

# Study Committee on the Investment and Use of the School Trust Funds Wisconsin Legislative Council

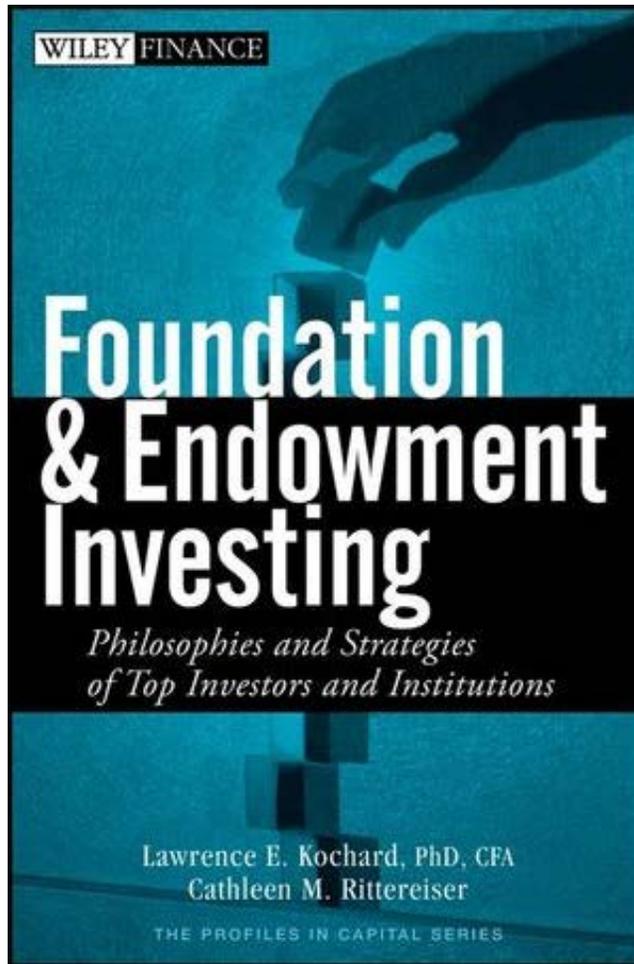
The Evolution of Endowment Investment and Oversight Practices

Cathleen M. Rittereiser, Executive Director, Commonfund Institute

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commonfund

# History and Lessons from Foundation and Endowment CIOs



## Cathleen M. Rittereiser

- Co-Author: Lawrence E. Kochard (former Chief Investment Officer, Georgetown University, University of Virginia)
- Philosophies and Strategies of Top Investors and Institutions
- Publisher: John Wiley & Sons

## Profiles 12 Leading CIOs

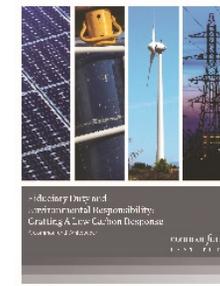
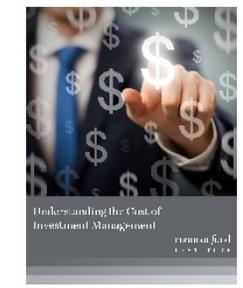
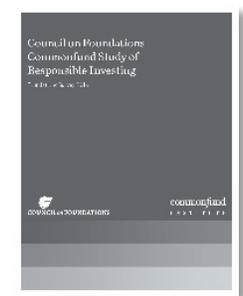
- History of the Endowment Model
- Best Practices
- Lessons and Advice

# Commonfund Institute | Education and Best Practices

A Commitment to industry leading research and best practices

**Commonfund is an asset management firm founded in 1971 with a two-part mission:**

- To create investment solutions for nonprofits
- To create educational programs that could bring current best practices to institutional investors of all sizes and segments
- Educational Forums and Roundtables
  - Commonfund Institute for Nonprofit Investors
  - Commonfund Forum Annual Conference
- Publications and White Papers
- Benchmark studies for nonprofits
- Higher Education Price Index (HEPI)



# Endowment Investing History | Origins in America

## Milestones



**Harvard University Cow Yard**

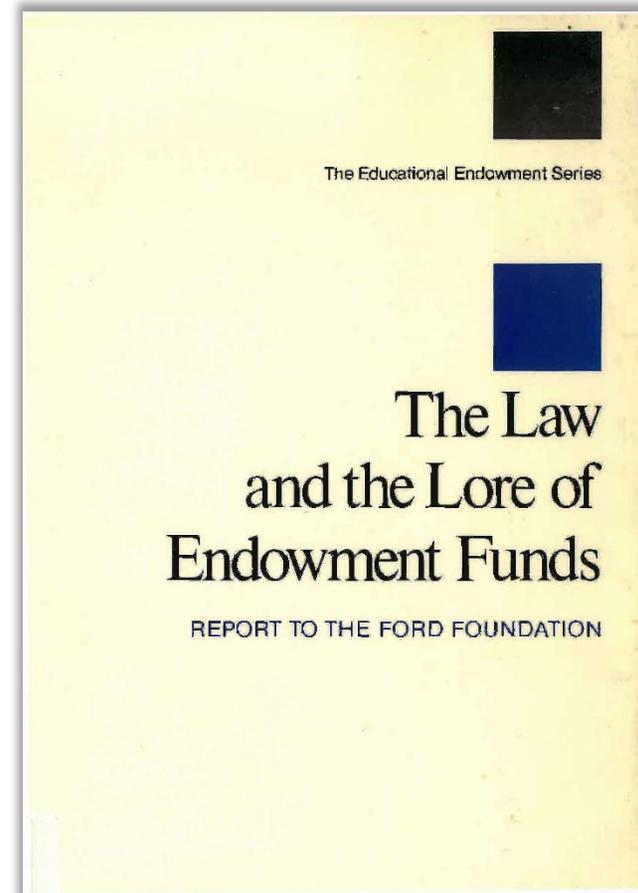
January 1, 1649

Widener Library at Harvard University

# Catalyst for Change

“We believe there may be room for improvement here. It is far from clear that trustees have reason to be proud of their performance in making money for their colleges. [Over] the long run caution has cost our colleges and universities much more than imprudence or excessive risk taking. The Foundation intends to make a careful study of this whole field.”

— McGEORGE BUNDY, President of the Ford Foundation, 1967



# Intergenerational Equity

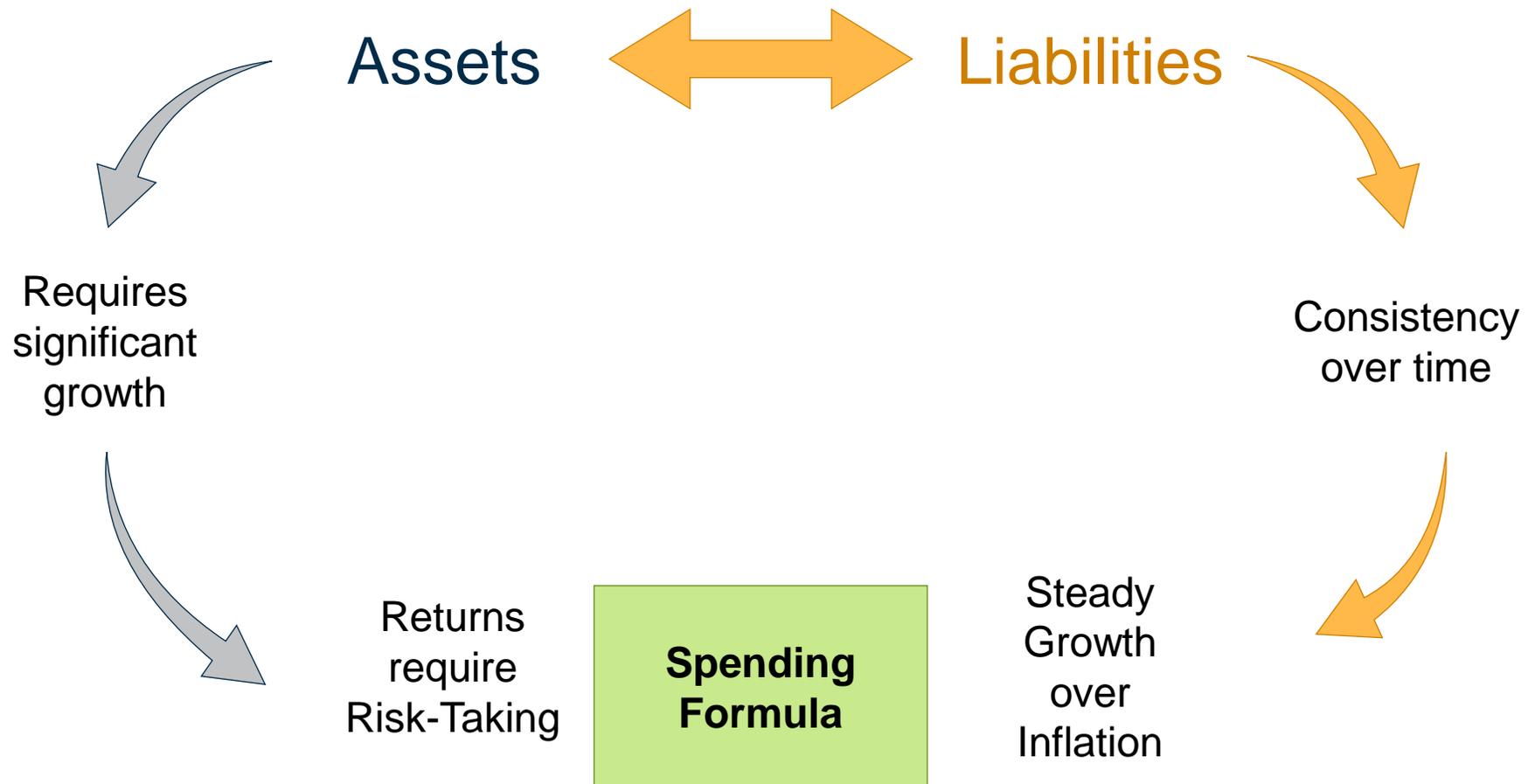


“The trustees of an endowed institution are the guardians of the future against the claims of the present. Their task is to preserve equity among generations.”

- James Tobin  
Yale University  
1974

# The Keys to Intergenerational Equity

Spending, Preservation, and Growth



# Endowment Investing History | Leading Practitioner

## Milestones



**David Swenson at Yale**  
Chief Investment Officer  
The Yale Endowment

2017

The Yale Endowment



Wisconsin  
born and  
educated!

# The Endowment Model

**Equity  
Bias**

**Liquidity  
Premium**

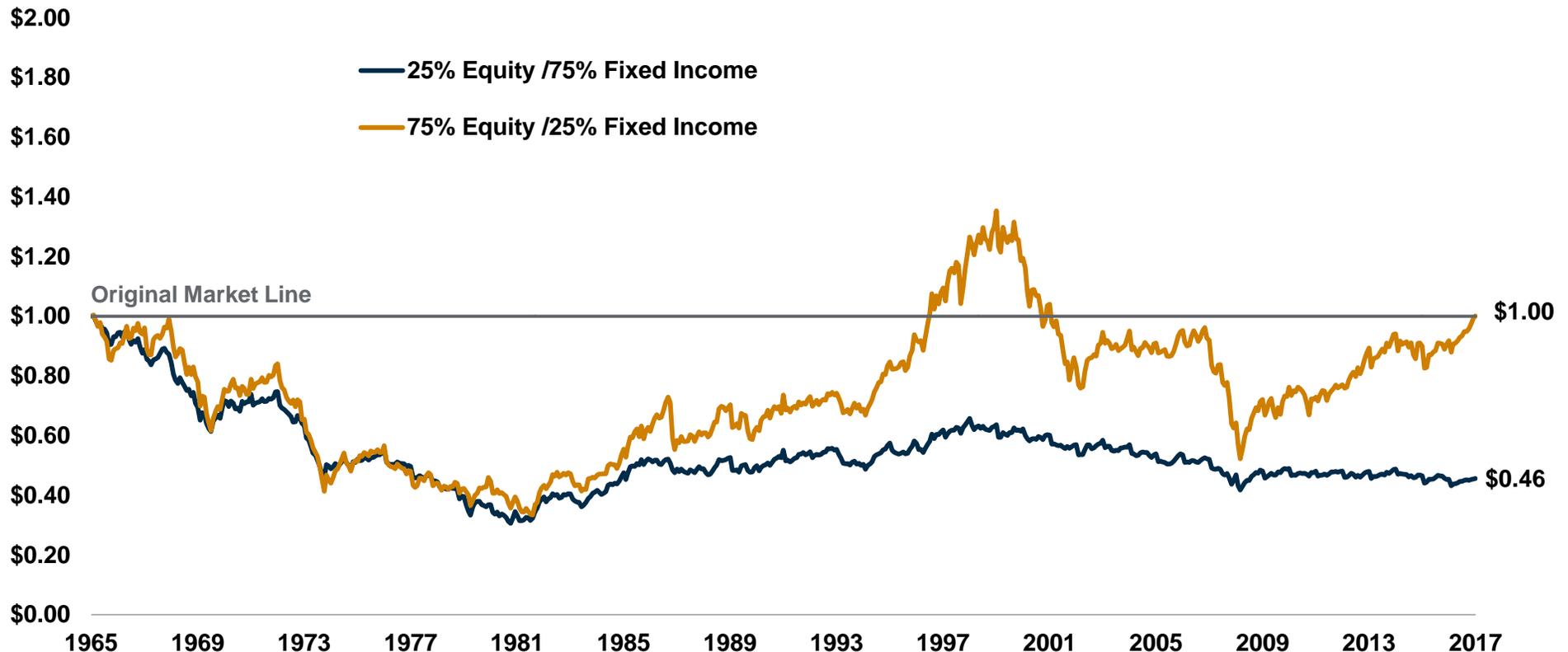
**Diversification**

See Important Notes | Investment Process.

# Intergenerational Equity

Equity versus fixed income bias | 5.0% Spend, Deflated by CPI | 1965 – 2017

Cumulative Value (Real Dollars)



The Hypothetical Portfolio is presented for illustrative purposes only and does not represent the returns of any actual investor. The equity portion of the hypothetical portfolio is based on monthly returns of the S&P 500 Index (12/65-current quarter end), and the fixed income portion is based on monthly returns of the Bloomberg Barclays Capital US Aggregate Bond Index (1/73-current quarter end) and the Ibbotson Associates Long Term Corporate Bond Index (12/65-12/72). The Hypothetical Portfolio assumes real dollars (using CPI and HEPI) with rebalancing to 70% equities and 30% fixed income annually as of each 1/1/yy and assumes that 5% is distributed annually on 1/1/yy. Past performance is not indicative of future results.

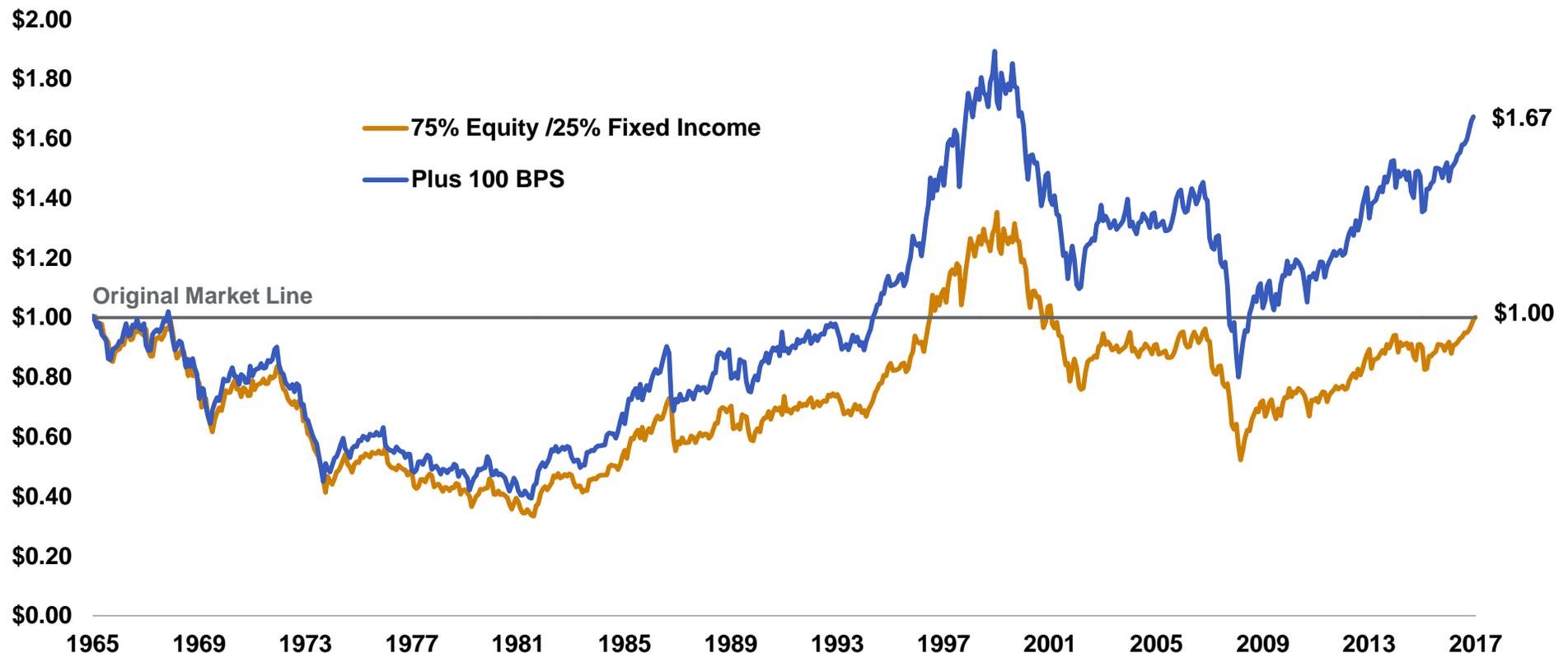
See Important Notes | Market Commentary, Benchmarks and Hypothetical Performance.

Source: Bloomberg, Commonfund Higher Education Price Index, Ibbotson

# Intergenerational Equity | Alpha Needed

Equity versus fixed income bias | 5.0% Spend, Deflated by CPI | 1965 – 2017

Cumulative Value (Real Dollars)



The Hypothetical Portfolio is presented for illustrative purposes only and does not represent the returns of any actual investor. The equity portion of the hypothetical portfolio is based on monthly returns of the S&P 500 Index (12/65-current quarter end), and the fixed income portion is based on monthly returns of the Bloomberg Barclays Capital US Aggregate Bond Index (1/73-current quarter end) and the Ibbotson Associates Long Term Corporate Bond Index (12/65-12/72). The Hypothetical Portfolio assumes real dollars (using CPI and HEPI) with rebalancing to 70% equities and 30% fixed income annually as of each 1/1/yy and assumes that 5% is distributed annually on 1/1/yy. Past performance is not indicative of future results.

See Important Notes | Market Commentary, Benchmarks and Hypothetical Performance.

Source: Bloomberg, Commonfund Higher Education Price Index, Ibbotson

# Allocation and Ten-Year Manager Returns by Asset Class

March 31, 2018 | Performance numbers in percent

Asset Class	Universe	Top Quartile	Median	Bottom Quartile	Median to Top Spread	Top to Bottom Spread	Liquidity Scale
<b>Bonds</b>	Domestic	4.6	4.3	3.9	0.3	0.7	
	Global	5.6	3.5	2.8	2.1	2.8	
<b>U.S. Stocks</b>	Large Cap	10.4	9.8	9.1	0.6	1.2	
	Small Cap	12.1	10.7	10.0	1.4	2.1	
<b>International Stocks</b>	Global Ex-U.S. Large Cap	5.4	4.4	3.7	1.0	1.8	
<b>Private Capital<sup>1</sup></b>	U.S. Private Equity	17.1	9.8	3.0	7.3	14.1	
	Venture Capital	16.3	5.6	-3.7	10.7	20.0	

**Spread = difference between top quartile managers and bottom quartile managers**

Universe Source: (c) Russell Investment Group unless otherwise noted. Data on individual universes available on request. Universes are calculated on the basis of total returns gross of fees and expenses. Past performance is not indicative of future results.

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1. Private capital returns are as of December 31, 2017.

Source: Burgiss PrivatIQ for Private Capital

# Roles and Responsibilities

## Boards of trustees or stewards vs investment staff or delegate

### Trustee / Stewards

#### Policy Development

- Governance/Fiduciary Issues
- Investment Policy
- Spending Policy
- Asset Allocation Policy
- Risk Management Guidelines
- Performance Monitoring

### Investment Staff or Delegate

#### Policy Implementation

- Asset Allocation
- Portfolio Construction
- Manager/Security Selection
- Value Added Strategies
- Strategic and Tactical Rebalancing
- Monitoring and Reporting
- Liquidity Analysis

# Endowment Investing and Oversight Takeaways

- History of endowments shows how today's best practices evolved.
- Policy Lessons
  - Intergenerational Equity as a guiding value.
    - > Focus on making resources available for present AND future use
  - Overseers set policy
  - Delegation allowed
- Investment Lessons
  - Capital preservation
    - > Balance growth with spending
  - Endowment model
    - > Alpha is needed for growth

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