

# SUPPORTING AN ENDOWMENT'S SELF-DIRECTED WORK



## SUPPORTING A UNIVERSITY'S SELF-DIRECTED EXPOSURES WITH OVERLAYS AND MORE

### The organization

A large public university with an endowment exceeding \$10 billion in total assets. The client is responsible for multiple investment programs, including short, mid, and long-term investment pools.

Their partnership with Russell Investments commenced in 2016, with an initial assignment focused on currency overlays. Over time, this relationship has evolved to include various client-directed exposures, which has allowed them to manage their portfolio with more precision and cost effectiveness.

### The challenge

The university's investment team prefers to direct their own exposures. They required an implementation partner and platform they could leverage as their needs changed. They did not have the capacity or infrastructure in-house, so this necessitated partnering with an external manager.

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### The solution

The client hired Russell Investments to support their self-directed work but wanted to avoid *handing over the keys*. Unlike a provider who may require an all-or-nothing approach, we were happy to facilitate this solution. Now the client can gain the exposures they need, while still maintaining the control they desire. We act as a trusted extension of their team, fully aligned with their goals to support and fulfill their needs.

Over time, the relationship has expanded to support the university's investment team with portfolio management solutions, including overlay and cash/Treasury management, as well as execution and trading services for equity and FX. The client accesses nearly our entire platform of implementation solutions, but still maintain total decision-making control.

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## Overlay

The overlay platform at Russell Investments has enabled the client to access a variety of derivative exposures, including equity futures, ETFs, and equity options. Although the original exposures were currency futures, the longest-running mandate has been passive S&P 500 futures exposure on their liquidity account. The client's internal governance only allows for up to 50% leverage on their futures overlay, which is unusual since often the appeal of synthetic exposure is that it's unfunded. Recently Russell Investments proposed a different method of gaining the desired exposure due to an increasing cost of rolling long S&P 500 futures exposure<sup>1</sup>, while maintaining the flexibility to add leverage when desired. Russell Investments coordinated the sale of futures and simultaneous purchase of an ETF that tracks the S&P 500 index. Our partnership with the client meant we were aware of their internal guidelines and able to suggest the more cost-efficient solution.

## Execution Services

The client uses Russell Investments' trading desk to sell equity shares distributed by their private equity partnerships, leveraging Russell Investments' broad broker/dealer network to access desired liquidity and maintain anonymity while liquidating large positions. To hedge larger stock distributions the client has leveraged the expertise of the overlay team and the Russell Investments derivatives trading desk to lock in gains using OTC options. This allows for greater price certainty when the shares are available to sell.

When subject to lockup periods that restrict stock sales, the client can hedge using options as long as adequate liquidity is available. Once the equity shares are distributed, Russell Investments' execution services desk and derivatives traders coordinate to efficiently liquidate the shares and unwind the option collars.

## FX Trading

The client has utilized Russell Investments' agency-only FX Trading desk to manage funding for capital calls, as well as place tactical currency hedges on private investments. Russell Investments' FX trading desk provides the client access to a large set of counterparties which ensures competitive market pricing on all transactions and meaningful cost savings compared to other solutions.



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## Cash Management

In late 2023, Russell Investments launched several different short-term investment accounts for the client. The total size of the various pools has grown to over \$850 million. The cash management desk at Russell Investments has allowed the client to have unique pools of capital to support varying liquidity needs of their constituents. With access to more than 30 dealers for US Treasury securities, the trading desk at Russell Investments can ensure best execution and compete trade fills across the dealer community. The client has also expressed their appreciation for quick access to market commentary from the desk and timely strategy updates to keep them informed of market themes. An added benefit of these accounts is that Russell Investments can also pledge these securities to address collateral needs in other areas of the client's portfolio, emphasizing its commitment to delivering capital efficient and comprehensive portfolio solutions.

## Results

By leveraging Russell Investments' extensive capabilities, the university's investment team now has access to a comprehensive toolkit for addressing a wide range of challenges, both today and in the future. The Russell Investments team ensures efficient trade execution and offers strategic guidance to identify the most effective instruments for achieving the client's objectives.

The client has seen strong cost reduction and performance numbers as well:

### Overlays

- Gains from option-hedging single name stocks: ~\$10.6 mm
- Estimated savings from S&P 500 Futures to ETF transition: ~\$1.5mm in 2024, and ~\$8 mm in 2025<sup>2</sup>.

### Execution Services

- 335 individual events since inception
- ~\$820 mm traded
- +78.2 bps vs. VWAP (Volume Weighted Average Price—client benchmark)

### FX Trading

- ~\$3 billion in flows traded since inception, in spots and forwards
- 0.31 bps average cost from all trading vs. upwards of 7 bps for similar transactions executed through a custody platform<sup>3</sup>

### Cash Management

- On largest cash pool, +65 bps outperformance vs. client benchmark since inception (December 1st, 2023).

The university's investment team has demonstrated a strong and growing partnership with Russell Investments, highlighted by their status as a repeat referral client and their willingness to publicly endorse the firm. This mutually beneficial relationship reflects not only their high level of satisfaction but also the trust they place in Russell Investments' expertise, as evidenced by the ongoing expansion of the partnership over time.

<sup>1</sup> During the most recent roll period (December 2024 to March 2025), roll costs on the S&P 500 futures were approximately +164 bps on an annualized basis. This is double the one-year average and 3x higher than the three-year average.

<sup>2</sup> Projected savings and earnings numbers assume roll costs remain around +100bps, on average, for the next 12 months.

<sup>3</sup> Cost analysis provided via FX Transparency

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# QUESTIONS?

Call Russell Investments at **866-739-7979**  
or visit [russellinvestments.com/nonprofit](https://russellinvestments.com/nonprofit)

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First used: February 2025

RIIS-04696 (02/28)