

Colgate's Biggest Endowment Misrepresentations

1. An index-based strategy would expose the endowment to catastrophic losses (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.

Completely false.

- a) The S&P 500 — the index Colgate is arguing against — declined 30% over the 2000-2002 period. A stock/bond index declined roughly 15–20%. A massive decline would have required a heavy concentration in internet stocks, not something any well-managed endowment did at the time. Using an inaccurate, alarmist hypothetical from 25 years ago to justify dismal performance over the past decade is troubling.
- b) An index of 70% S&P 500 and 30% bonds would have delivered far better long-term performance than Colgate's team has. This same index had similar downside performance (–22%) in fiscal 2009 (financial crisis) as Colgate's own endowment. Colgate's expensive alternatives strategy provided no additional downside protection when it mattered.
- c) "Irreversible financial damage" is caused by distressed asset sales, unnecessary if liquidity is managed well. Index funds are far more liquid than the 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 poor performance is due to less risk-taking (website)

The asset allocation policy is constructed to maximize total risk-adjusted return. The pursuit of maximizing total return will be tempered by the university's need to preserve capital and minimize the volatility of returns.

Reinforced in an email to me from the Board Chair:

Colgate's focus has been on delivering strong long-term risk-adjusted returns over market cycles and we have been able to do that.

... what works for Bowdoin or Amherst may not be in Colgate's best interest. Colgate's smaller endowment per student ... results in a lower risk tolerance compared to some of our peers.

Both claims false.

- a) Colgate uses higher Sharpe ratios to support this risk-adjusted performance claim. Misapplying this public-market metric to private assets is disingenuous. In an alternatives-heavy portfolio, infrequent and subjective valuations artificially suppress reported volatility, inflating the Sharpe ratio and distorting the true level of risk. In contrast, Wesleyan straightforwardly explains to stakeholders that private asset valuations move less frequently and never mentions Sharpe ratios.
- b) Bowdoin/Amherst take the same alternatives-heavy approach and also have lower *apparent* risk. They just execute it *much* better. Wesleyan's endowment per student was *smaller* than Colgate's 10 years ago.
- c) The board chair's echoing of the CIO's talking points — rather than independently evaluating them — raises serious questions about whether the board is providing meaningful oversight.

3. We are adequately staffed because our investment committee is experienced (website)

The Investment Committee, comprising individuals with deep and diverse investment experience, manages the portfolio.

Unverifiable and misleading.

- a)** Colgate is conflating experience with skill. Deep and diverse experience is necessary but not sufficient. Since Colgate won't disclose who is on the investment committee, there is no way to evaluate whether any of them were successful investors. In fact, at least one prominent trustee who was deeply involved in endowment investing historically closed his hedge fund twice after sustaining billions in losses and investor departures. Colgate seems to be conflating wealth with investment acumen.
- b)** The investment committee doesn't "manage the portfolio." They hire outside managers to manage segments of the portfolio. This requires a robust manager selection process — a different skill, analogous to the difference between a professional basketball player and a team's general manager.
- c)** If investment committee members are recommending specific investments or managers, there are potential conflicts of interest. It would be deeply troubling if any board members have a financial interest in underperforming university investments. Without disclosure of committee members or managers, there's no way of knowing if this is occurring, though I am told it has been an issue in Colgate's past.

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