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In this issue

Wrangling the Unicorns:
Yale celebrates their VC heroes

Yale, in their 2015 annual report issued this month has broken out their private equity allocation into two distinct segments: Leveraged Buyouts and Venture Capital. See:

http://investments.yale.edu/images/documents/Yale_Endowment_15.pdf

This is the first time in many years they've offered that level of detail. And they've given the whole report a VC-and-entrepreneurial theme, supplementing the numbers with profiles of some Yale-linked VC heroes and heroines.

It may all seem just a bit self-congratulatory. But, hey, it's Yale. And, in fairness, some congratulations are in order.

The Numbers:

Yale grew its VC allocation from just 10.3 percent in 2011 to 16.3 percent of the portfolio in 2015. In dollars, their VC holdings now amount to $4.2 billion.

(Only the allocation to Foreign Equity showed comparable growth in the 5-year period, with most other categories flat or declining. Domestic Equity, unloved at Yale, continues its long, sad march into low single-digits as a fraction of the portfolio.)

VC has also substantially outpaced **Dr. Swensen's** target allocation of 14 percent, which suggests that those VC deals are flourishing even better than expected.

By contrast, LBO investments have declined from 24.8 to 16.2 percent of the portfolio in the same 5-year period (in line with their target allocation). These two opposite trends in VC and LBOs were indiscernible in previous reports when the two categories were mingled.

Yale doesn't report single-year performance by category, but VC over 10 years has returned an annualized 18 percent, versus just 13.4 percent for LBOs. Looking forward, they expect VC to generate real (inflation-adjusted) annual returns of 16 percent, with a standard deviation of 38 percent.

One standard performance yardstick for institutional VC investors, offered by *Cambridge Associates*, has seen just 11.5 percent annual return over ten years. So, Yale is beating that by a big 6.5 percent.

The report modestly says: "The University's vast experience in venture capital provides an unparalleled set of manager relationships, significant market knowledge, and an extensive network."

In a couple of recent newsletters we've alluded to the advantages Yale has derived from its carefully-managed alumni network.

See: "You Can't Clone Yale" here:
http://www.charlesskorina.com/3303-2/

See: "Maybe you can clone Yale" here:

http://www.charlesskorina.com/conversation-russell-read-new-cio-apfc-juneau/

So, let's take a look at some of the Network as revealed in this report.

The Network:

We begin with some discouragingly young faces.

Nick Shalek, for instance, barely in his 30s, is a partner at *Ribbit Capital*here in San Francisco. He graduated from Yale in 2005, served as an analyst in the *Yale Investment Office* for a couple of years, then picked up an MBA from Stanford. Ribbit specializes in cutting-edge financial-tech companies.

This is one of the channels through which Yale may be investing in rising robo-advisor *Wealthfront*.

Wealthfront is the largest and fastest-growing firm in this niche. They already manage $2 billion in customer AUM with their proprietary algorithms and Millennial-friendly smartphone apps.

When and if they pop an IPO it won't necessarily enrich Yale the way their *LinkedIn* investment did in 2011. Yale provided $2.7 million in seed money to Linkedin, eventually harvesting $84.4 million in gains. Not bad.

They don't detail any other returns, but the report name-checks *Facebook*,*Twitter*, *Uber*, *Pinterest*, *Snapchat* and *AirBnB* as examples of VC deals which have paid off for them in the last decade.

Reaching back into the 1990s they cite *Amazon*, *Google*, *Yahoo*, *Cisco*, *Red Hat* and *Juniper Systems* as among their earlier winners.

Another of Yale's VC young guns is **Ann Miura-Ko**. She majored in electrical engineering at Yale, then, like Mr. Shalek, earned a grad degree at Stanford (a PhD in math). She is now one of the co-principals (with**Mike Maples**) at *Floodgate Fund* in Palo Alto. They've made money in both *Twitter* and *Lyft*, with more promising firms still warming up.

Ayasdi, for instance, is a much talked-about machine-intelligence/data-mining startup with some hot intellectual property that is already used by several global firms. *Institutional Venture Partners*, another Yale-linked firm (through Yale grad **Steve Harrick**) also has early-round money in Ayasdi, so it's pretty likely that Yale itself is aboard.

As a Stanford math PhD and all-around prodigy, Ms. Miura-Ko is regarded as one of the best in Silicon Valley at evaluating such ultra-high-tech ventures.

She's the daughter of a NASA scientist and has been involved in tech startups since she was a teenager in a Japanese-speaking family in Palo Alto. *Forbes* called her "the most powerful woman in start-ups." *The Stanford Daily* called her "The relentless Ann Miura-Ko."

Yale just scored a coup by acquiring Ms. Miura-Ko as a member of their investment committee, wiring her even more firmly into the Network.

We should also mention **Ms. Ping Ping**, a *Beijing University* grad who earned her MBA from Yale in 2003. She's now a managing director at*Chengwei Capital* (after a stint at *McKinsey's* Beijing office).

Chengwei is one of the leading VCs in China and Ms. Ping sits on the boards of some important startups there and offers Yale a channel into that essential market.

One of Chengwei's portfolio stars has been *APUS Group*, which birthed one of the fastest-growing Android apps ever in 2014, with more than 100 million users world-wide. It has allegedly moved to official unicorn status (over $1 billion market value) faster than any other firm.

The Old Guard:

It's nice to see those unlined faces, but Yale's been doing VC for a couple of generations and they owe a lot to some older faces, as well. These gentlemen have kept Yale in the loop for decades about the best deals in Silicon Valley.

G. Leonard Baker, for instance, of the class of '64, followed his Yale math degree with an MBA from Stanford and became a partner at *Sutter Hill Ventures*, one of the original VCs in the Valley. Now, having reached mandatory retirement age, Mr. Baker will be stepping down from the Yale Corporation investment committee after 26 years of service, making way for Ms. Miura-Ko, and thus passing the baton to the latest generation of the Yale/VC network.

Also referenced in the report are **Bing Gordon** (class of '72), a partner at*Kleiner Perkins*; and the dean of the Network, **William H. Draper II** (class of '50) who was a founder of Sutter Hill and currently runs his own boutique VC firm: *Draper Richards*.

The Rivals:

There's no reason why some other major endowments can't play effectively on this field.

It takes time and leadership to develop a VC network like Yale's, but schools like *Harvard*, *MIT*, *Texas*, *UC Berkeley*, and *Stanford*, among others; each with its own mix of academic/cultural/geographic/financial assets; could be competitive.

UC Berkeley and Stanford, academic powerhouses located at the tech epicenter in Northern California seem to have big home-field advantages. But UC certainly isn't performing at Yale's level as a VC investor, and Stanford probably falls short as well.

Consider UC:

Counting both the Regents General Endowment Pool and the separate UC Berkeley Foundation, we get a total portfolio allocation of a little over 9 percent to private equity, including both LBOs and VCs.

In dollars, that's around $1 billion.

Assuming half is VC, that's about 5 percent of the portfolio, or just $0.5 billion.

The corresponding VC figures for Yale, as we saw, are 16.3 percent of the (much larger) portfolio and $4.2 billion AUM. That's eight times as much.

Cal's return on PE has been about 11.5 annually over 10 years, averaging the GEP and UCB foundation.

Yale's weighted-average return to private capital (LBOs and VCs) was about 15.5 percent over the same period.

So, Cal is earning a decent, industry-average PE return, but Yale is getting half-again as much.

Jagdeep Bachher, just starting his third year as the UC Regents chief investment officer, was clearly selected, in part, to rev up UC's investment returns generally.

He also has a background in engineering and private equity and might be expected to help on that front. At Alberta's *AIMCO* he sat on the boards of some of their key private-equity portfolio companies. But AIMCO's skillset was in energy technology, not so much in consumer-focused digital tech, medical tech, etc. He has a lot on his plate and a ponderous bureaucracy to deal with. The separate UC Berkeley foundation and its investment arm may have good contacts and more flexibility, but a much smaller AUM.

How about Stanford?

We've commented elsewhere on the recent hiring of **Robert Wallace** as CIO of the *Stanford Management Company*.

See: http://www.charlesskorina.com/exodus-from-the-stanford-endowment-mr-wallace-cleans-house/

Mr. Wallace is a Yale grad and a veteran of the Yale Investment Office, and everyone we've spoken to is quite candid and definite in saying that he was hired to make Stanford more Yale-like, including cultivation of top-tier VC opportunities.

Stanford doesn't disclose returns, or even exact AUM, by category, but the target for private equity (both LBOs and VCs) is 26 percent of the portfolio.

If we arbitrarily allocate half to VC (it's probably more) we get an allocation of 13 percent, or about $3.4 billion as of 2015. That's smaller than Yale in dollar terms, but in the ballpark (and, again, that is probably an underestimate). So, Stanford, as anyone could have guessed, is a very big institutional player in VC.

As to returns, we only know that Stanford's whole portfolio earned an annualized 8.7 percent over ten years, versus 10.0 percent for Yale: a 130 bps shortfall.

We can only speculate but, given their similar allocations and lower returns overall, there's no reason to think Stanford is matching Yale's returns on VC; they're more likely falling short of Yale's 18 percent annual return over ten years. Everybody else is.

Even if, as we surmise, Stanford's performance as a VC investor has trailed Yale's, it doesn't mean that the endowment hasn't been showered with VC money, it just arrives by a different route.

Not a year passes without word of a stupendous gift from some alum who has prospered in the VC arena. For example, Robert King, a Stanford MBA who made a fortune as a seed investor in the Chinese Internet search firm Baidu, donated $150 million in 2011. Many others could be cited.

Mr. Wallace and his board command a much more streamlined organization than Mr. Bachher's and they have access to an unrivaled alumni network in Silicon Valley. But getting all the pieces to mesh more effectively could still take years.

Both UC and Stanford have some awesomely smart and well-connected people in Northern California and elsewhere, but we don't expect to see them storming Yale's carefully-constructed VC castle anytime soon.

Yale's VC/Entrepreneur Network

Source: YIO Annual Report FY2015

	Name	Yale Degree	Current	Prior
1	**Baker, G. Leonard**	BA (Math) 1964	**Sutter Hill**	
2	**Brooks, Mike**	BA (Hist) 1967	**Venrock**	Morgan Stanley
3	**Cohler, Matt**	BA 2001	**Benchmark**	LInkedIn, Facebook
4	**Draper, William H. III**	BA 1950	**Draper Richards**	Sutter Hill
5	**Gordon, Bing**	BA 1972	**Kleiner Perkins**	
6	**Harrick, Steve**	BA (Hist) 1993	**Institutional Venture Partners**	Highland, Netscape
7	**Kapor, Mitch**	BA 1971	**Kapor Capital**	Lotus Development
8	**McCance, Henry**	BA 1964	**Greylock Partners (Chairman Emeritus)**	
9	**McNamee, Roger**	BA (Hist) 1980	**Elevation Partners**	Silver Lake Partners
10	**Miura-Ko, Ann**	BS (Elec Eng) 1998	**Floodgate**	Charles River, McKinsey
11	**Ping, Ping**	MBA 2003	**Chengwei Capital**	McKinsey

12	**Ryan, Kevin**	BA (Econ) 1985	**Business Insider**	DoubleClick
13	**Shalek, Nick**	BS (Econ) 2005	**Ribbit Capital**	Facebook, Yale Investment Office
14	**Singer, David B.**	BA (Hist) 1984	**Maverick Capital Ventures**	Affymetrix
15	**Sze, David**	BA (Econ) 1988	**Graylock Partners (Electronic Arts)**	Electronic Arts
16	**Tsai, Joe**	BA (Econ) 1986	**Alibaba**	Sullivan & Cromwell

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Michigan State University seeks a Director of Investments:

I visited the *Michigan State University* campus last week and met with the new chief investment officer, **Phil Zecher.**

Our recent interview with Dr. Zecher is posted here: http://www.charlesskorina.com/michigan-state-university-has-hired-their-first-chief-investment-officer/

I was there to finalize a search for a new Director of Investments in the brand-new investment office.

This individual will be Dr. Zecher's second-in-command in running the $2.1 billion endowment.

Briefly, the job will be about half Investment Strategy/Portfolio Management and half research, analysis and some admin and personnel duties as the office grows. The new DOI can also expect to be on the road talking to external managers about one day out of five.

There is a more detailed position description posted on the school's website at: www.jobs.msu.edu.

The job number is: 3200. Put that in the search box and it will take you directly to the listing, which is described as "executive management director."

MSU is a public university and major recipient of federal grants, so there are some procedures the school must follow when hiring. Applicants should register at this website, then contact me by phone or email.

While I was on campus I was introduced to **President Lou Anna Simon**; a remarkable woman who earned her PhD at MSU in 1974 and served as Provost for eleven years before ascending to the presidency in 2003. She eats, sleeps and breathes Michigan State and the school is fortunate to have such a strong advocate in the president's office.

I, myself, matriculated at MSU some decades ago before wandering off to join the Army and seek my fortune in California, and my family has deep roots there.

My parents, both MSU graduates, met and married on campus. My maternal grandmother, **Ruth Bradt Mack,** was a classically-trained pianist who taught in the school's music department for many years. And her brother, **Glenn Warner Bradt**, taught Zoology there for a decade among his other endeavors. (Glenn broke with tradition, however, and earned his PhD at the University of Michigan, but we don't talk about that)

Dr. Bradt was an explorer, scholar, and beaverologist of some distinction and I like to think of him as the **Indiana Jones** of large rodents. Great-uncle Glenn is the author of *Michigan Beaver Management*, a definitive work in its field.

Comings and Goings:
Cornell's quiet selection of Kenneth Miranda

In our last letter we noted the departure of **A.J. Edwards** from Cornell, where he had been chief investment officer for five years.

See: http://www.charlesskorina.com/conversation-russell-read-new-cio-apfc-juneau/

His last day was March 31 and the school's press release promised that a successor would be announced just two weeks hence, on April 15.

We opined that (obviously) the board must have done a quiet search and had a successor in hand. We were pretty sure it would be an outsider rather than a staff promotion. We also reviewed the succession of Cornell CIOs over the past decade and hoped this time they could come up with a keeper.

The announcement came a few days late, but we were mostly correct. They had done a quiet search-and-selection, and it was not a staff promotion. But the new CIO, **Kenneth Miranda** wasn't altogether an outsider.

For the past four years Mr. Miranda has been a non-trustee member of Cornell's investment committee, where he served under chairman **Donald C. Opatrny**. In that role he gained a close knowledge of how the endowment was functioning, and apparently Mr. Opatrny and his colleagues liked the cut of his jib.

Thinking about the need for a new CIO, at some point Mr. Opatrny must have looked down the board table, and there he was.

Mr. Miranda previously ran $11.5 billion in staff pension assets for the *International Monetary Fund* in DC, and he comes well-credentialed. He's a graduate of *Georgetown University*, holds a CFA charter, and also earned a PhD in economics from the *University of Chicago*.

We made a conscientious attempt to figure out how those IMF pensions have performed under his leadership. That's possible in most cases when dealing U.S. public and even corporate pensions. But the IMF is one of those supranational bodies which, although domiciled in the U.S., is exempted from most regulatory and accounting rules that bind others.

The IMF's terse discussion of its pensions gave us no help. Sorry, we tried.

They're so even-handedly international that they don't even use dollars in their accounting. The IMF denominates everything in their own special currency: Special Drawing Rights (SDRs). So, if anyone ever offers you an SDR, you should know its worth about $1.40 American.

...and, Skorina is seeking a Chief Investment Strategist:

This will be the head investment position at a $25 billion-dollar, multi-asset class, institutional and high net-worth money manager in the Mid-Atlantic area.

The successful candidate will probably be an executive investment officer at a large institutional fund, such as: a top-tier asset manager; an investment bank; or a large endowment, foundation, or pension.

He or she will have management and research experience with all asset classes: global equities, fixed income, and alternatives (including hedge funds, private equity, real estate, commodities, and real assets); be a comfortable, effective public speaker; and have substantial experience dealing directly with clients.

Compensation for this key position will be highly competitive.

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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.

Prior issues can be found in "archives" on our website,
http://www.charlesskorina.com/