



Long Term Investing

A Modern Endowment Model

Nick Moakes

Head of Public Markets, The Wellcome Trust

The Long Term Investor Matrix



Ability to invest long-term	Institution	Estimated AUM (US\$ trillions)			Risk appetite	Decision-making structure/ agency concerns	Estimated allocation to illiquid investments
		Key stakeholders	Liability profile				
	Family offices	\$1.2	Family	In perpetuity	High	Low	35%
	Endowments/ Foundations	\$1.3	Non-profit beneficiaries	In perpetuity with yearly payout requirement	High	Low	20%
	Sovereign wealth funds	\$3.1	Governments/ Nations	In perpetuity	Moderate	Moderate	10%
	Defined benefit pension funds	\$11	Members/ Shareholders	Average duration 12-15 yrs	Low	High	9%
	Life insurers (general account)	\$11	Policyholders/ Shareholders	Average duration 7-15 yrs	Low	High	4%

Positive for long-term investing
 Moderate for long-term investing
 Negative for long-term investing

Source: Celent, NACUBO, The Foundation Center, SWF Institute, OECD, US Federal Reserve Flow of Funds, CEA, Wharton Global Family Alliance, The Monitor Group, Mercer, Capital IQ, Corporate annual reports, Oliver Wyman analysis

Source: World Economic Forum

Taking Risk In Perpetuity

“It is the long-term investor, he who most promotes the public interest, who will in practice come in for most criticism...for it is the essence of his behaviour that he should be eccentric, unconventional and rash in the eyes of average opinion... Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally”

JM Keynes

Failing Conventionally

Why do financial institutions eventually fail?

- Lack of diversification/sponsor overdependence
- Lack of liquidity in stressed times
- Lack of inflation protection from real assets
- Events change more quickly than governance

Succeeding Unconventionally

- Culture
- Time horizon
- Governance
- Inconsistency
- Joining the dots

Culture

- Maximising our take from global GDP
- No innate geographical bias
- Alignment with the strongest partners
- Tolerance for short-term volatility
- Real time governance
- Single team with no silos

“...our key attributes...are our scale, our long track record, our independence, our dedication to research excellence, our ability to work in partnership, and the unique breadth of our...activities.” *WT Strategic Plan 2010-2020*

Time Horizon

- We trace our history back to the 19th Century, while many foundations go back much further
- We plan to be around indefinitely
- Investing for the very long term demands careful risk management
- When is a loss a loss? Only when irretrievable
- The cash flows of the underlying assets are key, the mark to market price is not

Wellcome: The First Cycle (1936-1986)

1936

Sole asset: Wellcome Pharmaceutical Company

1947

Near bankruptcy

1949

First charitable grant

1956 -1986

Major drug discoveries

1949 -1985

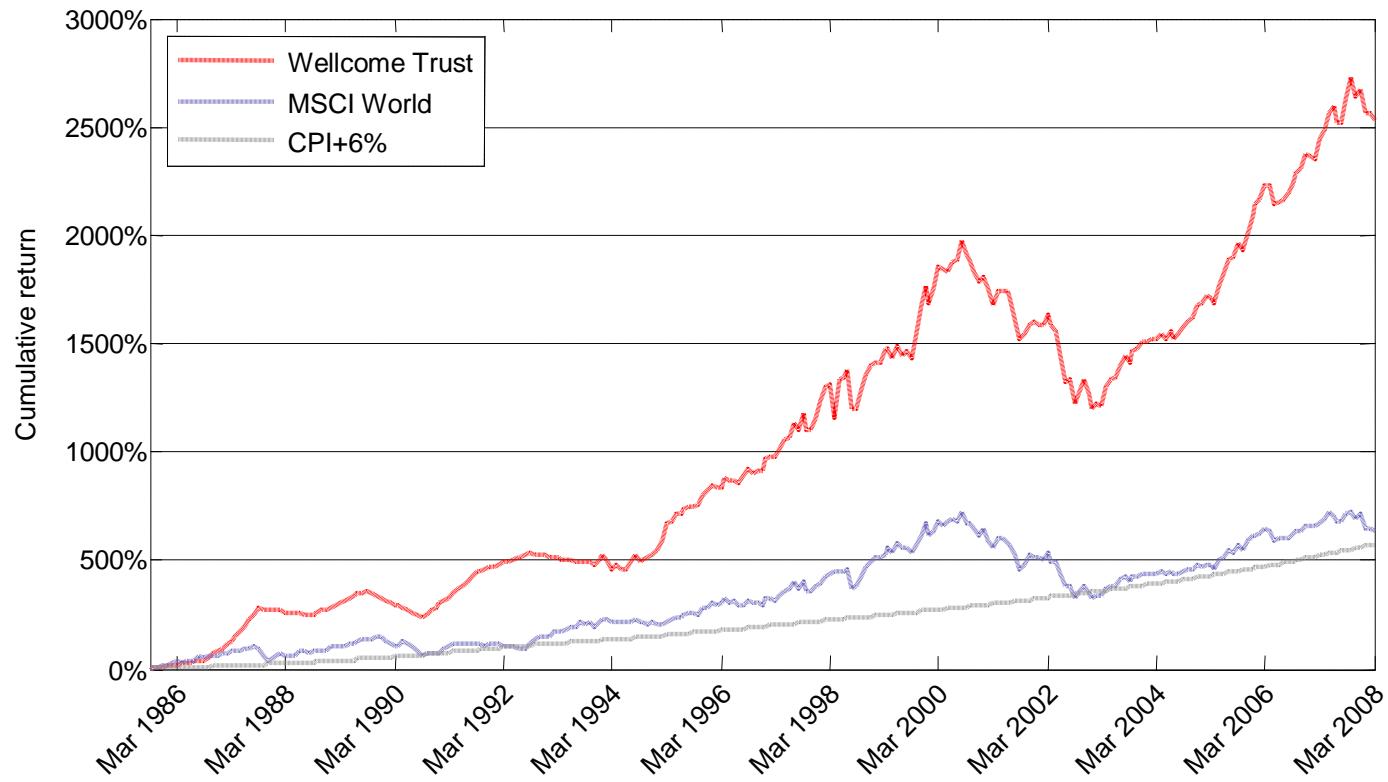
800x growth in grants (20.4% per annum)

1986

Wellcome plc listed on London Stock Exchange

Wellcome: The Second Cycle

Wellcome Trust Performance in GBP (October 1985 - March 2008)



- “ Diversification into a global multi-asset financial portfolio
- “ 40x growth in grants from 1985-2009 (16.6% per annum)
- “ Exploiting the longer leverage cycle

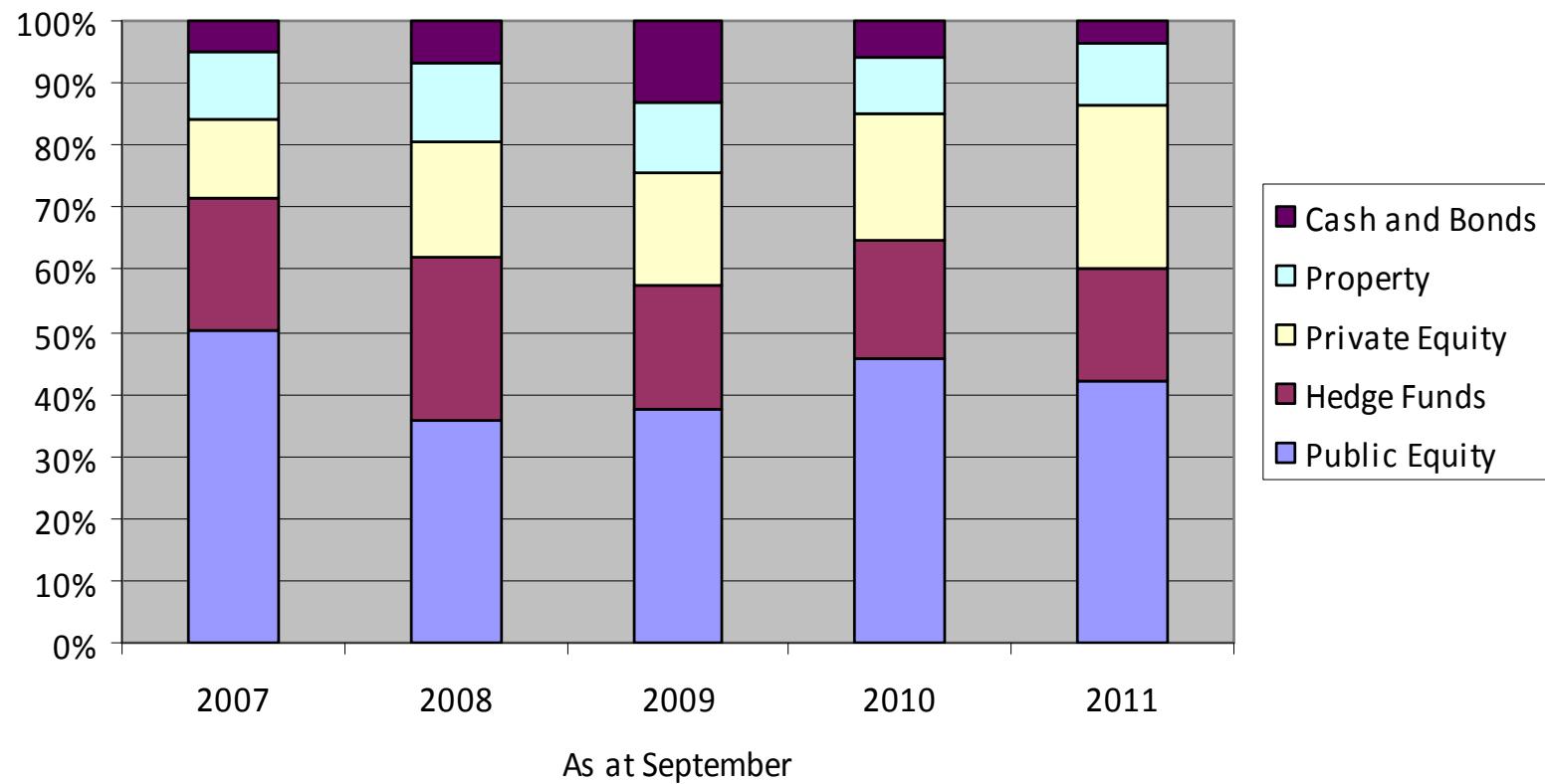
Governance

- Using Investment Committees effectively
- Empowering the CIO
- Transparency and accountability
- Resourcing the Investment Executive
- Focus on net returns and alignment

“Our independence enables us to take a flexible and long-term view. We can also move rapidly to grasp emerging opportunities as they arise.” *WT Strategic Plan 2010-2020*

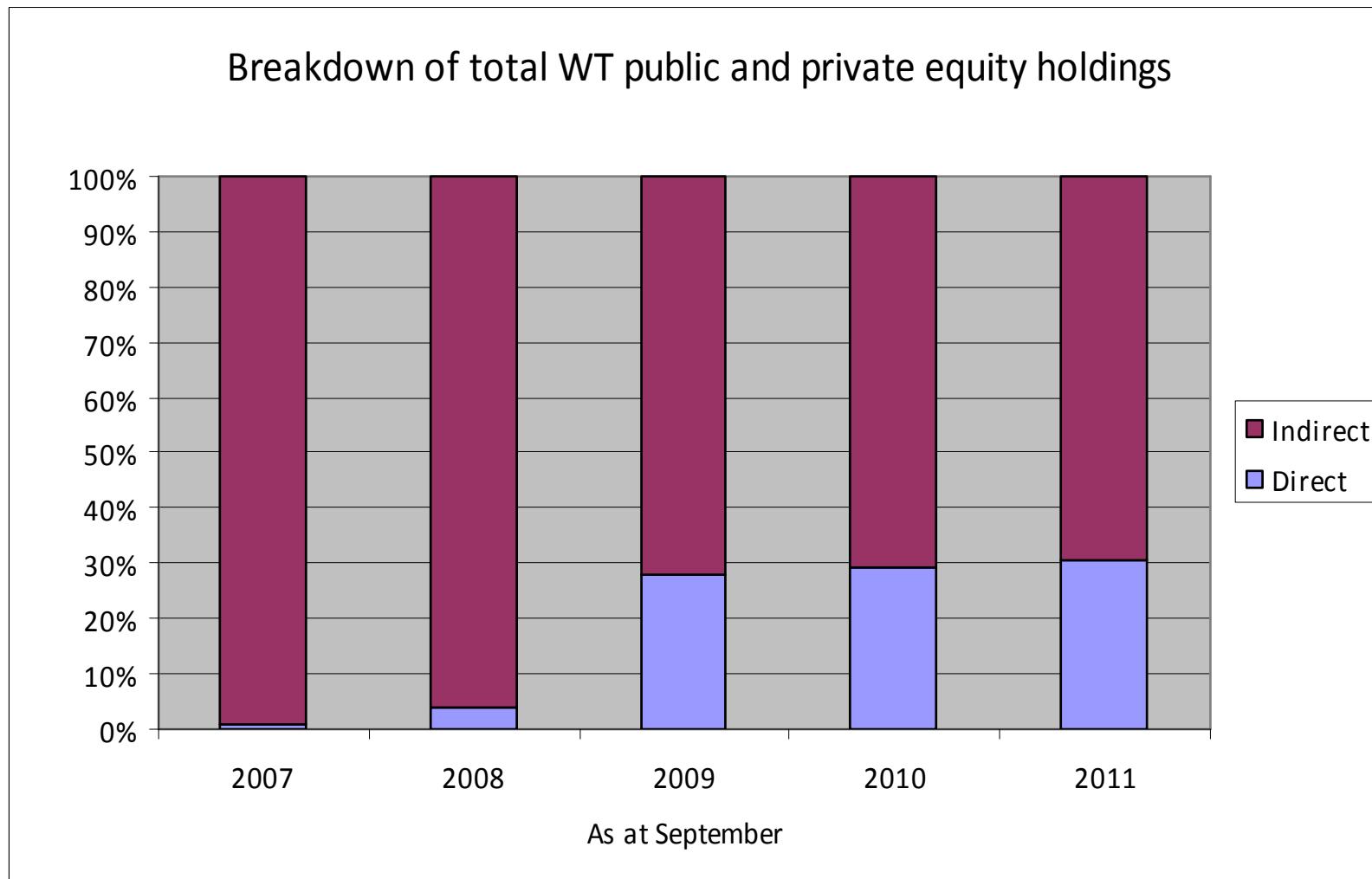
Inconsistency

Evolution of WT portfolio

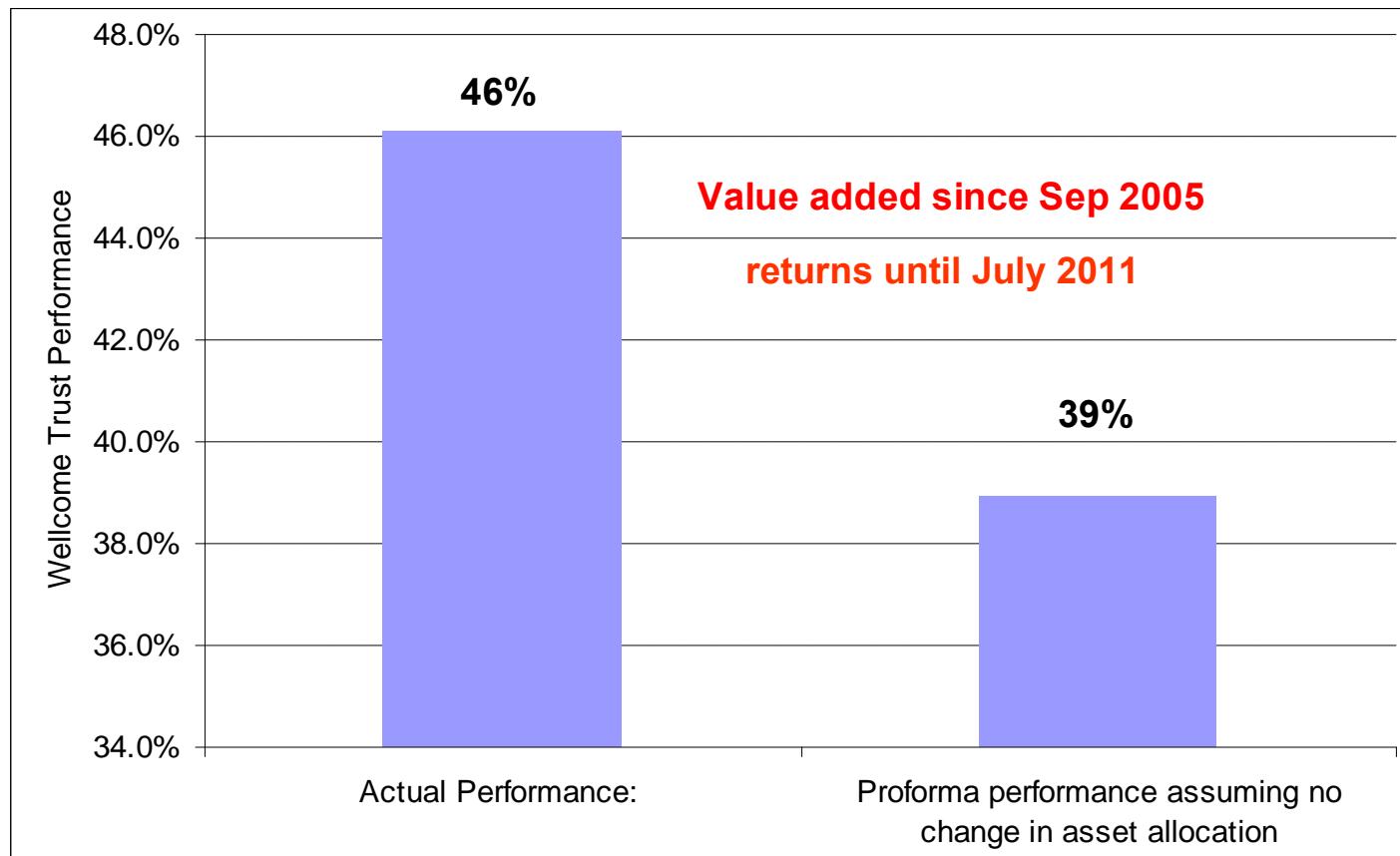


When the facts change, we change our minds

Taking Control of our Destiny



The Virtues of Inconsistency

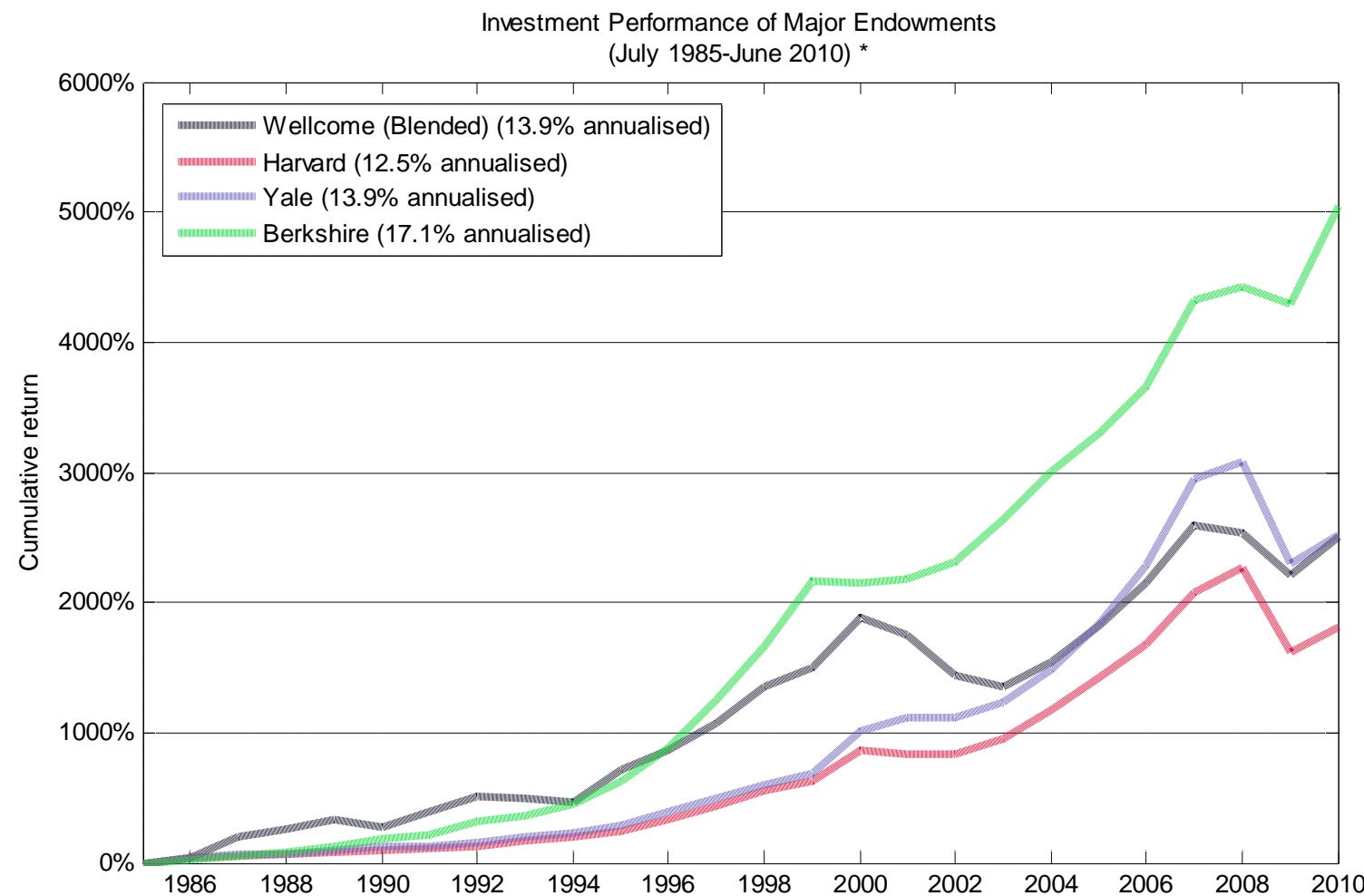


Market timing is a key ingredient of success

Joining the Dots

- Partnerships vs. traditional fund structures
- Dotting & Mindshare
- Connecting surprising parts of the network
- The virtues of not having clients

The Unconventional Investors Club



The world has changed

How we intend to generate returns over the next 20 years

- Two decades of cheap credit and easy access to leverage are over
- Traditional fund model is in trouble: liquidity and alignment issues
- Price of investor capital has gone up
- Events change more quickly than many institutions' governance
- These issues will last for a considerable time

Global partnerships with a small number of like-minded investors
on a thematic basis

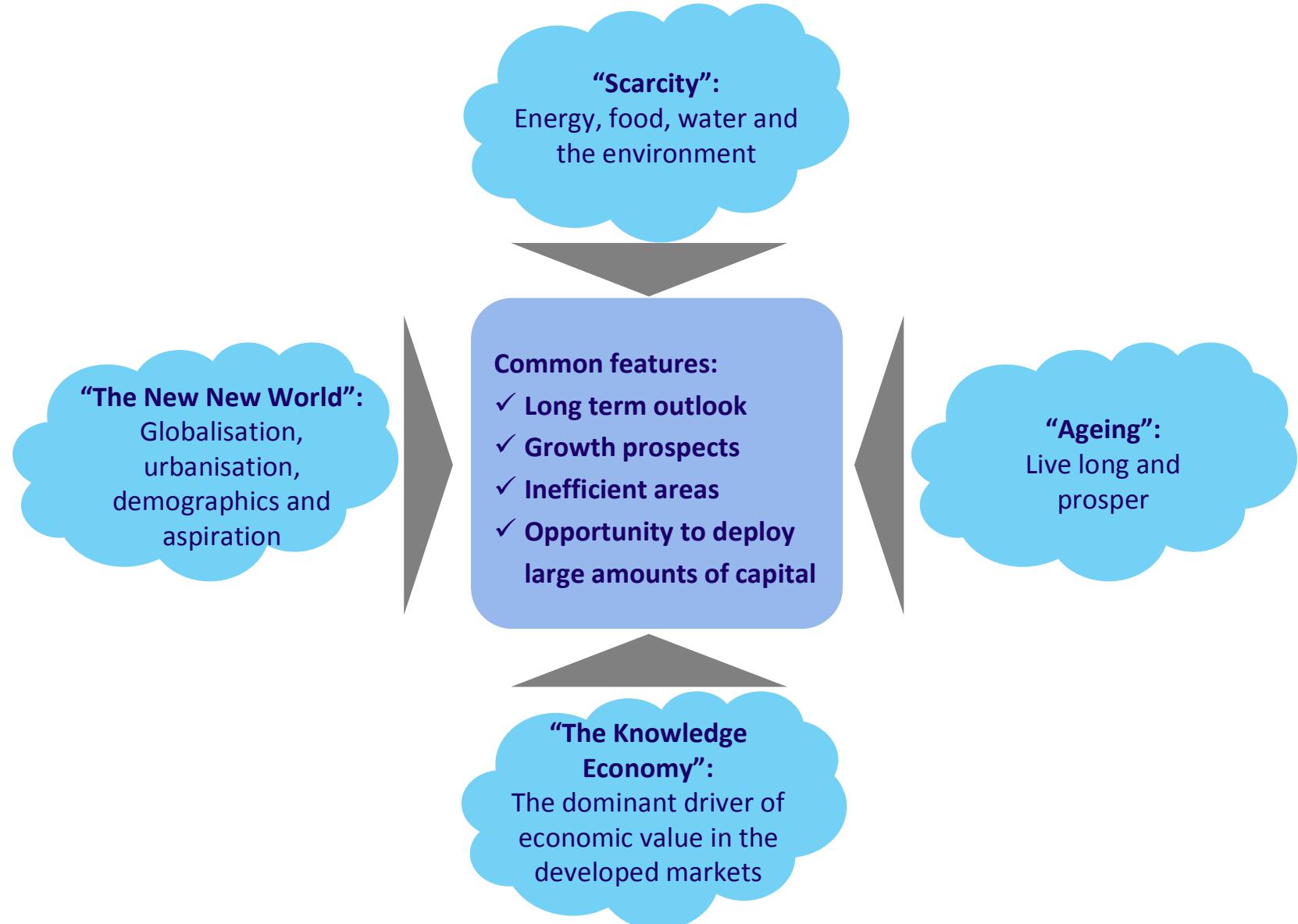
Culture

Governance

Unconventional
Approach

Original and unconstrained thinking will be rewarded

Four themes for the next two decades



Wellcome: The Third Cycle (2008 - ?)

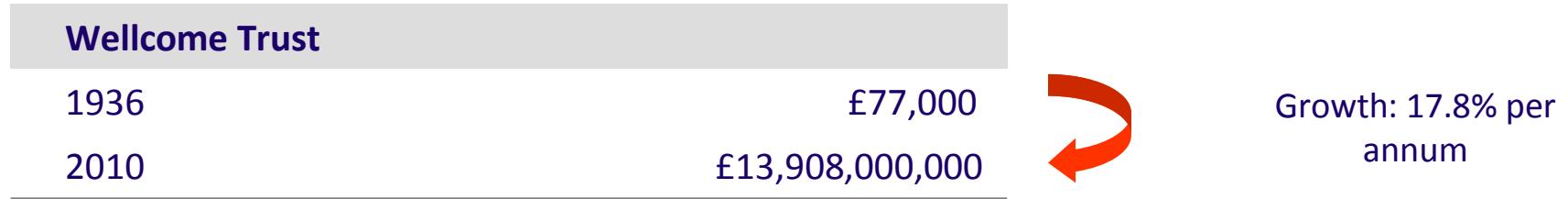


Strong partners, and owning strong franchises with sustainable cash flows are key to success

Final thoughts

- Endowments and foundations are blown up by three things – lack of diversification, lack of liquidity and above all inflation
- The Trust has issued long dated bonds worth £825m, which enables us to be fully invested in real assets to protect against inflation, whilst preserving liquidity
- Our investment team is striving to find new tail winds for the next 20 years in scalable, uncrowded, long term investment themes
- The bulk of our portfolio is invested in assets with real cash flows. The balance is seeking to find optionality
- The tail winds of declining bond yields and abundant liquidity are gone, so leveraged strategies are unlikely to work
- Although we are increasingly investing directly, we will always need like minded partners who are able to think and invest in an unconstrained way

Conclusion



Past performance is no guide to future performance