Colgate's Biggest Endowment Misrepresentations

1. Colgate's website: "While some more simplistic index investment approaches may deliver higher short-term performance, they also expose the portfolio to considerable downside risk. For instance, had Colgate pursued a more passive, public-equities-only strategy during periods like 2000–2002 or 2008, the university would have experienced 40–50% declines in value, potentially causing irreversible financial damage since we would have to make distributions to the operating budget as the portfolio was losing value. Our approach is designed precisely to protect against these permanent impairments."

   This is entirely false. 1. An index of 70% S&P 500 and 30% bonds would have delivered far better long-term performance than Colgate's team has. 2. This index would have had similar downside performance (-22%) in fiscal 2009 (financial crisis) as Colgate's endowment. It would have been down about 15-20% in fiscal 2000-2002 (dot-com crash), not 40-50% as the CIO asserts. 3. "Irreversible financial damage" is caused by distressed asset sales, unnecessary if liquidity is managed well. Index funds are much more liquid than the alternative/private assets Colgate owns, so liquidity would have been easier – not harder – to manage with an index strategy. The notion that Colgate is "protecting against permanent impairments" by investing in illiquid private assets is complete fiction.

2. Colgate's board chair (echoing the CIO): "Colgate's focus has been on delivering strong long-term risk-adjusted returns over market cycles and we have been able to do that."

   1. Colgate uses Sharpe ratios to make this risk-adjusted performance claim. In an alternatives-heavy portfolio, infrequent and subjective valuations artificially suppress reported volatility, inflating the portfolio's Sharpe ratio and distorting the true level of risk. Misapplying this public-market metric to private assets to make this claim is very misleading. In contrast, Wesleyan straightforwardly explains to stakeholders that private asset valuations move less frequently and never mentions Sharpe ratios. 2. Colgate likes to compare itself to a much broader university peer group – as opposed to a more appropriate $1 billion plus peer group - to boost their relative ranking. This is well-known as "peer group shopping." The reality is Colgate is 73rd of 119 $1B+ endowments over the last decade.

3. Colgate's website: "The Investment Committee, comprising individuals with deep and diverse investment experience, manages the portfolio."

   Deep and diverse experience is necessary but not sufficient. 1. Experience is not the same thing as investment skill. By definition, 75% of professional investors are not top-quartile managers. Since we don't know who is on the investment committee, we have no way of knowing if any of them were successful investors themselves. In fact, at least one prominent trustee, who I am told was very involved in endowment investing historically, ***closed his hedge fund twice after sustaining billions in losses and investor departures****. I think Colgate may be conflating wealth with investment acumen. 2. The investment committee likely doesn't "manage the portfolio." They hire outside managers to manage segments of the portfolio. This requires a robust manager selection process, not necessarily investment expertise (different skills – analogous to the skills of a pro-basketball player versus those of the team's general manager). 3. If investment committee members are recommending specific investments or managers, there are potential conflicts-of-interest. I would find it quite troubling if underperforming managers are tied in any way to investment committee members. Without disclosure of committee members or managers, there's no way of knowing if this is occurring, though I am told it was an issue in Colgate's past.*