Harvard's Humbling: Richest Endowment May Look More Like Yale's

by **Michael McDonald**
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- Search focuses on Yale-inspired investors like Columbia chief
- Turnover and lackluster returns plague a $37.6 billion fund

In a rare comedown, Harvard is close to conceding defeat to Yale, at least when it comes to investing.

Harvard University has zeroed in on two leading candidates to helm its $37.6 billion endowment, the biggest in higher education, according to people familiar with the matter: N.P. 'Narv' Narvekar, who oversees Columbia University's endowment and Amy Falls, who stewards Rockefeller University's and is on Harvard's investment committee.

nd Narvekar Source: Rockefeller University/Columbia
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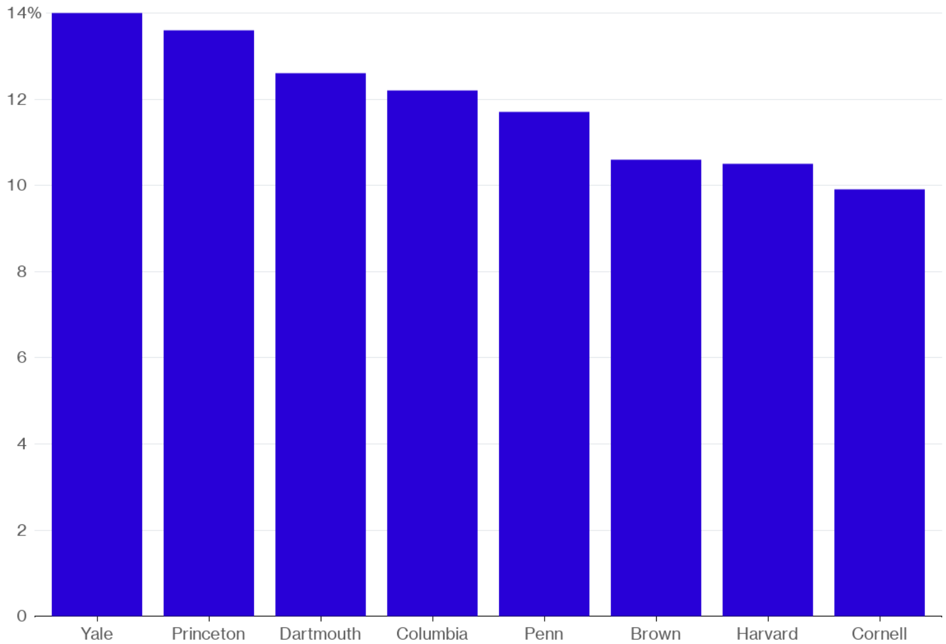
Both prospects have relatively small staffs and farm out their money to the best managers they can find, the approach favored by Yale endowment chief David Swensen, whose investment performance has outstripped Harvard's. By contrast, Harvard has long hired in-house investment pros, including some swashbuckling Wall Street types with eight-figure paychecks.

Shifting Strategies

Harvard's previous managers have left behind a decade of lackluster performance, shifting strategies and billions in forgone returns, threatening Harvard's economic edge on its rivals. Stephen Blyth, the former Deutsche Bank bond trader promoted to chief executive, resigned for personal reasons in July after only 18 months following an unexpected and unexplained medical leave in May. The organization also eliminated at least a dozen trading jobs this year.

Harvard Has the Ivy Blues

It's lagging all peers but Cornell in rate of investment return.



Returns calculated by Bloomberg based on data provided by schools
*Five-year annualized returns through June 30, 2015

Bloomberg

Harvard's search will be its fourth for an endowment chief since 2005. Restive Harvard alumni said the school must find a manager for the long haul and either embrace its in-house approach or make a firm break with the past.

"Yale has been the pillar of stability and Harvard has been plagued by turnover," said Tim Keating, a Harvard alumnus and president of Keating Wealth Management near Denver. "It's inexcusable that this debate over how to best manage the money has been going on for ten years."

A person familiar with the search said Harvard could make its choice as soon as Thursday in a regular board meaning and announce it later this month or early October. Harvard spokesman Paul Andrew declined to comment. The Wall Street Journal on Tuesday first reported Harvard's interest in Narvekar and Falls.

Trading Desk

Harvard, which has a staff of more than 200, has assembled its own trading desk and has often been compared to a kind of non-profit hedge fund. Top Harvard traders once made as much as $30 million in a single year. That compensation inspired consternation among some professors and alumni.

From the Chrysler Building in Manhattan, Narvekar, 54, oversees a $9.6 billion fund and 21 employees. He is credited with helping turn around Columbia's performance after being hired in 2002 from the University of Pennsylvania. Narvekar spent 14 years at JPMorgan Chase & Co. in equity derivatives before returning to Penn, where he got an MBA.

A graduate school with 175 students on Manhattan's Upper East Side known for research in the biomedical sciences, chemistry and physics, Rockefeller University hired Falls, 52, as chief investment officer in 2011. She has degrees from Georgetown University and Harvard's Kennedy School and worked in Morgan Stanley's fixed-income department. In 2005, she founded an investment office for her alma mater Phillips Academy in Andover, Massachusetts.

The pressure on Harvard to make changes may intensify next week when the university is expected to release its latest investment results. For the year ended June 30, the average endowment posted an almost 1 percent loss, the worst performance since 2009, according to the Wilshire Trust Universe Comparison Service.

Tumultuous Year

The CEO search caps a tumultuous time for Harvard Management Co., the arm of the university that manages the endowment from offices overlooking Boston Harbor.

In 2014, Jane Mendillo, who had previously managed Wellesley College's endowment, departed Harvard after six years at the helm. She sold private equity investments at fire-sale prices after the 2008 financial crisis, and the endowment's performance lagged during the recovery. Prior to Mendillo, former Pacific Investment Management Co. chief executive Mohamed El-Erian ran the endowment for less than two years, leaving in 2007.

For a quick look at endowments, click here

In the decade through June 2015, Harvard's average annual return was 7.6 percent, compared with 10 percent at Yale and 10.1 percent at Columbia. During Fall's five-year tenure at Rockefeller, her fund reported an annualized return of 10.7 percent, only narrowly edging out Harvard's 10.5 percent.

In the 1990s and early 2000s, Harvard posted stellar returns under then chief Jack Meyer, who left to run his own hedge-fund operation in Boston. Swensen and Meyer were considered pioneers in an approach now common for institutions: diversifying from plain-vanilla stocks and bonds to more exotic and assets such as private equity and hedge funds.

Tough Job

As the turnover at the top attests, the Harvard job can be tough. But it also offers the biggest paycheck in the endowment world. Mendillo was paid $13.8 million in her final year in 2014, though it was inflated by the addition of six months of accelerated bonus pay because of her departure. Narvekar received $7.2 million the same year, according to a tax filing. At Rockefeller, Falls was paid $1.13 million in 2013, the latest information available.

Harvard had also been interested in Seth Alexander, who manages the Massachusetts Institute of Technology's $13.2 billion endowment and once worked for Swensen at Yale, according to a person familiar with the matter. With a 10.5 percent average annual gain over the last decade, MIT, Harvard's neighbor in Cambridge, Massachusetts, tied with

Bowdoin College in Maine for the best endowment performance over that period.

Harvard had cast a wide net. One investor viewed as an ideal choice was Michael Larson, who manages Bill and Melinda Gates' fortune, according to a person familiar with the search. Larson didn't return messages seeking comment. His selection would have indicated Harvard had been interested in continuing to manage money in-house. Larson has a staff of pros at his Kirkland, Washington, headquarters who also trade directly in stocks and other investments In 2010, the group hired one of Harvard Management's top equity traders, Stan Zuzic.

Endowments and foundations have opted for Yale's approach in part because it is easier to hire and fire outside managers as strategies shift, said Laurence Siegel, the former head of research at the Ford Foundation, the New York-based philanthropy with about $12 billion of assets. He said the foundation at one time studied creating an internal trading team but declined to proceed.

"A building full of geniuses sometimes becomes a building full of goats," said Siegel. "You want to be able to fire people. That's the best way to do it."

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