CHAPTER 1

The Evolution of Foundation and Endowment Investment Management

From Poorhouses to Powerhouses

Foundations and endowments have become investment powerhouses, managed by sophisticated investors using advanced investment techniques. Despite a smaller asset base than pension funds, they have become increasingly influential institutional investors because their long-term perspective gives them the latitude to take more investment risks and the impetus to adopt new asset classes and strategies long before other investors. While the number of foundations and endowments is not necessarily growing, the numbers that have chosen to dedicate professionals to their investments has grown. There are more organizations with in-house investment staffs or new chief investment officers (CIOs) than ever.

It could have turned out differently. Until 1969 most endowment funds had conservative portfolios, which underperformed other investors. If McGeorge Bundy at the Ford Foundation had not intervened, foundations and endowments might have become investment poorhouses today.

This chapter chronicles the evolution of foundation and endowment investment management from the first gifts to Harvard to the important changes set in motion by McGeorge Bundy and the Ford Foundation, the global economic and market conditions driving investment performance, and the rise to prominence of foundation and endowment CIOs.

It will give an overview of how these institutions became so powerful and a rationale for profiling the talented CIOs who got them there.

ORIGINS OF ENDOWMENT MANAGEMENT

Endowments can be traced back to the fifteenth century, when donors in England made gifts to churches, schools, and universities to support them in perpetuity. Usually, these gifts carried the restriction that the principal (the donated amount) needed to be preserved, although the income from the endowment could be spent. Donors frequently restrict the use of an endowment for a specific purpose, such as professorships or scholarships. Endowments are intended to be a permanent source of income for institutions that traditionally did not have income.[1]

The core pool of assets managed by either foundations or educational institutions is known as its endowment, although in the investing community, *endowment* has become shorthand for describing the investments of educational institutions. Throughout the text, *endowment* will generally be used to describe the assets of educational institutions or a specific institution. In this chapter and occasionally throughout the book, the word will refer to the assets of nonprofit organizations in general.

Harvard University traces its endowment back to 1649 when two members of the class of 1642 who also were the school's first teaching fellows, John Bulkeley and George Downing, and two from the class of 1646, Samuel Winthrop and John Alcock, gave the college a real estate parcel. The one-time cow yard was planted with apple trees and became known as the "Fellow's Orchard." The land remains part of the Harvard campus; the school's Widener Library occupies part of the site. In 1669, lumber merchants guaranteed the school a payment of 60 pounds per year for seven years and met the obligation by providing lumber products that the school then sold. Today, close to 11,000 separate funds constitute the Harvard endowment, the majority restricted to supporting specific programs such as scholarships, building maintenance, teaching, research and student activities and designated to support that purpose in perpetuity.[2]

In 1890, Trinity College, a Methodist institution in North Carolina, had chosen the city of Raleigh over Durham for its new location. Behind-the-scenes maneuvers by Durham community leaders and family members led Washington Duke to pledge $85,000 for an endowment to locate the school in Durham. With that pledge in hand, Trinity's president, John F. Crowell, secured a donation of land on the western edge of the city. When Duke made the formal offer to the board of trustees on March 20, citizens of Durham had raised an additional $9,361 to support the school. Trinity College is now known as Duke University.[3]

Those anecdotes exemplify the origins of modern endowment funds and foreshadow how endowment assets have been acquired, managed, and manipulated for over three centuries. Harvard's cow-yard gift displays several factors that have characterized endowment management, including the generosity and corresponding influence of powerful alumni, handling gifts of property or goods, and the "naming gift" and "matching gift." The prospect of a large financial gift appears to have resulted in the trustees of Trinity College backing out of a commitment to Raleigh, although one could argue that they met their fiduciary responsibility and followed the "prudent man rule." Traditionally, committees of wealthy, powerful men donated and managed the assets, volunteering their services even when lacking expertise, until 1969, 300 years after the lumber merchants donated their products to Harvard.

Powerful, wealthy alumni of institutions or benefactors of foundations can still exert enormous influence over an organization and its investments, but the shift to a more structured, modern, and professional form of investment management began to take shape in 1969. Academic research—namely, Markowitz's modern portfolio theory—and evidence that excessively restrictive endowment management policies thwarted asset preservation came to the forefront with two groundbreaking and influential studies commissioned by the Ford Foundation. The changes in fiduciary law and investment policy changed endowment management, creating this formidable investor base.

Unbeknownst to John Bulkeley and George Downing, their cow-yard donation would form the cornerstone not only of the Widener Library, but also of a powerful, influential institutional investment community led by prestigious, professional, talented, and accomplished CIOs.

CATALYSTS OF CHANGE

Toward the end of the 1960s, McGeorge Bundy, then the head of the Ford Foundation (a leading donor to education), became concerned about the rising costs of higher education. He began to study the management of endowment assets to determine if they could be managed more productively and, if so, to assist in alleviating the problem.

At the time, these assets tended to be managed by wealthy trustees guided by personal trust law. Funds were not commingled in investment vehicles, trustees were forbidden to delegate investment decisions, and rules limited the endowments to spending only dividend and interest payments. The funds were managed to generate current yield and to maintain principal over time and invested in bonds and other fixed-income vehicles rather than equities. The use of cost accounting, recording the price of a security when purchased and adjusting the value only when sold, obscured the fact that bonds actually had been declining in value and that equities generally delivered superior returns over the long term.

A narrow interpretation of the famous original prudent man rule ruling of *Harvard College v. Amory* in 1830 also limited the investment approach. In the original case, Harvard and Massachusetts General Hospital would each receive half the estate of John McLean when his widow died. The executors, the Amories, had invested the assets in stocks. Fearing the loss of their eventual principal, the two institutions sued because they believed stocks were too risky. In ruling against Harvard and Mass General, and in favor of the Amories' right to invest the assets, Justice J. Putnam wrote:

> *All that can be required of a trustee to invest, is, that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.*

Thus, the prudent man rule became the standard for managing trustlike assets. The rule became more narrowly interpreted over time, primarily due to the influential works of Professor Austin Wakeman Scott, "Restatements of Trusts" (1935) and "Scott on Trusts" (1939). He restated the rule in such a way that modern academics and legal scholars agree that it lost its flexibility and led fiduciaries to evaluate investments individually, rather than as part of a portfolio.[4]

Before Bundy addressed this issue, there had been signs that the approach to investing these assets needed to change. The birth of modern portfolio theory in Harry Markowitz's 1952 paper, "Portfolio Selection," reinvented investment thinking and eventually earned him the Nobel Prize in economics.[5] In a less seismic, yet still important change, the College Retirement Equities Fund (CREF) had introduced total return and market value accounting to the community in 1952. In 1966, the book *Pension Funds: Measuring Investment Performance* (The Graduate School of Business) by Peter Dietz also made the case for measuring total return and implementing market value accounting. Since many trustees also had leadership roles in companies and familiarity with these concepts, they started to consider applying them to endowment management. Investment books and academic papers, including research by Yale University's treasurer, John Ecklund, shifted thinking by persuasively advocating for investing in growth company equities.

But it took the leadership of McGeorge Bundy and the resources of the Ford Foundation to cause change. In the Ford Foundation annual report published in 1967, writing on endowments Bundy said:

> *We believe there may be room for great improvement here. It is far from clear that trustees have reason to be proud of their performance in making money for their colleges. We recognize the risks of unconventional investing, but the true test of performance in the handling of money is the record of achievement, not the opinion of the respectable. We have the impression that 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.*

The Foundation commissioned two studies, released in 1969 as "Reports to the Ford Foundation." The first, "The Law and Lore of Endowment Funds" by William L. Cary and Craig B. Bright, addressed legal principles that had governed endowment investing and recommended changes in thinking and policies. The second, "Managing Educational Endowments," by Robert R. Barker, analyzed investment performance and recommended changes to investment processes and procedures.

The Law and Lore of Endowment Funds

Bundy realized the mistaken belief that personal trust laws applied to endowments impeded change. He charged William L. Cary and Craig B. Bright, lawyers with the firm Patterson, Belknap & Webb in New York City with reviewing and reporting on these legal constraints. Mr. Cary had been the chairman of the Securities and Exchange Commission and was the Dwight Professor of Law at Columbia University.

The report made several conclusions that essentially released trustees from their self-imposed investment prisons and cleared the path for permanent changes in managing endowment assets. They included the following:

- Endowments are corporations with one beneficiary and were not subject to the laws governing personal trusts with many beneficiaries.
- Trustees represent the institution and have responsibility for establishing spending and investment policy.
- Trustees could delegate the execution of investment policies to qualified, outside investment advisers but retained responsibility for supervising and monitoring advisers.

The authors also recommended establishing a new uniform state law that would allow trustees to consider the total returns of the portfolio from realized and unrealized gains along with dividend and interest income when determining the spending policy. This directly led to the formulation in 1972 of the Uniform Management of Institutional Funds Act.[6]

Managing Educational Endowments

Bundy was not just concerned about the management of educational endowments; he was also concerned about the Ford Foundation's ability to manage its assets and meet its commitments to supporting higher education. In the 1966 Ford Foundation annual report, he noted that an incremental 1 percent improvement in performance of the Foundation's assets would double the amount of money it could grant. The second report, also released in 1969, "Managing Educational Endowments," by Robert R. Barker (not the famed television game show host, but an academic and member of the Smith College Investment Committee), studied the ossified investment techniques hindering endowment growth and performance.

The report compared the performance of the endowments at "fifteen important educational institutions" from 1959 to 1968 to balanced and growth-oriented mutual funds and the University of Rochester's professional investment office. The 8.7 percent average annual performance of the endowments lagged all the others. The balanced funds beat endowments by only 0.5 percent, but the growth funds and Rochester delivered 14.6 percent and 14.4 percent, respectively, almost a 6 percent per year difference.

The report blamed the poor performance of endowments on the management of trustee committees, stating that their focus on avoiding losses and maximizing current income had led them to choose bonds at the expense of better-performing growth-oriented equities because the latter provided virtually no dividend yield. It predicted that this approach would result in "highly adverse consequences for long-term endowment values" and recommended that "endowment managers must be able to select securities on the basis of total return over the long term rather than on the basis of maximizing dividends and interest to help in balancing the operating budget." The report also proclaimed that "delegation to an able professional portfolio manager who has a capable organization around him is essential for successful investment management." The report advocated a spending rule based on a percentage of the three-year moving average of the assets' market value.[7] In fact, the Smith College board of trustees implemented the total return and market value accounting approach in 1969 as a result of the research.[8]

Also in 1969, Section 4944 of the Internal Revenue Code established the "no jeopardizing investment" rule for foundations and contained language that allowed an investment to be considered as part of a portfolio.

Many historians consider 1969 a seminal year in U.S. history. Neil Armstrong walked on the moon, Woodstock happened in upstate New York, and the New York Mets won the World Series. It also became a seminal year in investment history. Barker's investment thinking, Cary and Bright's legal thinking, and even the IRS's policy thinking converged and enabled permanent, substantial changes in the approach to investing endowment and foundation assets that led to their investment prominence today.

Transition

Since few institutions had the capacity to manage their endowments under this new investment approach, one of the first outcomes of the Ford Foundation work was the establishment of the Commonfund, an investment company that pooled assets of its members, initially educational endowments, to manage the investments professionally. The Ford Foundation seeded the Commonfund with a $2.8 million grant. The firm launched its funds on July 1, 1971, with a total of $72 million from 63 endowments.[9] The firm remains a leading asset manager and thought leader for the endowments of colleges, universities, foundations, and health care systems and has helped lead changes in asset allocation and asset class selection—such as forays into private capital and alternatives—that have influenced the management of endowments. In 1991, the Investment Fund for Foundations was formed to serve foundation investment officers.

In 1972, the work of Cary and Bright directly led to the passage of the Uniform Management of Institutional Funds Act Building on the prudent man precedent, it codified their recommendations and set a new standard for managing foundation and endowment assets. Following is a summary of the act from the National Conference of Commissioners of Uniform State Laws:

> *The Uniform Management of Institutional Funds Act was promulgated by the Uniform Law Commissioners in 1972, and since has been adopted in 46 states. This act clarifies the right of governing boards to invest funds of such institutions as hospitals and colleges for total return. This means governing boards could, for example, invest in growth stocks paying low or no dividends but having a high potential for appreciation in long-term value, rather than concentrate entirely on investments with immediate high income yields.*

> *The act also sets a standard of conduct for governing boards of institutions. This would require members to exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision and . . . consider long and short term needs of the institution in carrying out its . . . purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.*
>
> *Under this act, governing boards would be allowed to retain professional investment counsel and managers, and to seek removal of restrictions on gifts which have become obsolete, inappropriate, or impracticable.*
>
> *The act also defines an institution as an incorporated or unincorporated organization organized and operated exclusively for educational, religious, charitable, or other eleemosynary purposes, or a governmental organization to the extent that it holds funds exclusively for any of these purposes.*[10]

Although it took almost 300 years for endowment asset management to experience any substantive change, once it began it spurred more change. Between 1972 and 2006, these institutions transformed from a group of risk-averse, rule-driven, volunteer investors to respected investment organizations, overseen by talented professionals managing increasingly complex and sophisticated portfolios. Today, the Harvard endowment would probably not sue the Amories—it might even encourage them to take more risk. A review of that period shows the significant developments that created this transformation.

TRANSFORMATION

Despite the progress that had been made to allow for more sophisticated investment decisions, up until the late 1980s, for most foundations and endowments that meant adjusting their percentage allocations to stocks and bonds, in favor of more stocks. A study of endowment growth conducted by the Commonfund in 1990 showed the need for more progress. The funds had grown substantially while the level of investment sophistication had grown imperceptibly.

Still Lagging in 1990

Even though the research team had fragmented and limited data, it had enough evidence to conclude that the investment process needed to evolve further. Using a 1962 Department of Health, Education and Welfare survey of 105 endowments as a base, the researchers collected enough usable data from 35 organizations and information on asset allocation "from only a handful" of institutions. The study showed that the bulk of asset growth came from investment performance, primarily attributed to the bull market in equities that began in 1982, yet that return percentage lagged major benchmarks. The spending rate had averaged 4.4 percent of market value, a rate that has remained historically consistent. Because they had such little relevant historical asset allocation data, yet recognized the importance of the allocation policy, they analyzed the most recent (1989) asset allocation mix of the participating institutions.

The analysis showed that endowments continued to follow more conservative investment policies—for example, weighting equities 53.7 percent when the recommended level was 60 percent—that resulted in continued underperformance. The majority of the equity allocations invested only in the U.S. equity market even though it represented only 40 percent of global market capitalization. In fact, in presenting the results authors referred to foreign stock as an "alternative asset." Although the Commonfund was recommending a 10 percent allocation to nonmarketable alternatives—primarily private equity assets—the average endowment in the study had a 3.5 percent allocation. The authors presented asset allocation guidelines, reiterating that diversification into perceived "riskier" investments could increase return while reducing the overall risk of the portfolio, and cautioned overseers that performance would most likely remain subpar if they remained risk averse and would hamper their ability to achieve their long-term objectives.[11]

Global Developments Bring Growth, Challenges

Since the release of the Commonfund survey in 1990, important developments in global financial markets, government, and industry have spurred asset growth but have made the investment environment more challenging. Foundations and endowments have become investment powers because they responded to these conditions by adding sophisticated investment talent and building increasingly diversified and complex portfolios. Those developments include the following.

Financial Markets The bull market in equities that began in 1982 persisted with some troughs through the 1990s, culminating with the technology and dot-com boom. Endowments and foundations still had significant U.S. equity exposure—the total annual compound return of the Standard and Poor's (S&P) 500 including the reinvestment of dividend from September 1, 1982, to March 31, 2000, was 19.75 percent—and benefited from this performance. By the late 1980s, endowments and foundations had started to invest more heavily in private assets, such as venture capital, and the tech investment boom drove performance in those investments as well. Then came the bust. By September 30, 2002, the equity markets had lost $6 trillion in market cap.[12]

In both fiscal year 2001 and 2002, foundations and endowments lost market value. While most of the largest foundations and endowments had invested in hedge funds for many years, market conditions from 2000 to 2003 led more investors into them because of their risk/reward characteristics and diversification benefits. Driven by the demand and attractive compensation structure, more hedge funds offering a variety of portfolio construction approaches across an increasing number of asset classes have formed. Hedge fund manager selection requires more thorough due diligence and specialized knowledge. Additionally, investors contend with innovative new derivative securities such as credit default swaps, hard assets such as timber, or less familiar international markets.

Technology The advances in technology products that fueled the bull market in technology stocks in the late 1990s and led to outstanding investment returns impacted institutions in other ways. Technology has helped investors become more sophisticated by making better analytic tools more widely available at a much lower cost. It has also forced investors to become more sophisticated by providing faster, more efficient information delivery systems that have leveled the playing field and reduced the ability of investors to gain an information edge. The rapid, instantaneous distribution of information has increased the pace of the markets. Software analytic packages make sophisticated analysis more available and affordable and enable investors to analyze and measure risk more efficiently and effectively.

Mass ability to access and analyze information, while making certain investment functions easier, has made navigating the markets and finding opportunities much more difficult. Advanced technology has helped grow endowment and foundation assets, by enabling efficient processes and earning substantial returns in the tech boom, but has created a need for more qualified, talented people to make investment choices based on what that technology has wrought.

Asset Allocation For foundations and endowments, the thorough and rigorous approach to asset allocation policy has been a major driver of growth and professionalism since they were liberated by the Ford Foundation and the Uniform Management of Institutional Funds Act. Research published in 1986 by a team led by Gary Brinson concluded that most of the variation in portfolio returns stemmed from differences in asset allocation. This finding became investment management gospel and remains so, since researchers have failed to disprove it in any meaningful way. Larger funds began moving away from the generic 70/30, 60/40 equity/bond mixes into new asset classes and toward customized policies, and others have followed. The commitment to devising and implementing institution-specific asset allocation policies and expanding into new asset classes has made these institutions influential investors, but has increased the need for skilled CIOs.

Manager Selection The explosion of new asset classes and derivative securities and the ability to employ technology to construct portfolios and manage risk has resulted in investment managers with increasingly narrow or complicated specialties. Finding managers with an edge among such proliferation adds another layer of complexity to managing the endowment. Muted returns throughout traditional asset classes have forced CIOs to seek opportunities in new strategies or less liquid asset classes. Pursuing a new asset class requires them to learn it, find specialized managers, and then evaluate whether those managers actually have the proper skills. The growth in the breadth and depth of hedge fund strategies and the need for specialized expertise to evaluate them provides a good example of the challenge.

Globalization Since the Commonfund study in 1990, endowments and foundations have broadened their allocations to international securities markets including emerging markets such as India, China, and Russia. Besides the diversification and investment return opportunities available in other markets, globalization has influenced foundation and endowment investing in other ways.

Global investing not only adds investment risk to the portfolio; it also adds more managerial, oversight, and operational risks. Certain systems and communications technologies are less developed. Securities regulations may be weak and insufficiently protect investors. Differences in government policies or human rights violations can adversely impact investment performance and raise concerns about socially responsible investing. Even time zone differences and expending time and money to travel to monitor the manager create more external risks. None of those risks should preclude an investment in global markets, but they must be controlled. Information technology has fostered globalization by allowing efficient information flow 24 hours a day and 7 days a week but speeds information dissemination and devaluation. Despite the complications, a well-managed endowment almost has no choice but to invest in international markets.

Government The government has had some influence on the foundation and endowment investment community because Employee Retirement Income Security Act of 1974 (ERISA) pension laws have influenced all institutions.[13] In the case of foundations, government influences the management of the assets because of its stricter tax policies. In the case of educational endowments, government has withdrawn much financial support and forced them to deal with painful financial realities.[14] Costs, including student aid, continue to increase while federal and state aid packages have decreased. Universities depend on endowment income more than ever, increasing the need to preserve and grow assets and achieve investment performance. Alice Handy, the former president of the University of Virginia Investment Company, said at an industry conference, "State support had declined to less than 10 percent of the University of Virginia's operating budget, increasing the reliance on the endowment."[15] Even private schools have lost research funding. "Trustees no longer have a choice about managing their endowments."[16]

These developments have made asset management more complex. To keep pace, organizations need sophisticated knowledge and expertise in asset allocation, markets, and securities. Decisions take more time because of the need to analyze more data and choose among more investments. Investment committee members can no longer substitute for full-time investment talent, because the task requires too much labor and specialized skill. Institutions need their assets to produce returns in a more complicated and challenging environment and need talented professionals to manage them.

THE RISE OF THE CHIEF INVESTMENT OFFICER

Today, endowments and foundations represent substantial pools of assets that support and sustain the mission of the institutions. As of fiscal 2005, an estimated 746 educational endowments in Canada and the United States held assets worth $299 billion, as measured by the National Association of College and University Business Officers (NACUBO) survey.[17] The Foundation Center counted over 60,000 foundations of all types with approximately $480 billion in assets. The top 100 foundations manage over a third of all foundation assets.[18]

The actions of McGeorge Bundy and the Ford Foundation not only set the stage for the growth of the assets—between 1980 and 2005, Harvard's endowment grew 1,508 percent, Yale grew 2,176 percent, and University of Texas 821 percent—but also freed these organizations from stultified and misinformed investment policies and enabled them to develop into sophisticated investment organizations and influential leaders of the institutional investment community.

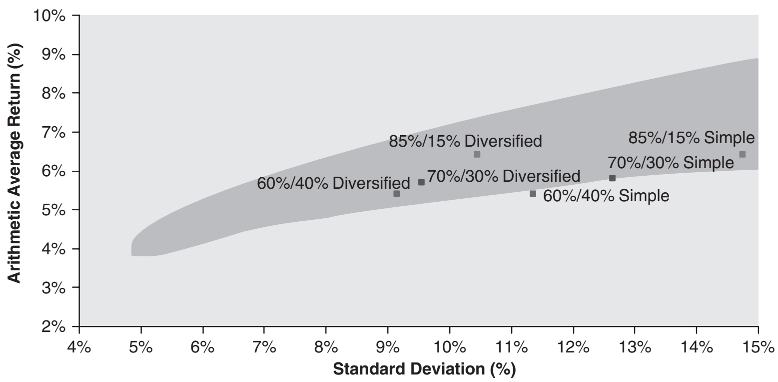
Despite their leadership, or maybe because of it, foundations and endowments face an increasingly murky and complex investment landscape. This excerpt from a Foundation Center report explains the market conditions CIOs face:

> *In the latter half of the 1990s, the soaring stock market and robust economy and the amount of new gifts and bequests from donors to their existing foundations were the key drivers for the increased value of foundation assets. The rapid rise in personal wealth during this period also led many individuals to create foundations. Between 2000 and 2002, however, the stock market decline and a sluggish economy caused a 10.5 percent drop in the value of foundation assets overall. (Many of the largest foundations experienced a much larger decrease in their assets.) The return of positive stock market performance in 2003 helped to reverse this trend. However, the 9.5 percent rise in foundation assets in 2003 was followed by slower 7.1 percent growth in 2004 and an estimated 2 to 4 percent increase in 2005. This slowing rate of growth in assets, combined with the unprecedented two-year decrease in the value of their assets between 2000 and 2002, appears to have made foundations more cautious about increasing their levels of giving. In both 2004 and 2005, the rate of growth in foundations' giving has lagged a couple of points behind the rate of growth in their prior years' assets.*[19]

Today, foundations and endowments find more complexity throughout their investment process, including asset allocation, markets, securities, and manager selection. Cambridge Associates compared various asset allocation policies and produced the efficient frontier graph seen in (Figure 1.1).

The graph shows that the most optimal risk-adjusted return portfolio, *85%/15% Diversified*, is the most complex, highly diversified portfolio with the most specific exposure to alternative investments. Complexity does not just exist because of global trends and proliferating asset classes; it exists because it provides the best chance to achieve outstanding performance.

The complexity has driven the need for professional management of the assets and prompted foundation and endowment trustees to hire full-time investment professionals as CIOs. "Before 2000, the title 'chief investment officer' didn't even register on the database of the College and University Professional Association for Human Resources," said Michael Sullivan of the University of St. Thomas at a 2005 event. As of 2004, there were 100.



	Simple	Diversified	Simple	Diversified	Simple	Diversified
	60%/40%	60%/40%	70%/30%	70%/30%	85%/15%	85%/15%
U.S. Equity	60.0%	30.0%	70.0%	30.0%	85.0%	20.0%
Global ex U.S. Equity	- - -	12.5	- - -	12.5	- - -	15.0
Absolute Return	- - -	2.5	- - -	5.0	- - -	10.0
Hedge Funds	- - -	2.5	- - -	5.0	- - -	10.0
Venture Capital	- - -	2.5	- - -	4.0	- - -	7.5
Private Equity	- - -	2.5	- - -	3.5	- - -	7.5
REITs	- - -	- - -	- - -	1.0	- - -	5.0
Real Estate	- - -	5.0	- - -	4.0	- - -	2.5
Commodities	- - -	2.5	- - -	5.0	- - -	7.5
U.S. Fixed Income	40.0	40.0	30.0	30.0	15.0	15.0
Real Arithmetic Return	5.4%	5.4%	5.8%	5.7%	6.4%	6.4%
Standard Deviation	11.4%	9.2%	12.7%	9.6%	14.8%	10.5%
Real CompoundReturn	4.8%	5.0%	5.0%	5.3%	5.4%	5.9%
Arithmetic Return/Risk	0.47	0.59	0.46	0.59	0.43	0.61
Sharpe Ratio	0.39	0.48	0.38	0.49	0.36	0.51

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FIGURE 1.1 Comparative Asset Allocation Policies
Note: Unconstrained frontier assumptions.
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That same year, executive search firm Heidrick and Struggles counted 20 CIO searches with 8 representing newly created positions.[20]

While some of this shift grew out of the need for professional investment management, it also grew out of the fact that the foundations and the universities themselves have become more complex enterprises. Treasurers and chief financial officers now have too many challenges in their primary responsibilities to manage assets on the side.

Andrew Golden, president of Princeton University Investment Company (PRINCO), speaking at the Goldman Sachs Institute Conference, stated that a CIO is needed for a number of reasons. When he started, the trustees had so much involvement in all decisions that they could focus only on getting the most important items accomplished. He thought the organization had missed opportunities to add value by implementing more effectively with more focus on the details. By transferring responsibility to the investment staff and establishing policies that allowed trustees to focus on the long term, PRINCO was better positioned.[21] The CIO can also reinforce fiduciary responsibility. The CIO can take full-time ownership of the process, make sound financial decisions, and stave off investment decisions that previously might have been made for social reasons.

In *The Paradox of Choice: Why More is Less* (Ecco, 2004), Barry Schwartz studied complexity created by too much choice. The complexity of choice will challenge foundation and endowment CIOs in the years ahead. There are more opportunities, more risks, more asset classes, more products, more intellectual capital, more technological advances, and more competition for good information, ideas, and investments.

LEARNING FROM HISTORY

In 1969, foundation and endowment trustees faced the paradox of *no* choice. Constrained by erroneous views of the "law and the lore of endowments," the assets languished and could have dwindled away if Bundy had not acted.

Foundations and endowments have always needed talented CIOs—they just did not know it in 1669 or 1969. Institutions that recognized the need early have benefited from the expertise of a number of the CIOs profiled in this book. Most foundations and endowments will continue to need capable, knowledgeable, decisive CIOs or equivalents because the income from investment returns has become more important while the ability to generate the returns has become more difficult.

The CIOs chronicled in this book represent the best of the last 35 years of foundation and endowment investing. We have profiled experienced CIOs who participated in making the foundation and endowment investment community the powerful base it is today and those who will lead the community over the next 30 years. These smart, creative, insightful, and successful investors have gone unheralded until now. They will become even more influential in the years ahead as more organizations add CIOs. Reading their stories and sharing their knowledge, experience, and advice will benefit investors and demonstrate why endowment and foundation CIOs have become and will remain forces in the investment world.