The Skorina Letter

News, Interviews, Research for Institutional and Family Office Investors

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A dazzling decade with trouble ahead

It's hard to make predictions - especially about the future.
—*Robert Storm Petersen*, Danish cartoonist, writer, humorist

London calling

Reporter Chris Flood at the Financial Times ran an article on Monday that parsed our latest endowment performance report and pounced on the fact that that none of the sixty funds we featured performed as well as Vanguard's VFIAX, a large-cap U.S. equity fund, over the last 10 years.

Our newsletter gave an early peek at endowment investment performance for fiscal 2019, including a ranking by 10-year returns.

The VFIAX returned 14.7 percent net of fees for the decade while the top 10-year endowment investor on our list was Paula Volent at Bowdoin College, who racked up an excellent 12.0 percent.

Mr. Flood's observation makes a good story-hook but, comparing diversified endowment or foundation portfolios to the VFIAX - or to any similar pure-play equity index makes little sense in the real world.

Retrospectively (looking backwards from 2019), placing all your chips on a cheap equity-only index fund looks like genius, but prospectively (forwards from 2009) it would have been insane for any prudent institutional investor.

Endowments and foundations are long-term global investors with horizons extending out fifty, a hundred years and more, and the trustees and CIOs build portfolios to last for generations.

The job of CIO at an endowment or any financial institution is not to beat the VFIAX, but to meet the objectives set by the board who view capital preservation and steady cash flows as paramount.

The sages speak: Omaha vs. New Haven

In our letter we quoted an anonymous board member who was ready to throw up his hands and index his institution's endowment, thereby avoiding a lot of fees.

We know this board chair and he's an able and experienced financial exec.

But some bigger and more eminent investors have also taken positions both for and against a passive strategy.

Warren Buffet at his 2017 shareholders' meeting strongly advised institutions to do exactly what my college friend is proposing.

Institutional Investor quoted the sage thusly: "In all the professions, there is value added by the professionals as compared to doing it yourself…in investing that just isn't true."

[We can't help but wonder how Mr. Buffett sees himself in this debate]

Yale's David Swensen went mano-a-mano with Mr. Buffet in his 2017 endowment report.

He replied that indexing may be good enough for people who didn't go to Yale. Others (and you know who we are) may actively manage with confidence.

He writes:

Buffet provides sound investment advice for the vast majority of individuals and institutions that are unable (or unwilling) to commit the resources (human and financial) necessary for active management success.

Yet, Buffet's advice is not appropriate for the cohort of endowments that possess the capabilities to pursue successful active management programs.

A dazzling decade; with trouble ahead

The decade we chronicle in our endowment performance report was a highly unusual one.

Fiscal year 2009 -- which contained the crash in September 2008 -- ended with the Dow at 8,447.

Ten years later, FY2019 ended with the Dow at 26,559.

That's a tripling of U.S. stock prices, with a gain of 18,152 points, so it's no wonder the VFIAX rose like a phoenix.

In context, the 60/40 did its usual good-enough job, returning about 8 percent.

But Morgan Stanley cautions that 60/40 returns could drop by half vs the decade just ended.

They warn that stocks face mean reversion as monetary policy no longer pumps up the price of risk assets.

Obviously, this will hamstring investors across the board, and most conventional strategies will probably suffer.

To recruiters like us this implies that active investors will have big challenges in the decade ahead.

So maybe we'll still need CIOs, not just algorithms that look great in the rear-view mirror but will now have to be re-thought.

Good news for us! We're here to help.

A candid conclusion: Management matters

We're a boutique recruiting firm focused on institutional investment managers and have spent our careers interviewing, researching, and recruiting chief investment officers and Wall Street asset managers.

Their performance sets the bar for what is possible and prudent.

We have observed that the best CIOs don't just get good returns; they get consistently good returns relative to their competitors.

To us, that suggests skill, not luck. And what can be learned can also be taught.

We think this partly explains why, e.g., Yale-trained investors usually carry that skill to their next job.

Paula Volent, Seth Alexander, Andy Golden, Rob Wallace, et al. are great examples of the Yale diaspora.

There's also much more to a good CIO than just optimizing the portfolio.

A CIO is a manager, a teacher, a preacher, and many other things.

Kim Lew, CIO at New York's Carnegie Corporation was one of our favorite interviews, and just this month she was named Institutional Investor's CIO of the Year. Congratulations, Kim!

She told us:

About 20 percent of my time is spent "managing up;" keeping the board and president informed, making sure our goals are aligned with economic reality… That's very, very important.

About 30 percent is spent on "straight investing:" portfolio allocation, meeting managers, … etc.

I spend probably another 30 percent of my time managing the team. This means both the investment side and personnel side.

And finally, about 10 to 15 percent of my time is devoted to Carnegie Corporation business and events

So once a person steps up to the CIO job, there is a lot less investing, and a lot more managing.

Chief investment officers and recruiters: astounding parallels!

Like the work of good CIOs, the work of good recruiters can't be duplicated by checklists and algorithms. It requires wide knowledge, deep experience, and constant reinvention in a changing environment.

We always love to hear your thoughts about our newsletters. Especially when they involve the opportunity to help you fill your next position!

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