The Skorina Letter

News, Interviews, Research for Institutional and Family Office Investors

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Scott Wilson steps up

Washington University lands a prime Chief Investment Officer

Washington University in St. Louis has landed a splendid new chief investment officer for its $8 billion endowment: Scott L. Wilson of Grinnell College.

The hire was announced last week and conducted by WUSL's interim CIO and search committee chair Eric Upin.

Mr. Upin is a highly qualified CIO in his own right. He's a Harvard MBA, former CIO of the Stanford endowment and, more recently, a senior partner and CIO at outsourcer Makena. (Check out Makena's standing in our updated OCIO list, coming next week!)

Mr. Wilson served for more than seven years at the $1.9 billion (FY 17) Grinnell College endowment in Iowa, including three years as CIO. He's a Grinnell grad, and was working toward an MS in financial mathematics from the University of Chicago when he was transferred to Tokyo.

Before joining Grinnell he held a series of hands-on bond- and derivatives-trading jobs, including a long tour in Tokyo working for Bank of America and Barclay's Capital. And every summer he likes to get away from it all by retreating to his cabin somewhere up a mountain side in a remote part of Alaska.

He arrives in St. Louis with the global perspective needed at a major endowment in this era. We know, for instance, that he has been shifting equity money into ex-U.S. markets since 2014, including establishing a foothold in sub-Saharan Africa (through private-equity deals), where many have feared to tread.

Kim Walker departed St. Louis in December after a 10-year tour as founding CIO at the WU Investment Management Company. She had no announced destination, and hasn't yet surfaced anywhere else.

For Mr. Wilson, who's still only 41, this is a big step up. He's moving from the 63rd-largest to the 16th-largest endowment per our latest SEER rankings. And he will undoubtedly see a commensurate jump in pay.

Our SEER numbers show Mr. Wilson with total comp of $562,117 in 2014, the latest period available. Ms. Walker got $891,871 in the same period (which is a bit on the low side for a Top 20 endowment). We would expect him to get a package totaling close to $2 million as he comes aboard this Fall.

See SEER pay rankings: http://www.charlesskorina.com/?p=4922

Five-year annualized performance for the two funds has been similar: 5.4 percent at Grinnell and 5.6 percent at WUSL. But their allocations have been significantly different.

See SEER performance rankings: http://www.charlesskorina.com/?p=4828

Grinnell is heavier in equities than most big endowments, including WUSL. That equity exposure worked for them in FY2015, when Grinnell returned a big 20.4 percent, ahead of all the Ivys, and tied with University of Minnesota for the best performance among Top 100 endowments. Mr. Wilson has been lightening that equities bucket over the last two years, shifting more into alternatives, but it still stands at about 40 percent as of FY2016.

Mr. Wilson has also eschewed macro hedge funds at Grinnell, because it creates portfolio construction issues which make it very difficult for the investment office to return its cost of capital. This may or may not be reflected in the WUSL allocations going forward.

Like most big endowments, both WUSL and Grinnell posted losses in FY2016, but Grinnell has come roaring back in FY 2017 with a return close to 19%, bringing their five-year return to an impressive 10%. As we see from their target allocation below, Grinnell has been high in equities when it counted and low in real assets when the pickings were slim.

Grinnell's target asset allocations	
Cash/Fixed Income	10%
Public equity	**40%**
Hedge funds	12.5%
Private Equity (including VC)	**30%**
Real Assets	7.5%
	100%

Keystone Kapers revisited

"Governance" and the Pennsylvania State Employees' Retirement System

We've all read stories about pending shortfalls in U.S. public pension plans and reports of occasional sleaze and malfeasance among the people who run and do business with them.

We all nod, sigh and turn the page.

Readers may dimly recall that New York State Comptroller Hevesi -- trustee of the state's pension funds -- was sentenced to prison in 2011. And served 20 months. After his release, fortunately, he was still eligible for a $100,000-a-year pension paid out of the same fund he had diddled. His chief investment officer was also convicted, but avoided prison by rolling on his boss.

Last year, here in California, we saw a federal court (finally) sentence ex-CEO Buenrostro of CalPERS to 4 years in prison for what the judge called "a spectacular breach of trust."

Two years ago, we wrote an epic account of goings-on at the Pennsylvania ERS pension fund. The gist of it was that former chief investment officer Anthony Clark, someone we knew and respected, was pushed out of his job due to accusations which were later shown to be baseless. Swirling around his ouster was a cast of curious characters who all seemed to be more interested in self-enrichment or political advancement than guarding the public funds.

We couldn't possibly recap that twisty tale in this short space. But, we did our best back then to lay it out and you can read it here:

http://www.charlesskorina.com/?p=2656

Now, just last week we noticed a piece in the Philadelphia Inquirer which contained some familiar names.

See reporter Joseph DiStefano's story here:
http://www.philly.com/philly/blogs/inq-phillydeals/pa-pension-probe-end-undue-pressure-to-hire-connected-firms-20170902.html?mobi=true

It seems that some of the same individuals we wrote about two years ago - or very similar ones - are still on the loose.

Glenn Becker, formerly chairman of the Penn ERS board, was prominent in our original story, and he is now back in the spotlight for "allegedly" trying to influence the investment staff to hire a certain politically-connected firm. The staffers resisted on the grounds that the firm demanded high fees for a bad product - a seeming irrelevancy from the POV of Mr. Becker.

The investigators concluded that the rules governing such behavior were so vague and toothless that it would be hard to say whether he actually broke them, however unseemly his behavior. Mr. Becker's lawyer helpfully noted that his client was perhaps just "a little more hands-on than other board members."

Apparently, no one saw any need to emend those toothless rules after the incidents of 2013-2014 which we reported.

Mr. Becker will skate. But some of his less-nimble colleagues haven't been so artful.

Former State Treasurer (and ERS Board Member) McCord, who also appeared in our original story, left that job in 2015 and pleaded guilty to soliciting illegal campaign contributions.

One of McCord's predecessors, former state treasurer Barbara Hafer, pleaded guilty just this summer to lying to federal investigators about receiving contributions from the same politically-connected figure behind the investment firm Mr. Becker was touting.

And, a peripheral figure in our story, Pennsylvania Attorney General (and U.S. Senatorial aspirant) Kathleen Kane, was sentenced to prison last year for perjury and abuse of her office.

Many others -- like Mr. Becker -- have avoided prosecution while still suffering various degrees of embarrassment, to the extent that they can be embarrassed. Still others carry on the public business per usual: quietly, malodorously, and unscathed.

Getting better governance at public pensions is a complex, boring and thankless task; and we haven't a clue about how to get there.

But those pensions control $4 trillion of working people's money; and one day, some hero with a suitable skillset and a thick skin, might just saddle up and take a swing at it.

What we're reading

Mihir Desai has some explaining to do

He holds dual appointments at Harvard, in both the law school and business school. But, apart from this overachievement, he seems to have carried on teaching microeconomics, finance, tax law, international finance and so forth, in the ordinary, blameless way.

We now learn, however, that he has led a secret life. Surreptitiously - perhaps with a flashlight under the covers - he has been reading philosophy, history, novels, poetry, the Bible, and even watching Film Noir classics and The Simpsons.

And this bizarre behavior seems to have been going on for years, unremarked by his colleagues.

Now it all comes out as he publishes *The Wisdom of Finance: Discovering Humanity in the World of Risk and Return*.

In the first chapter he references Robert Frost, Nietzsche, Dashiell Hammett, Wallace Stevens, David Byrne, and Brian Eno.

In Chapter Two, we're on to Jane Austen, Herman Melville, Saul Bellow, Anthony Trollope, and Aristotle. Then, in Chapter Three, we consider the Talmud, the New Testament, Samuel Johnson, John Milton and John Wesley. Then: James Joyce and Mel Brooks.

And, we still have five chapters left to go.

Along the way he unfolds his understanding of modern financial theory as and when it's needed, just to remind everyone that he knows his own subject, too.

The last chapter is titled "Why Everyone Hates Finance." He offers some tentative answers to this knotty question.

This book is not for everyone. It will not earn you CFAs any continuing education credits.

But, it's charming, learned, readable and maybe even wise. See: https://www.amazon.com/Wisdom-Finance-Discovering-Humanity-Return-ebook/dp/B01I4FPMHS

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/