

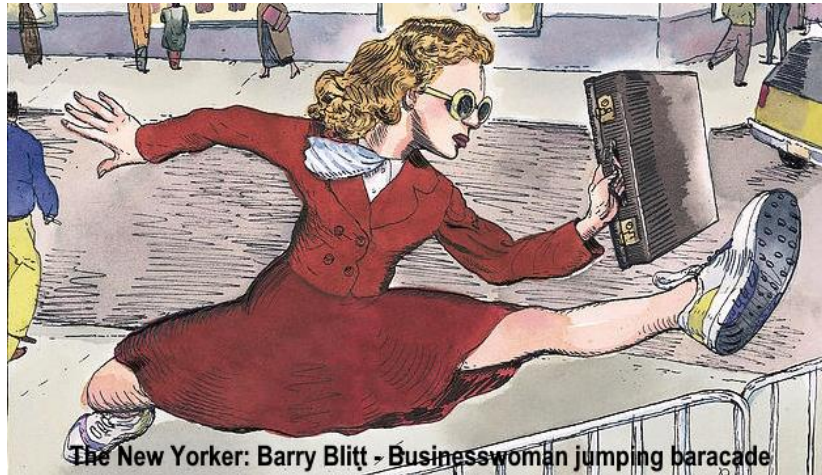
The Skorina Letter

• Retained Executive Search •

Our clients: visionary families, transformative nonprofits, Wall Street trailblazers

Our vision: build investment preeminence, create opportunity, enrich lives

Our work: provide talent, access, relationships, and insights



Anything new under the sun?

"There's only one way to describe most investors: trend followers." —Howard Marks

We recently sent out an email query asking asset managers and chief investment officers, "anything new under the sun," and received some serious replies. One thoughtful, highly respected, mega-fund chief investment officer wrote:

"There are quite a few interesting trends: AI, energy transition, innovations in healthcare are a few positive ones. Commercial RE, small cap, China and Emerging Markets are a few negative ones.

"The slow pace of private capital coming back to investors is another important trend that everyone is contemplating. Everyone is hoping that lower interest rates will restart more M&A and IPO activity.

"However, personally I think the bigger trend is how investors are thinking about asset allocation. I remember the strong emphasis across the industry on

diversification. If you could find uncorrelated return streams, the trend was to add them almost blindly. Diversification and low vol was the main point.

“Today (and for some time), diversification has not been your friend. The future is moving to disruption, and you need companies and funds that have size, data, the ability to invest in AI, and cheap financing.

“Disruption is so large in the U.S. that we may not need geographic diversification like we used to.”

Another CIO replied:

“I find the dominance of U.S. public equities, and a teeny-weeny handful of them at that, to be quite troubling.

“One of our IC members is pushing us to divest of non-U.S. equities and it’s difficult to find any recent data to argue against that, yet the idea of having 40% of our endowment in a stock portfolio that’s really just five giant tech stocks is scary to me.

“We’ve reduced our hedge fund exposure, our real asset portfolio was always pretty small, and those big tech companies are amazing economic engines, so I am not sure I would say we are in a bubble.

“But some of the most successful endowments have one-sixth, one-fifth, or even one-quarter of their portfolios with a single VC firm. Maybe we should be worried.”

Pay and Chief Investment Officers

Speaking of chief investment officers, in case you missed it, here are a few highlights from an interesting [paper](#) on CIO compensation by Matteo Binfarè, University of Missouri and Robert S. Harris, University of Virginia:

“Endowments pay CIOs more, rely more on bonuses, attract more experienced professionals, and have lower turnover than pensions.

“On average, endowment CIOs earn a whopping \$800,000 in total annual compensation, three times more than their peers at pension funds. Incentive compensation makes up a significant portion of their pay, with more than 40% being tied to incentives — almost four times more than pension plan CIOs.

“Endowments that pay their CIOs top quartile compensation significantly outperform endowments with bottom quartile compensation by almost 100 basis points annually.”

All great stuff, but this begs the question, what are chief investment officers actually getting paid for? Size, complexity, performance?

The compensation conundrum

According to Business Insider, “the S&P 500 average return over the past decade has come in at around 10.2%, just under the long-term historic average of 10.7% since the benchmark index was introduced 65 years ago.”

Now take a look at our latest Endowment Performance report featuring ten-year investment returns for one hundred thirty-eight US and eight Canadian institutions. Notice something interesting?

Only ten out of one-hundred-ten US endowments over one billion dollars AUM notched ten-years returns of ten percent or more. And no Canadians.

Note: For the curious, here are annualized ten-year returns for the five largest Canadian Public Pensions. AUM in billions in Canadian dollars.

Canadian Public Pensions ten-year returns (links: annual reports)	AUM Can \$	10-yr rtn	FY yr-end
Canada Pension Plan (CPP)	\$632.3 bn	9.2%	3-31-2024
PSP Investments (PSP)	\$264.9 bn	8.3%	3-31-2024
British Columbia IMC (BCI)	\$250.4 bn	7.5%	3-31-2024
Caisse de dépôt et placement du Québec (CDPQ)	\$434.2 bn	7.4%	12-31-2023
Ontario Teachers' Pension Plan Board (OTPP)	\$247.5 bn	7.6%	12-31-2023

Does this mean all investment funds should index, call it a day, go have lunch?
From what we hear, there's considerable pressure to do just that.

20/20 Hindsight

But, of course, it's not that simple. For those with 20/20 hindsight, indexing over the last ten years was the no-brainer strategy. But who really knew?

In his recent memo, "[The Folly of Certainty](#)," Howard Marks writes, "There simply is no place for certainty in fields that are influenced by psychological fluctuations, irrationality, and randomness. Politics and economics are two such fields, and investing is another.

"No one can predict reliably what the future holds in these fields, but many people overrate their ability and attempt to do so nevertheless. Eschewing certainty can keep you out of trouble. I strongly recommend doing so."

Something worth paying for

Chief investment officers [strive](#) for discipline, consistency, and compounding, and prepare as best they can for [fickle fortune](#). Their mission, the care and stewardship of client wealth, or "promise-driven" investing, to echo [Jon Hirtle](#).

Most stakeholders – pensioners, students, faculty, foundation beneficiaries, charity recipients, board members – care more about today's headlines and the next budget or grant cycle than what might happen fifty years down the road.

As recruiters evaluating senior investment talent we wrestle with a comparable conundrum, how can we make informed judgements about candidates and their success in the future when our knowledge and intuition is based on the past?

But given the sea change in rates, economies, and politics, it seems to us a thoughtful, disciplined chief investment officer (or OCIO) at the helm is more important than ever. That's something worth paying for.

Dear readers, we welcome all comments, views, and rebuttals, and we thank you for your thoughtful contributions. As requested, there is no attribution

What We Do

We [recruit](#) preeminent investment talent, facilitate [OCIO selection](#), and [advise](#) on growth and acquisitions.

If you have a retained search assignment in mind or know of someone who does, we would like to hear from you.

If you are considering an outsourced chief investment officer, we have done the homework.

If growth is your gospel, we bring forty years of insights.

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