

## **Yale Endowment's Performance: A+**

### **A 28% Gain Tops Peers; Alternative Investments May Be Driving Results**

**By CRAIG KARMIN**

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Yale University's endowment fund, the top performer in its class over the past two decades, is ahead of the pack again with a 28% gain for the fiscal year ended in June.

After factoring in the university's annual distributions and new donations to the school, the endowment's size increased to \$22.5 billion from \$18 billion during the previous fiscal year. It is the second largest in the nation behind Harvard University's \$34.9 billion endowment.

Yale's 28% return easily exceeded the 17.5% average for foundations and endowments over the period and beat all other endowments with at least \$1 billion in assets that have reported year-end results so far, according to the Wilshire Trust Universe Comparison Service.

University officials declined to specify which assets it held or which ones performed the best. But industry observers said that the endowment, under its longtime chief investment officer, David Swensen, is a proponent of commodities and alternative investments, such as private-equity and hedge funds.

"It has one of the largest allocations to alternative investments and one of the best managers of alternative investments," says Allen Proctor, a consultant and the former chief financial officer at Harvard University, referring to Mr. Swensen. "This was a [fiscal] year when many alternative assets did well, and this played to Yale's strengths."

A Yale spokesman declined to say how the endowment fund performed since June 30, a period when a selloff in the credit markets took a toll on many private-equity and hedge funds. Yale said it projects that the endowment will contribute about \$843 million during the current fiscal year, or 37% of the university's net revenue.

Yale's endowment has averaged a 15.6% annual return over the past 20 years, and the assets have grown from \$1.3 billion when Mr. Swensen arrived in 1985. The average endowment and foundation returned 10.2% over the same 20-year period, according to Wilshire.

Endowments tend to face less public scrutiny and can tolerate more short-term volatility than most public pension funds, which must pay a set cost of benefits every year to their members. Consequently, endowments in recent years have shown a greater appetite for risk and innovation.

Many observers credit Mr. Swensen, who inherited an endowment portfolio concentrated in stocks and bonds, for shaking up the industry.

"He's definitely been one of the leaders who has pushed endowments in new directions," says Mark Ruloff, director of asset allocation for the consulting firm Watson Wyatt in New York.

## Avoiding Spotlight

Despite the endowment's top returns -- and occasional comparisons to legendary investors like Warren Buffett of Berkshire Hathaway -- Mr. Swensen has kept a relatively low profile, preferring the ivory tower in New Haven, Conn., to the more lucrative hedge-fund jobs down the road in Greenwich. Yale tax returns show Mr. Swensen recently received annual compensation of \$1.7 million, a fraction of what he could command at a hedge fund.

Mr. Swensen is also renowned for his criticism of the mutual-fund industry, which he has said can put the pursuit of profits ahead of its fiduciary duty to investors. He has been especially critical of the fees charged by actively managed funds that routinely fail to beat their benchmarks. He has advocated index funds as the better alternative and often has steered Yale's money there.

While Yale is on top, many big endowment funds this year topped the Dow Jones Industrial Average return of 20.3% over the 12-month period. Harvard's endowment fund gained 23% for the fiscal year, while Massachusetts Institute of Technology and the University of Virginia gained 22% and 25%, respectively.

Separately, a U.S. Senate committee met yesterday to examine whether lawmakers should link college endowment's tax-exempt status to lower tuition costs. Critics of endowments have charged that universities should do more to cut tuition and other student costs as the size of the endowment increases. Yale spokesman Tom Conroy said, "Financial aid for Yale students has doubled since the year 2000."



### Top of the Class

Yale University's returns have again beaten other major endowments

University	Return*	Assets, in billions
Yale	28%	\$22.5
University of Virginia	25	4.3
Harvard	23	34.9
Massachusetts Institute of Technology	22	9.9
Johns Hopkins University	19	2.8
The University of Texas Management (University of Texas, Texas A&M)	18	23.3

Average return for foundation or endowment: 17.5%

\*Fiscal year ended June 30

Sources: Universities; Wilshire Trust Universe Comparison Service

Yale University campus



**David Swensen**