager replacement). Represents simple average of results realized across endowment and foundation clients with assets greater than \$200 million that utilize Northern Trust in a discretionary or advisory capacity. There may be differing strategies, objectives and fees for clients included in the average. This exhibit is for one-on-one use only and past performance is not indicative of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

Key contributors to client performance over the last ten years included:

- An overweight to U.S. equities,
- Outperformance by managers in emerging markets and absolute return and
- Positive returns from private equity and real estate investments.

## **POSITIONING**

Consistent with our investment philosophy of *Risk Managed Growth*, we design client portfolios to preserve purchasing power net of distributions over the long term while managing market, drawdown and liquidity risks. Positioning over the next several years will need to differ in significant ways from that of the last several years. We continue to focus on:

- Broadening geographic exposure,
- Deepening private investment allocations, and
- Taking advantage of differentiated active management.

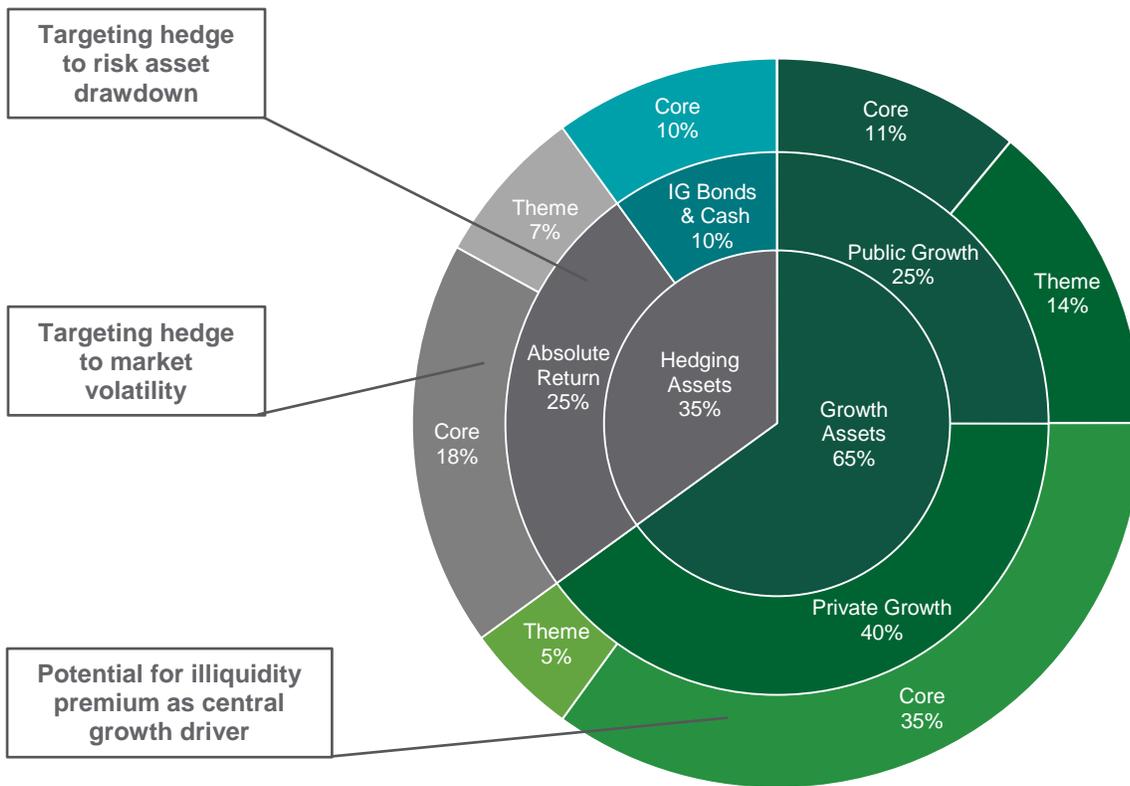
We believe emerging market equities will outperform developed markets and are positioning portfolios accordingly. Private investments offer the potential for an illiquidity premium to public investments, and we are increasing exposure to this premium with targeted commitments to select managers.

Effective active management is essential to realizing potential returns in high dispersion categories where manager performance varies significantly such as emerging markets, private investments and other alternative investments. We continue to implement portfolios with differentiated managers aligned with targeted, proprietary themes.

## **SAMPLE CLIENT ALLOCATION MODEL**

We use these allocations as a starting point: client allocations are always customized to their objectives. This is for illustrative purposes only.

**EXHIBIT 2: SAMPLE CLIENT ALLOCATION MODEL**



NOTE: For illustrative purposes only. Northern Trust Multi-Manager Solutions

Our allocation to growth assets drives the maintenance of purchasing power, with private investments at 40% of the total allocation and more than 60% of total growth assets. Larger and long-horizon investors are well positioned to target potential excess returns with relatively illiquid private investments, although each investor must define their tolerance for illiquidity.

“Hedging” assets, a combination of fixed income and absolute return investments, help to manage risks. Absolute return investments support portfolio total return while reducing exposure to traditional market drivers. Investment grade bonds and cash are held in a lower proportion within hedging assets given their low expected returns, and are utilized to hold value when riskier assets such as equities have losses.

**CONCLUSION**

We are proud of the absolute and risk adjusted returns we have historically generated for clients and are excited by our active evolving positioning against developing investment opportunities. Risk-managed growth is not easily achieved, but is essential for long-term success for endowment and foundation investors.

## ENDOWMENTS AND FOUNDATIONS

Northern Trust Asset Management's Endowments and Foundations team works with investment staff, committees and boards to enhance investment portfolios through both broad and targeted multi-manager mandates. For more information about this process, please contact your relationship manager or visit [northerntrust.com](http://northerntrust.com).

## NORTHERN TRUST ASSET MANAGEMENT

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments, so they can confidently realize their long-term objectives.

Entrusted with more than \$900 billion of assets,<sup>1</sup> we understand that investing ultimately serves a greater purpose and believe investors should be compensated for the risks they take — in all market environments and any investment strategy.

That's why we combine robust capital markets research, expert portfolio construction and comprehensive risk management to craft innovative and efficient solutions that deliver targeted investment outcomes. As engaged contributors to our communities, we consider it a great privilege to serve our investors and our communities with integrity, respect and transparency.

Learn more at [northerntrust.com/strength](http://northerntrust.com/strength).

<sup>1</sup>Assets under management as of June 30, 2018.

\*As of 6/30/2018. Returns are net of fees. All history of terminated managers included. Fully reflects actual hiring, firing, rebalancing, and transaction costs (including manager replacement). Represents simple average of results realized across endowment and foundation clients with assets greater than \$200 million that utilize Northern Trust in a discretionary or advisory capacity. There may be differing strategies, objectives and fees for clients included in the average. This exhibit is for one-on-one use only and past performance is not indicative of future results.

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