

The Skorina Letter

News, Interviews, Research for Institutional and Family Office Investors

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We recruit chief investment officers and senior asset managers for endowments, foundations, family offices and institutional investment firms

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5 reasons why Harvard's endowment stumbled (and 3 reasons why things are looking up)

The Harvard endowment has been in the news lately, wrestling with spin-outs, write-offs, and “right-sizing”. As keen observers of investment talent and performance, we have a few thoughts of our own on the reasons for their challenges. Here are our top five.

- 1. Failure to communicate.** In prior years, the Harvard Management Company (HMC) and the University seldom spoke to each other.
- 2. Bad luck.** Jane Mendillo, the former HMC president, joined on July 1, 2008. Three months later, the abyss.
- 3. Bad investments.** Mr. Narvekar, the current HMC president, inherited heaps of garbage. [According to the WSJ](#), he is still shoveling.
- 4. Chronic indecision.** HMC swept dirt under the rug for a decade. Stephen Blyth’s departure forced a reckoning.

5. Size really matters. It's one thing to lead a staff of ten, quite another to herd three hundred. Before Mr. Narvekar, the saddle didn't fit.

3 reasons why the future looks brighter

1. HMC board 2.0. The current board is realistic, experienced, and committed. They are all on the same page now.

2. Paul J. Finnegan. Smart, unflappable, and decisive. Harvard University got serious appointing Mr. Finnegan as HMC board chair.

3. N.P. "Narv" Narvekar. A savvy investment profession with no illusions about the challenge. The HMC board got serious when they hired Mr. Narvekar.

How they manage their money

German family office: multi-billion dollar AUM: best-in-class

Why is the German economy so strong? Because Germans believe in work, education, and skill-based training. It's in their culture, their history, and their DNA. It dates back to the guild system in the middle ages. They can't help themselves, they've just got to train.

Skill is important and training increases skill. And in the Federal Republic of Germany, everybody trains. Most German companies are small, multi-generational enterprises – members of the "[Mittelstand](#)" – and [skill-based](#) technical excellence helps them survive and thrive against the world's best.

This anonymous, multi-generational family office - one of Europe's most substantial - is no exception. I recently sat down with the managing director of the investment office, headquartered in one of German's largest cities, and we discussed their rigorous professional standards and staff development process.

The office is run like a top-tier, institutional asset manager, with meticulous systems, due diligence, and investment research. They benchmark their

investment performance against the world's best institutional investors and continuously evaluate and refine their process.

Investment activities fall into three categories: endowment style (the "Yale" model is highly regarded), opportunistic, and direct real estate. And there is a strong emphasis on socially responsible investing (SRI) with a particular focus on environmental stewardship.

The nine professional investment staff members must all study and achieve educational and technical development goals.

The principals believe that well-trained employees are happier, more motivated, and confident in their positions, make better investment decisions, and strengthen the country.

New employees are offered three-year contracts. During that initial three-year period, employees are assigned goals and objectives, with regular feedback and assessment. They must earn the CFA designation and the CAIA charter, and acquire a global, multi-asset, long-term approach to capital deployment. At the end of the three years, they may be offered an additional five-year employment contract depending on performance.

There is a competitive and detailed compensation formula, with clear objectives. All bonus vesting is retained as earned. That means, no matter when they leave, they retain their rights to the portion of their bonus already accrued.

Institutional and family office investors operate in an intensely competitive arena and as I wrote a few years ago, building superior investment teams that can endure and outperform is a daunting task. The more training and professional education, the better the chances for enduring success.

CalPERS versus their peers: 10-year performance

We close 2017 with a look at the ten-year performance of the California Public Employees' Retirement System (CalPERS), the biggest in the country, and eleven of CalPERS largest US and Canadian peers.

The CEOs and chief investment officers at these funds are some of the best in the business and always of interest to us as recruiters. But they command the supertankers of the pension world and this last decade has been a challenging time to make money.

The large Canadian pensions, unlike CalPERS, run full service, Wall Street-like operations, with many investment functions in-house. They were built to compete against the best money managers in the world and, unlike their US counterparts, are largely fenced-off from political influence.

So, who wins the 10-year performance derby? And which model seems best able to adapt and perform?

The following chart includes CalPERS, the California State Teachers' Retirement System (CalSTRS), NY State Common Retirement Fund, the top eight Canadian pensions by AUM, and the Norwegian pension, now essentially a global index fund with an equity bias and ESG leanings. We added the S&P 10-year return as of December 31, 2016 and March 31, 2017 as benchmarks

The fiscal year-end dates for each fund don't all quite match up. But, these are ten-year returns and we think the comparison is valid and of interest.

CalPERS versus peers: 10-year returns

Rank By 10-yr Rtns	Pension Plan	CEO	Assets Under Mgmt (AUM) CD bn	10-year return
-	-	-	-	-
1	Healthcare of Ontario Pension Plan (HOOPP)	Jim Keohane President & CEO David Long , CIO Alts, Fixed income Jeff Wendling , CIO Equities	CD 70.4	9.08% FY 12-31-16
2		Ron Mock	CD 175.6	7.3% FY

	Ontario Teachers' Pension Plan Board (OTPP)	President & CEO Bjarne Graven Larsen , Chief Investment Officer		12-31-16
3	Alberta Investment Management Corp. (AIMCo)	Kevin Uebelein Chief Executive Officer Dale MacMaster , Chief Investment Officer	CD 95.7	7.3%* FY 12-31-16
4	New York State Common Retirement Fund (NYSCRF)	Thomas P. DiNapoli , State Comptroller Vicki Fuller , Chief Investment Officer	US\$ 192.4	7.12% FY 3-31-17
-	S&P 10-yr return	-	-	6.94% FY 12-31-16 7.43% FY 3-31-17
5	Canada Pension Plan Investment Board (CPIB)	Mark Machin , President & CEO Geoffrey Rubin , Chief Investment Strategist	CD 316.7	6.7% FY 3-31-17
6	British Columbia Investment Management Corporation (bcIMC)	Gordon J. Fyfe Chief Executive Officer/ Chief Investment Officer	CD 135.5	6.6% FY 3-31-17
7	Public-Sector Pension Investment Board (PSP Investments)	André Bourbonnais President & CEO Daniel Garant , CIO (resigned 6-30-17)	CD 135.6	6% FY 3-31-17
8	Norges Bank IM (Norwegian Pension Fund)	Yngve Slyngstad , CEO Petter Johnsen , CIO equity strategies Ole Christian Bech-Moen , CIO Allocation Strategies Geir Oivind Nygard , CIO Asset Strategies	US\$ 1.015 trillion	5.73% FY 9-30-17
9		Michael Latimer , Pres CEO	CD 85.2	5.6% FY 12-31-16

	Ontario Municipal Employees Retirement System (OMERS)	Blake Hutcheson , CIO, Real Estate, Strategic Investments Satish Rai , CIO, Cap Mkts Michael Rolland , CIO Private Mkts		
10	Caisse de dépôt et placement du Québec (Caisse)	Michael Sabia , Pres, CEO Roland Lescure , CIO (resigned 4-6-17)	CD 286.5	5% FY 12-31-16
11	California State Teachers' Retirement System (CalSTRS)	Jack Ehnes , CEO Christopher J. Ailman , Chief Investment Officer	US\$ 208.7 6-30-17	5% FY 6-30-17
12	California Public Employees' Retirement System (CalPERS)	Marcie Frost , CEO Ted Eliopoulos , Chief Investment Officer	US\$ 323	4.4% FY 12-31-16

* 9-year return. AIMCo inception date January 1, 2008, ten-year figure not yet available

Women in finance

Rukaiyah Adams: chief investment officer at Portland's Meyer Memorial Trust - doing good and investing well

Speaking of large US pensions, the \$90 billion dollar Oregon Pension ranks among the top fifteen in the US, but how many in the industry know the current board chair, Ms. Rukaiyah Adams?

Ms. Adams was born in Berkeley, CA, grew up in diverse, northeast Portland, and returned to her home city after a stellar legal and investment career in California and New York.

She splits her professional duties between the \$750 million AUM Meyer Memorial Trust, where she is chief investment officer and the \$90 billion Oregon state pension, where she is board chairperson.

Present day Portland is a little easier to reach than it was when President Thomas Jefferson sent Captain Lewis, Second Lieutenant Clark, and the ‘Corps of Discovery’ west to explore the vast uncharted American territories.

Still, Portland is not Wall Street and, at the west end of the Oregon Trail, just far enough off the beaten track to feel a bit isolated.

Yet, the state is home to the Oregon Investment Council, one of the nation’s largest pension funds, several well-run university endowments, three first-rate investment consulting firms, and the Meyer Memorial Trust, established with a bequest from Mr. Fred G. Meyer, a twentieth century supermarket magnate.

When Mr. Meyer died in 1978 at the age of 92, he left two million shares of stock to the newly formed foundation. And thanks to a buy-out deal in the early days of private equity, the value of the trust’s holdings soared. KKR and the Oregon Investment Council, in one of their first joint buyout forays, purchased the Fred Meyer Co. in 1981, which did wonders for the stock.

Ms. Rukaiyah Adams joined the foundation as investment head about four years ago, after managing a \$7bn fixed income and derivatives fund for The Standard, a Portland-based financial services company.

We caught up with Ms. Adams earlier this year and wondered what the investment view looked like from her outpost on the Pacific rim.

Ironically, with only a handful of African-American chief investment officers in the entire US, the progressive northwest has two, Ms. Adams, a Portland native, and Joseph Boateng, from Ghana originally, and the long-serving investment head of Casey Family Programs in Seattle, the largest non-government provider of foster care in the country.

We wanted to know what drew her to the asset management industry, her views on investing, and what advice she might have to offer to encourage more women and minorities to get into the business.

Skorina: After undergraduate studies at Carleton College in Minnesota and a Stanford Law degree it looked like you were on the fast track to partner at

Skadden, Arps in San Francisco when, in mid-career, you hit that proverbial fork in the road.

You went back to Stanford for an MBA, then off to New York as Director of Investments, and eventually added Chief Operating Officer to your title at a private investment fund. How did that career-shift come about?

Adams: At Skadden, I learned a lot about how to execute, negotiating private equity deals and venture capital advising, as well as working with executives and boards on corporate strategy. But, over time, I grew more interested in what happened before and after “the deal” — so to speak.

M&A lawyers are like quarterbacks, there is a lot of managing teams to achieve a specific outcome. But, I aspired to manage people over the long term. I wanted to run a business.

Also, at the law firm I worked closely with investors who channeled money to startups and buyouts. And I could see that these investments made a big difference in the lives of the workers and the communities. New industries were being created. I wanted to be a part of that growth engine.

I absolutely love investing—the analytical rigor, the global perspective, the meaningful outcomes.

Skorina: I have this theory about bond investors after years recruiting senior asset managers. Bond analysts and managers seem to make some of the best CIOs because they deal with reality – with tangle factors; quantitative risk assessment, cash flows, and repayment.

Adams: Charles, thanks for the compliment. Bond girl, um...I can see the poster now. But yes, there is a heavy dose of rigor and bare-knuckle reality in the fixed income and credit world and hopefully that experience helps to make me a better CIO.

I will say that running a bond fund just after the GFC (the crash), I had to hustle to keep returns high. It was between 2008 and 2014 that I learned to trust my own instincts while investing in dislocated markets.

As for performance, as of 3-31-17, the 5-yr is 8% and the latest year, as of 6-30-17, is 12.9%. So, things are looking ok and the portfolio is finally beginning to reflect my investment philosophy and decisions.

Skorina: Some of the articles I've read about you emphasize your early years in a poor neighborhood in Portland and your racial background and less so your investment views and accomplishments. I suppose you are used to it by now?

Adams: Charles, I have to admit that that focus is complicated. Those facts are true. When I walk into a meeting, there is a non-verbal conversation that happens about race and gender—so that focus in print merely makes readable, a conversation that has, until now, been inaudible. I understand that. My sense is that people project on to me what they need or what they want. Is it possible that people want to know the real me, not just the investor me? I'm just trying not to fuss too much about it; to learn to accept best intent it at this point.

I must say though, with a year like I had last year, I can't help but ask: Can a homegirl get an article about performance?

I put in ninety hour weeks in my law practice at Skadden, more long hours in NYC as an investor, and several years at The Standard in Portland running the investment group. That's twenty years of hard work to arrive at where I am today, a top performing institutional money manager with solid business and technical skills.

Don't get me wrong, I'm a big booster for social and economic justice. But, I am not an activist. I am investor. Clearing the pathway for the less fortunate takes a lot of resources, including money. The more I make for MMT, the more energy and resources we have to invest improving the community.

Skorina: How did you wind up at the Meyer Memorial Trust?

Adams: I love Portland. It's my home. After thirteen years in the Bay area and three years in New York, I missed my city and I was fortunate to find a job running the bond and derivatives team at The Standard.

When Doug Stamm the CEO at Meyer Memorial Trust reached out to me over four years ago and began a long dialog about the impact I could make here, I thought this was a terrific opportunity to make money for a great foundation.

I love the day to day discovery, I love working with my staff, I love the managers I meet and invest with. It's a great business.

Skorina: I have west coast recruiting assignments now and then, but the bulk of my work comes out of the northeast, primarily the greater New York region. Most of the money managers are there, the conferences, the infrastructure. Do you feel cut off in Portland from the flow of talent and ideas?

Adams: Charles, I have a totally different take on what you just said. One continuous thread in many of your newsletter articles and interviews with asset managers focuses on the need to think differently to make above market returns. Well, we know how to get beta these days. But earning alpha over a long period is a whole other story. You have to have a point of view, some advantage to find opportunities that will generate alpha over the long term.

The west coast is different than the east coast, both are creative and hardworking, but we are looser, less hierarchical, more willing to push social conventions and question authority, explore the new and different. When I worked in New York I felt I was marinating in the opinions of the crowd, the newspapers, the daily pitchbook. I didn't have the cognitive space to form my own opinions, to be inspired by the things I saw every day.

Any CIO who thinks and invests differently must have the backing of the board of directors, high conviction, curiosity, resilience and a point of view. Investing hundreds of millions of dollars requires a point of view, persistence and determination. You can't let up.

The role of a CIO is to listen and the best investors are very good at listening. Here in Portland, I listen closely to our staff, their opinions matter to me. They feel comfortable expressing their views about our future. There is a lot of noise in traditional investment circles, in Portland other voices and ideas find me.

Skorina: I've read your comments about the generational shifts in the views toward saving, investing, and retirement. Peter Drucker, the long-lived management consultant and author, kept coming back to demographics as a key to understanding how investment patterns and opportunities change over time. And where the next wave of opportunities might come from.

Adams: I couldn't agree more. Demographic shifts; women in the workforce, the baby-boomers moving into retirement, young people staring at a future without pensions, all this will change the flows and demands on investment dollars.

So, let's take advantage of these different viewpoints and listen to what the younger generations of workers, women, and minorities are thinking and doing about their future. Where are they spending their money? What are they investing in? What matters most to them?

From my position as a chief investment officer, I would like to know how these groups will affect global growth patterns, and therefore, investment flows. I am constantly asking: How can I stay ahead of the curve, spot opportunities, and direct my investment dollars to new opportunities?

Skorina: But doesn't there seem to be a social justice component to this and investment activism?

Adams: Well, that depends on how you look at it. Virtually all chief investment officers at foundations take those jobs because they want to feel that their work is not totally exploitative, that they are somehow giving back. They love investing and they also believe in the mission.

Whether it's a school, the hospital, a foundation, or a charity, we are here to make money so that the policy and programs side of the organization can deliver services and programs that enrich society. So, in that sense, we're all working for social and economic justice.

Skorina: There's another subject I've been touching on in my recent interviews, the role of women and minorities in asset management and their relatively low numbers in these positions.

When [I interviewed Kim Lew](#), the CIO of the Carnegie Corporation earlier this year, we had to think hard to come up with even a handful of African-American chief investment officers, male and female. What's your take on this?

Adams: First we have to break the numbers down Charles, because we need to settle on who and which segment we are talking about.

If you look at the asset management industry overall, the recent [Knight Foundation study](#) underscores the sad fact that women and minorities have only a tiny slice of the seventy trillion or so in global assets. That's not encouraging.

On the other hand, female chief investment officers in endowments and foundations, are now at around twenty-five to thirty percent. Ok, that's better.

Now, which minorities in the US are we talking about? African-Americans, Indians, Asians, Hispanics? It's different for each group. Jagdeep Bachher heads the University of California Regents investment office and "Srini" Pulavarti manages the money at the UCLA foundation. So, there's Berkeley, the Regents, UCLA, and UCSF, and two out of four UC investment offices are run by Indian-Americans. That's good.

By the way, as an aside, I listened to a presentation by Jagdeep and Hiromichi Mizuno, the head of the GPIF of Japan, at the Milken conference earlier this year and thought they were fabulous. They spoke about trends and opportunities. Great talk.

[\[Charting New Frontiers in Asset Ownership\]](#), May 3, 2017]

Turning to African-American CIOs in endowments and foundations, I'll grant you, there are not many. Here in the Pacific Northwest there is me and Joseph Boateng at Casey Family Programs. And that's it. You probably know more about it, you keep track of CIOs and their careers.

Skorina: So, what are your thoughts on this? How do we improve access and opportunity?

Adams: Well the answer is simple. Just do it. There are enough talented people of color and women out there who will excel in the CIO role. There are plenty of qualified candidates. It hasn't changed because boards of directors haven't focused on it. That's the hard reality.

Skorina: You sit on the Oregon Investment Council and are now the board chairperson. How is that different than MMT?

Adams: Oh boy, night and day Charles. The scale is so different. Public pensions are visible and fair game for the public and press. And the sizing and scale of the investments affect the decision process and investment set. Also, pensions are actuarial and contractual agreements. Like the bond analogy you mentioned earlier. There is a different way of looking at \$800 million versus almost \$100 billion. \$800 million is money. It's still possible to count it. But \$100 billion is energy. The impact is awesome.

Skorina: Any last thoughts before we end, on how you look at the role of a chief investment officer?

Adams: As we have been talking, I thought about a trip I took to Stockholm a while back to participate in an international women's forum. Stockholm is a beautiful city Charles, an archipelago with islands, historic buildings, great food and people. Among others, we met with the minister of finance, a brilliant woman.

One of our tours was to the Nobel museum and one presentation in particular stuck in my mind. It focused on scientific discovery and the ability to solve problems. The presenter said "the best scientists are not necessarily the smartest, but the ones who can best frame and characterize the problem or objective." That gives the team a framework with which to work through a problem and a process to go about achieving our objective.

I think that's a wonderful way to look at my role as a chief investment officer and as a guide to better investing.

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, www.charlesskorina.com