

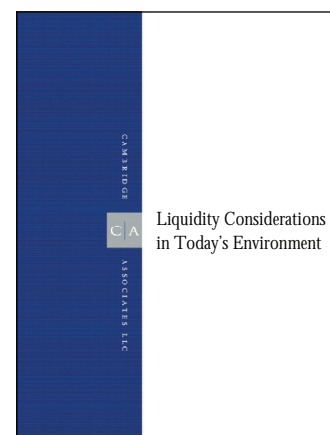


CAMBRIDGE ASSOCIATES LLC

CAMBRIDGE ASSOCIATES RESEARCH REPORT

Liquidity Considerations in Today's Environment

The severity of the recent market decline has dramatically decreased liquidity for many types of investments. Such conditions create challenges for investors, particularly those with large alternative assets portfolios and inflexible spending needs. These investors may be in danger of a liquidity shortfall; that is, they may find they lack sufficient cash resources to sustain spending and meet capital calls, forcing them to sell assets at distressed prices. For such investors in particular, but for most investors generally in today's environment, a detailed study of their sources and needs for cash should be a top priority.



We regard a prolonged slump in equity prices as highly plausible, so we recommend that all investors ask: “What is the likelihood my portfolio will not be able to support its near-term cash needs? How should I think about liquidity, and how much should I have?” Some investors may find they have ample liquidity, but others may need to create a liquidity reserve by raising their allocation to cash to ensure that the durations of their assets and liabilities are properly aligned during a period of heightened volatility.

This paper provides a framework for assessing a portfolio's liquidity needs in the context of its spending rate; its allocations to hedge funds, venture capital, private equity, and other alternative investments; and its approach to rebalancing. Taking a holistic view of the investor's sources and uses of cash, we first look at the liquidity of a portfolio's holdings and then offer some recommendations on implementation. As a practical illustration, we also provide a case study of a fictional institution addressing these issues.

Full report available only to clients of Cambridge Associates.