# Outperform: Inside the Investment Strategy of Billion Dollar Endowments

*John Baschab, Jon Piot*
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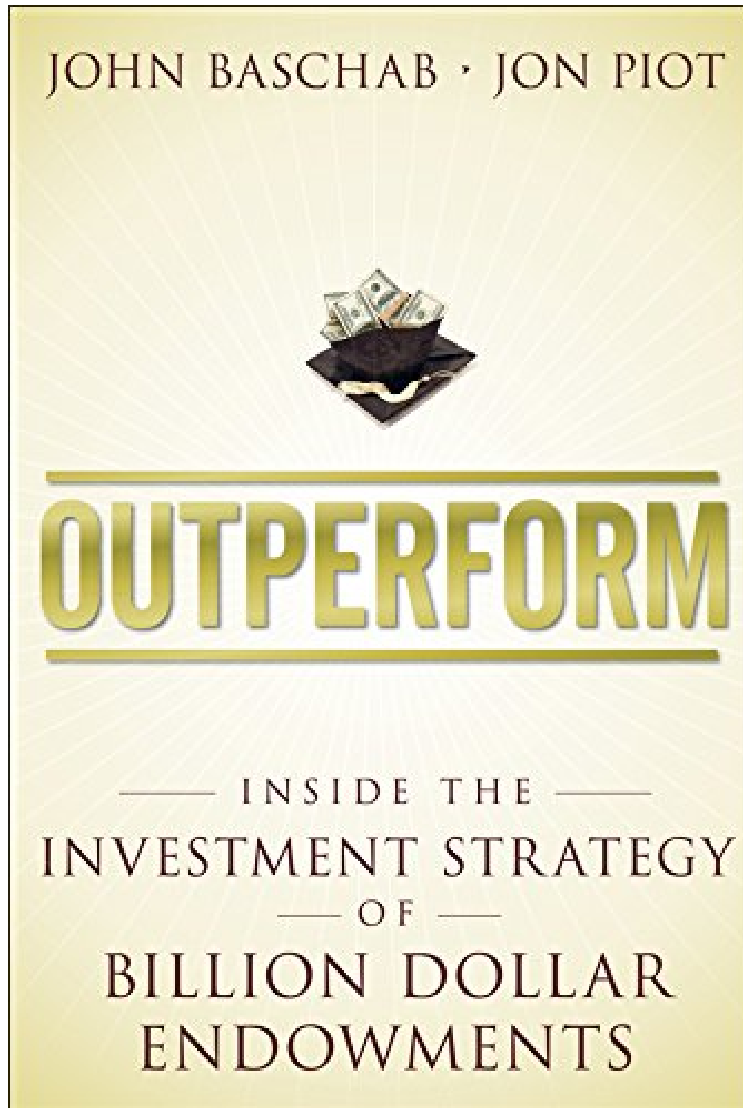

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**John Baschab, Jon Piot : Outperform: Inside the Investment Strategy of Billion Dollar Endowments** before purchasing it in order to gage whether or not it would be worth my time, and all praised Outperform: Inside the Investment Strategy of Billion Dollar Endowments:

2 of 2 people found the following review helpful. Update to Prior CIO InterviewsBy BjornAfter two readings of this book, I have settled on a score of 3.5. The biggest challenge in rating this book was that much of its content was already very well covered by Kochard and Rittereiser's outstanding book on endowment investing. The greatest

strength Outperform is that it was written after the credit crisis and thus updates much of the commentary from the Chief Investment Officers featured in that book. On the other hand, the first three chapters of Kochard are far better job of setting the stage for the CIO interviews than the analogous chapters in Outperform. Outperform includes some discussion of lessons for individual investors but these sections never felt very well integrated into the rest of the text. Further, the pessimistic view of individuals left out some of their key potential advantages (e.g., the ability to tap directly into human capital markets in a way that is impossible for institutional investors). Overall, I found Outperform worth reading as a supplement/update to some of its excellent predecessors.3 of 3 people found the following review helpful. Another Book Review by the Aleph BlogBy David MerkelThere are some books, when I read them, that strike me wrong at first, but end up being satisfying in the end. This book was one of those. What I expected was a book that would give novel insights to individual investors, showing them how they could do better in the markets by imitating endowments.This book came to the bold conclusion that there wasn't much that individual investors could learn from endowments. I appreciate such honesty, even though that will lead to fewer book sales. Why is this true?We all look for simple formulas that can improve our investment returns.Endowments have balance sheets that allow them to invest longer-term. Retail investors have a greater need for short-term liquidity, or, at least have a greater tendency to panic.Retail investors are not large enough to invest in sophisticated asset classes. Alternative investments have higher minimum dollar amounts.Most endowments have invested in staff that are capable of analyzing complex investment opportunities. Here would be my challenge for an average retail investor: hand them a copy of an asset backed securities prospectus, and see if they can make heads or tails out of it.Endowments that have large staffs are also capable of analyzing third-party managers, without being slaves to the common theories that dominate the minds of most consultants.The book begins with a basic explanation of endowments, moves through historical performance of endowments and asset allocation, and then explains the various strategies that endowments use. After that, it interviews a large number of chief investment officers from public and private universities. I appreciated the fact they chose lesser-known chief investment officers. It gave me a better feel for the mindset of the average chief investment officer of university endowments. Some were very smart, some were not so smart, most were in-between.After that the book interviewed advisors and managers that would aid the chief investment officers of university endowments. I felt that this was a weaker part of the book. I came to that conclusion because they are consultants. Does that make money in the short run, regardless of what the best results are, tend to be less reliable in their opinions than those that have their necks on the line.One of the topics that was hot in the book was the question of liquidity. As I have written about in a number of my blog posts, when the bull market in risk assets was running hot, many endowments and pension funds neglected the value of liquidity. Some of the chief investment officers were prepared, and some were less prepared. Regardless, most of them learned their lessons. It's similar to what happened after LTCM. When you see bright investors get skinned as a result of neglecting the value of liquidity, you take notice. All of a sudden, arbitrage does not seem so easy. In the same way here, imitating Harvard and Yale is not a road to easy riches.Another theme in the book as I see it, is that alternative asset classes are not as rewarding as they seem. Many of them involve leverage. Many of them are limited in terms of their capacity. There are large variations in manager quality. Late imitation is a recipe for disaster, as it is with almost all investment strategies.This is a very good book, but for the average investor, it will not be useful. Yes, it is useful to understand that endowment strategies are not useful for retail investors. But you don't need to buy a book to know that; you have read that here.QuibblesIf I had been the authors of the book I would've spent more time with the introduction. That said, they make up for it by having good conclusion. I also would have eliminated most of the advisors and managers, and instead, interviewed still more chief investment officers. They have valuable opinions; their necks are on the line for the decisions that they make.Who would benefit from these books:This book would be valuable for people who think that there are some great secret about investing, and think that the big guys have all the advantages. It's not true. The big guys have the advantage of having balance sheets. Retail investors have the advantage of being flexible. This book is valuable in my opinion for investment professionals that want to get into the mind of the chief investment officers of endowments.3 of 3 people found the following review helpful. Kids . . . they are trained professionals . . . don't try this at home . . .By D. CHENDavid Swensen at Yale put the "endowment" approach to investing on the map. In this book, the authors highlight investment officers at ten other universities as well as seven individuals who perform similar functions in the private sector. The book is structured in the form of QA, a format which seems to have become popular in the investment book genre.The book is targeted overtly towards individual investors with the goal of determining if individuals can benefit from mimicking what these endowment officers do. In a nutshell, the conclusion is basically no. Individuals except for the extremely wealthy will not have the access, skill sets, tools and assets to replicate the portfolios of these successful endowments. Nonetheless, the book stresses that there are valuable lessons individuals can take away from these interviews with endowment investment officers. The last chapter of the book is a conclusion which does a good job of summarizing the salient points of the book and arguably could be read first.The book starts out by outlining how the endowment model has taken center stage in the investment world. The authors discuss how endowments, foundations and pension plans are distinct and why there are differences in how they are managed with regards to risk, expected returns and liquidity. From there, the book goes into separate chapters that are interviews

with the featured investment officers.Because many of the questions to the officers were the same, it doesn't take long to start getting the sense of some recurring common themes. Among them:1. There is a premium for illiquidity. The difficult period many of these endowments suffered in 2008-2009 however may result in an increased emphasis on liquidity at the cost of some return.2. There was a focus to mitigate extreme tail risk. For the most part, this was attempted through diversification and outright hedging. Neither turned out to be perfect solutions. Correlations converged during the crisis so the diversification benefits withered. Hedging on the other hand proves to be expensive so during periods when it is not needed, it proves to be a drag on performance, enough so that it is eliminated . . . just when it is needed . . .3. Much like in the mutual fund world where there is the ever persistent rat race to beat your benchmark and your peers, a similar performance derby seems to have erupted in the endowment world. The fact that compensation packages for some endowment personnel were tied to their performance relative to peers led arguably to excessive risk being assumed by some endowments.In the process of interviewing such a diverse group of managers, some interesting factoids and memes come out such as:Jonathan Hook (The Ohio State University)on the lessons from the 2008-2009 market meltdown: "The more tenure that someone has in the business . . . the more of these lessons they can hopefully incorporate into their decision making. It is understandable to get burned by this once, but not twice."Bruce Zimmerman (University of Texas): "There is a fairly constant relationship across asset classes in terms of unit of return vs. unit of risk, if you back out leverage, and that is about 0.25. Eliminating correlation trhough diversification can allow you to construct portfolios that can get that up to about 0.5"Sally Staley and Anjum Hussain (Case Western Univ) on whether opportunity is of a secular or tactical nature can determine whether they hire an external manager or execute the strategy in house: "If it is tactical, then I think it is best executed internally"James Hille (Texas Christian University)'s interview was chock full of quotable quotes such as:"There is an illiquidity premium, but there is also an illiquidity cost that must be evaluated""All the information you have at your fingertips, if you are not careful can become noise""The sweet spot is probably $2 billion, maybe $2 to $3 billion. At that level you absolutely will have appropriate scale to be well resourced, but not cross the line into the overly complex and succumb to overconfidence""We are patient and a little contrarian, so the typical themes that I hear about . . . inflation and emerging markets, commodities and commercial real estate. These themes today are the worst kept secrets in the entire investment world.""There are some smart CIOs managing smaller pools. They have to accomplish a lot with very limited resources and bandwidth. It all comes down to the math on 20 basis points or so on assets. That's roughly the level of resources you can devote to endowment portfolio management."Jeremy Crigler (Tulane): "Managers who are currently out of favor or who are short-only may have interesting views. Look for disconfirming evidence so you can avoid the herd instinct."Mark Yusko (Morgan Creek Capital): "If you could avoid all the downside, which is pretty tough to do, but you actually could, you only have to capture 30% of the upside to win.""Capital flows to the people with the least amount of leverage"For more on Mark Yusko, see Katherine Burton's book "Hedge Hunters".All in all, while it is disappointing that individuals can't truly replicate what these endowments do, Baschab and Piot have produced a very worthwhile read that complements Swensen's work on how this side of the investment world thinks.

"University endowment managers have generally outperformed the market benchmarks. However, their knowledge has not been well documented in any book. This book fills that gap and should be of significant help to all those who want to learn from extensive interviews with a number of endowment managers."mdash;PREM JAIN, McDonough Professor of Accounting and Finance, Georgetown University Learn how higher education's largest endowments consistently achieve higher investment returns than the overall market. The Chief Investment Officers who oversee the top academic endowment funds manage over $400 billion in total assets. Over the last ten years (1999ndash;2009), large endowments returned an average of 6.1%, compared to the SP 500 index average of ndash;2.22%, an outperformance difference of over 8%. With the recent sharp economic downturn, and a decade of inflation-adjusted flat returns in the overall equities market, institutional and individual investors alike are looking to endowments for proven strategies for improving the performance of their portfolios. Outperform: Inside the Investment Strategy of Billion Dollar Endowments interviews top CIOs from leading endowments, to detail how they consistently outperform the market, what they predict for the coming years, and how small investors can employ their investment philosophies.