

Colgate's Endowment – Possible Paths Forward

Path One: Transition to a Mostly Passive Indexing Strategy

Pros:

- Requires fund/benchmark selection skills, making it less research-intensive than assessing and hiring alternative managers.
- Could include a wider range of asset classes (e.g., commodity or real estate funds), providing additional diversification or inflation protection if deemed necessary.
- Lower staffing costs and reduced need for extensive investment expertise.
- 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.
- Distressed sales are less likely with proper liquidity management, especially as the endowment receives annual contributions and distributions.
- Private assets could be selectively introduced where Colgate has a competitive advantage or unique access to special opportunities.

Cons:

- Stated returns may be modestly more volatile since public market assets are repriced more frequently and subjectively than private market assets.
- Initially, adopting this strategy may be perceived as less “sophisticated.” However, building a strong long-term record could lead to Colgate being recognized as a leader in endowment management over the next decade.

Path Two: Hire a Skilled Leader/Team to Establish a Robust Alternatives-Based Investment Process

Pros:

- 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 could be modestly less volatile due to the less frequent and subjective nature of private asset price estimation, enhancing overall optics.

Cons:

- This approach would require hiring a skilled endowment leader and completely revamping the staff and manager selection process, which could take time.
- 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.
- As the alternative investment industry has evolved, the strategy has become more challenging. There's no guarantee that even the best alternative investments will outperform a passive index strategy over the next decade. Notably, the 70/30 S&P 500/bond index has performed as well as Wesleyan's endowment over the past decade, with an annual return of 9.3%.