

Report Type

Fellows Report

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Faculty/Department

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Project Title

Studies on Endowment Investing

Project Abstract

University endowments are the ultimate long horizon investors with a unique focus on maintaining intergenerational equity. Endowment investing has been critical in establishing the template that many institutional and individual investors have followed but still remains an under-researched area. There are two parts to this project. The first study ("Cambridge Colleges") examines the investment strategy and investment practices of the Cambridge colleges. Central to both studies is the construction of proprietary datasets using both archival and survey data. The other study ("US Universities") documents the evolution of the investment strategy of US university endowments from 1900 up to the present.

Activities and Achievement

Both projects are still work in progress. Endowments are somewhat unique in the length of the time horizon that they enjoy and in the breadth of asset classes in which they can invest. The objective of both parts of this project remains to examine the evolution of endowment asset allocation policy over time. The Cambridge Colleges paper will focus on the characteristics of college investment committees and their bursars and analyse their impact upon asset allocation decisions, for example: passive versus active, public; liquid assets versus private, illiquid assets; allocations to real estate. The impact of this research will be for the first time to highlight the implications of the choice of investment committee members upon investment outcomes. The US Universities project will document the major shifts in asset allocation policy over the very long-run and seek to identify the contributors to these policy shifts. The paper will also examine the major differences in asset allocation in the cross-section of university endowments. The intention is that our main research findings will be of direct relevance to endowments in facing any future major shifts in asset allocation and how to deal with them.

Dissemination

Re the Cambridge Colleges project, the aim remains to publish a journal paper examining the influence that the characteristics of college investment committees and their bursars have upon asset allocation decisions. This impact of this research will be for the first time to highlight the implications of the choice of investment committee members upon investment outcomes.

Re the US Universities project, the aim is to publish a journal paper which will document the major shifts in asset allocation policy of the leading US universities over the very long-run and seek to identify the contributors to these policy shifts. The paper will also examine the major differences in asset allocation in the cross-section of university endowments. Our main research findings will be of direct relevance to endowments in facing any future major shifts in asset allocation and how to deal with them.

## Outputs

Preliminary work on the Cambridge Colleges project has led to the following publications:

"Keynes, Kings and Endowment Asset Management". Building on earlier work on Keynes, King's was the first college for which we were able to collect extensive data. This led to the publication of a working paper in September 2014 by the National Bureau for Economic Research which was subsequently incorporated as a chapter in the book "How the Financial Crisis and Great Recession Affected Higher Education", in February 2015 also published by NBER. Co-authors Elroy Dimson and Justin Foo. Abstract: Founded in 1441, King's College was one of Cambridge University's wealthiest Colleges, endowed with a vast agricultural portfolio. John Maynard Keynes was appointed bursar just after WWI and initiated a major reallocation to equities, an innovation at least as radical as the late 20th century commitment to illiquid assets by Harvard and Yale. Keynes initially pursued a market-timing approach to investment with mixed success and failed to anticipate the 1929 market crash. Thereafter, his switch to a patient buy-and-hold strategy allowed him to maintain his commitment to equities in the subsequent market slump, reflecting the natural advantages that accrue to long horizon investors. Keynes' innovations in endowment asset management, implemented over a dynamic period of capital market development and economic turbulence remain of great relevance to modern investors emerging from the Great Recession.

"British Origins of US Endowment Model", published in the Financial Analysts Journal (March/April 2015, Volume 71 Issue 2) which links our work on Keynes and King's to US university endowments. Co-author Elroy Dimson. Abstract: The US endowment model is an approach to investing popularised by Yale University that emphasises diversification and active management of equity-oriented, illiquid assets. The writings of the British economist John Maynard Keynes were a considerable influence on the investment philosophy of Yale's chief investment officer, David Swensen. How did Keynes gain these insights? We track Keynes's experiences managing the King's College, Cambridge, endowment and show how some of the lessons he learned remain relevant to endowments and foundations today.

"Clare College, Seeking Investment Opportunity in a Financial Crisis"  
In 2013 the Clare College endowment fund's investment committee had took out a £15 million inflation index-linked 40-year loan in order to invest in global equities. This teaching case co-authored with Elroy Dimson and Luis Viceira (HBS) was published by Harvard Business School (case # N9-215-074) in May 2015. The case explores the arguments for and against the endowment's innovative investment decision and examines the challenges faced by a long-term investor during volatile equity markets.

"Models of Endowment Management: Cambridge University, King's College"  
This is a second case co-authored with Elroy Dimson and Luis Viceira which will be published by the end of 2015. This case reviews the different models of asset management available to King's College which is reviewing its whole approach to endowment investing. In particular, it considers the case for and against the college pooling its assets with the Cambridge University Investment Office.

## Major Difficulties and Any Other Issues

Work is ongoing to complete both data sets which require the hand collection of data. This is time-consuming.

The major difficulty with the Cambridge Colleges project is that many colleges endowment data are not well-organised and easily accessible. Whilst we currently have data on close to half the colleges, further efforts need to be made in collecting data for the majority of the rest in order to boost the size of the sample. There are two problems, First, some college bursars are reluctant to give permission to access to their records. Second, some college archives are not well-organised. These problems are surmountable but it is taking longer than previously envisaged.

Priority was given to working on the Cambridge Colleges data set to date. The intention is to progress both projects over the next year or so.

Keynes King's and Endowment Asset Management

<http://ssrn.com/abstract=2498010>

British Origins published in FAJ

<http://ssrn.com/abstract=2541034>