

The Skorina Letter

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David Swensen talks investing at the Council on Foreign Relations

David Swensen, chief investment officer of the Yale endowment, rarely gives interviews. But last Tuesday he dropped by the offices of the Council on Foreign Relations on Manhattan's fashionable upper east side and sat for an interview with former U.S. Treasury Secretary Robert Rubin and invited guests.

Mr. Swensen took time to reflect on how he invests, who he looks for as investment partners, and what he sees on the investment horizon. He also had some comments on private equity, "a perfect form of capitalism." It's an engaging and timely conversation. The link to the video and transcripts is here: [A Conversation with David Swensen](#)

University endowments in the crosshairs

The U.S. has the greatest university system in the world. But it's expensive. And congress is about to make matters worse by taxing the endowment earnings of "large" private college and university endowments.

The latest congressional proposal aims to slap a 1.4 percent excise tax on the net investment income of any private university with an endowment of more than \$250,000 per full-time student, about 70 universities.

Unfortunately, universities can ill-afford any additional hits to the bottom line. A [recent report by The College Board](#), found that a "moderate" college budget for an in-state public college for the 2016–2017 academic year averaged \$24,610 and a moderate budget at a private college averaged \$49,320."

Private universities in particular lean heavily on their endowments for tuition assistance and operational support. Melissa Korn noted in the Wall Street Journal [earlier this year](#), that "schools with endowments over \$1 billion funded just over one-third of institutional grant aid from their endowments, while those with endowments of less than \$25 million used that pool to cover 5.8% of aid".

Endowment pools are like savings accounts and endowment earnings the interest. The more we draw from savings to spend today, the less money we earn to spend tomorrow.

Two years ago, I [defended Yale's endowment](#), arguing that its capital "is a perpetual source of support for present and future generations of students and faculty and, it takes a long time to accumulate."

"Cambridge, the wealthiest university in Europe, took 800 years to amass an endowment of \$8.1 billion. Harvard's \$36.4 billion took 377 years to accrue. Upstart Stanford University grew its endowment to \$21.4 billion in "just" 130 years. And that "hoarded" wealth drove performance; American universities dominate the rankings of global higher education."

Unfathomably, the latest congressional proposal to tax the earnings of "large" private school endowments turns that reality on its head. The legislative war cry now seems to be "grab what you can today and let future generations fend for themselves".

There are four sources of income for American universities and colleges and all four are under pressure. State and federal support has been dropping for years. Endowment investment returns appear likely to decrease. Tuition costs have reached unsustainable levels. And donor gifts have flatlined.

And that may not be the worst of it. Clayton M. Christensen, the Kim B. Clark Professor of Business Administration at Harvard Business School (ironically, it's an endowed chair!), sees half of America's 4000 colleges and universities [going bankrupt in the next decade or two](#), as online education "disrupts" the business models of traditional institutions and runs them out of business.

Our system of higher education – including the great private universities – has been a key asset in our national preeminence. Financing that system is a growing challenge, but taxing endowment earnings or forcing unwise spending mandates on a handful of successful institutions will only aggravate the situation.

I closed my Yale piece by saying:

Endowments help channel private wealth to public purposes. They are an American success story, and one reason Americans have never had to rely solely on the whims of a benevolent state, as in Europe. I hope Congress doesn't spoil the ending.

The Skorina Letter:

Each issue explores how the world's most accomplished asset managers think and invest. Original content includes profiles and interviews with industry veterans and research on compensation and investment performance.

Our insights and commentary come from our clients - board members, CEOs, chief investment officers - and the global investment community within which we work as executive search professionals.

Institutional investors operate at the crossroads of capital, talent, and ideas, shepherding over seventy trillion dollars in global assets. It's a constantly evolving spectacle and The Skorina Letter gives readers a ringside seat.

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