

Colgate's Endowment – Possible Paths Forward

Colgate's current approach — an alternatives-heavy strategy without the professional team to execute it — is the one path that clearly doesn't work. Here are two that could.

Path One: Transition to an Index-Centric Strategy

Pros:

- Requires expertise in fund and benchmark selection rather than the more challenging task of evaluating and hiring alternative managers.
- An index-centric strategy does not mean exclusively the S&P 500, which has become heavily concentrated in a handful of stocks. A thoughtfully constructed portfolio might include broad domestic and international equity indices, bond indices, and real asset funds — all publicly priced, low-cost, and transparent.
- Significantly lower staffing and operating costs — Colgate currently spends under \$2M annually versus Wesleyan's \$8M — without sacrificing performance.
- Minimal management fees provide a performance advantage over a pricy alternatives-based approach, even if the strategy has lower gross (pre-fee) returns.
- Investments are highly liquid and accurately priced, eliminating the valuation uncertainty inherent in Colgate's current alternatives-heavy portfolio.
- Liquidity risk is minimal, especially as the endowment receives annual contributions. This is in stark contrast to private assets, often difficult to sell when cash is needed.
- Private assets could still be selectively included where Colgate has genuine competitive advantage or unique access, as a complement to the core strategy.

Cons:

- Reported returns may appear more volatile, since public market assets are priced daily by the market rather than estimated periodically by managers. This is a transparency feature, not a flaw — it reflects real-time value rather than smoothed estimates.
- Some may initially perceive this approach as less "sophisticated." But sophistication that produces bottom-third performance is not a virtue. A strong long-term record would position Colgate as a leader in endowment management.

Path Two: Hire Professionals to Run an Alternatives-Based Strategy

Pros:

- Follow Wesleyan's model: recruit experienced leadership, transition to better-performing managers, negotiate lower fees, and exit investments with potential conflicts of interest.
- Provide best-in-class disclosure, performance analysis, and updates for stakeholders annually.
- Returns may appear less volatile due to the less frequent pricing of private assets, though this reflects estimation lag rather than genuine stability.

Cons:

- This approach would require hiring a skilled endowment leader, completely revamping staff and the manager selection process, and unwinding existing positions — a multi-year transition.
- Significant financial resources would be needed. Wesleyan spends about \$8 million annually on investment staff (see Form 990) and operations (exclusive of manager fees), while Colgate currently spends less than \$2 million. Attracting the necessary talent to Hamilton, NY, could prove costly.
- The alternative investment landscape has changed significantly. Higher interest rates have increased the cost of leverage that private equity firms rely on. More capital competing for deals has driven up prices and compressed expected returns. There is no guarantee that even the best alternatives will outperform a low-cost index strategy over the next decade.