CLIENT CASE STUDY

CASH EQUITIZATION

Russell Investments

PUTTING CASH TO WORK FOR A LARGE UNIVERSITY ENDOWMENT

The organization

A large university with an endowment valued at more than $15 billion. The endowment's payout supports a variety of programs, but the largest share goes to financial aid.

The investment team manages a highly diversified portfolio with some members of staff focused on public and private equities, and others overseeing a multi-strategy portfolio consisting of fixed income, cash, and other diversifiers.

The challenge

The client was looking to equitize cash held in their equity portfolio for a unique purpose. They have a private equity manager that holds a quarter of their mandate in cash, with the cash drag attributed to the public equity performance. At the account level, the client wanted to improve performance given the cash drag is over 200 bps per annum.[1] Even broadening this out to the total investment pool, the cash drag for a typical multi-asset portfolio is around 16 basis points per annum.[2]

The solution

The client engaged Russell Investments' overlay team to purchase S&P 500 Index futures to capture the equity market risk premium. Russell Investments' cash equitization service helps clients maintain their liquidity and market exposure using derivatives. This service involves purchasing highly liquid and capital-efficient exchange traded futures contracts to replicate various asset classes while reducing the long-term performance drag of holding cash.

Russell Investments' cash equitization service can be customized to fit a client's preferences, falling anywhere on the spectrum from rules-based guidelines to client directed. Institutional investors can employ cash equitization to mitigate the performance impact of cash balances, closing the gap between where the portfolio is and where they want it to be, which can be especially important in a bull market for equities.

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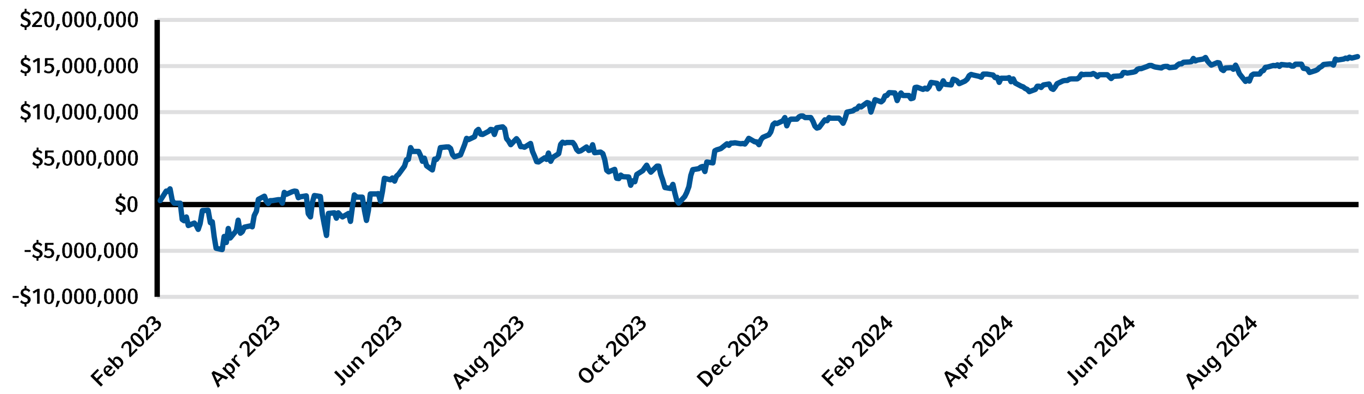
Overlaying the operational cash pool with Treasury futures

For the past several years, the client had not equitized the cash in their operational cash pool. With the anticipated Fed pivot, their multi-asset team asked us to begin overlaying their operational cash with U.S. Treasury futures proxied with the duration of the Bloomberg U.S. Aggregate Index. They are ramping up the program slowly to dollar cost average their entry point.

The overall cash equitization program provides the client not only with increased returns, but also with responsiveness and flexibility, which is particularly important in the new T+1 settlement world. Our relationship with the client continues to expand, as we grow into a trusted partner that can design and implement solutions for the challenges they face.

Exhibit 1: Performance Attribution: Running Performance



Source: Russell Investments. Data spans February 2023 to September 2024. The net performance represents calculated returns less brokerage fees/commissions and investment management fees.

The client's initial equitization assignment with Russell Investments was so successful that they have continued to expand it. When they redeem from a manager, depending on the account type, they may have a receivable for a few days to a month or more. These receivables are effectively cash exposure since they are longer invested in public or private equity. Depending on the asset class within the portfolio, the client instructs the overlay team to equitize these receivables with either S&P 500 futures or with futures on the MSCI EAFE index (if the cash will be deployed in non-U.S. markets).

Results

Since inception, the client has captured positive returns of over $15 million on their longest running overlay. This profit more than pays for the cost of the overlay. Over the last five years, a typical cash equitization client retains net of fees profits at a multiple of approximately 40-50 times the fees.

[1] Source: Russell Investments. Impact from 12/31/97 to 12/31/24. Based on a portfolio consisting of 75% S&P 500 and 25% cash vs. a target of 100% S&P 500.
[2] Source: Russell Investments. Impact from 12/31/78 to 12/31/24. Based on a typical U.S. multi-asset portfolio consisting of 2.5% total cash (1.5% operational cash plus idle cash held by active equity managers: 1.5% U.S. equity and 2.0% International equity) vs. a pro-rated target of 40% Russell 3000, 20% MSCI ACWI ex-U.S., 40% Bloomberg Barclays U.S. Aggregate.

QUESTIONS?

Call Russell Investments at **800-426-8506**
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This case study represents a unique situation faced by a large university endowment seeking to help better meet its investment objectives and address multiple challenges it faced. Case studies are problem-solving stories. We select a situation that is indicative of problems clients in this category are facing. The recommendations described do not represent a standard strategy or set of recommendations made for all advisory clients with similar issues. Each client has unique requirements, challenges, and constraints, and our advisory solutions are tailored to each client's specific needs. Every client's situation, experience and needs are different, and Russell Investments does not imply that the solution herein is appropriate for any other client.

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