More talent is flowing into endowment investing, but it’s still early and a great time to start.

From Star to Founder

EastRock

The Case for Endowment Investing as a Career

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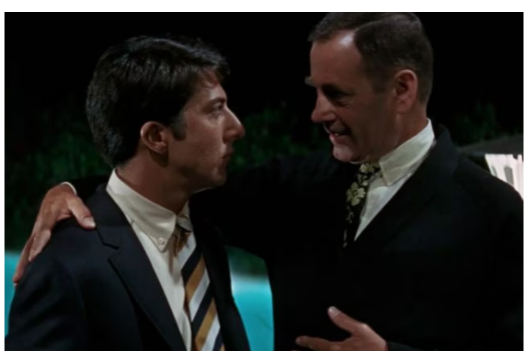
NEARLY 50 YEARS AGO, a movie scene in The Graduate gave us perhaps the most famous career advice of all time: “Just one word: Plastics.” With apologies to that great film, I have two words for you: “endowment investing.”



Are you listening?

OK, I have more than two words. They appear below. And I hope they can serve as meaningful advice to anyone weighing a variety of career options that includes finance and investing.

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First, let me explain what I mean by endowment investing. I use the term endowment investing to describe the act of protecting and growing the assets of one or more families, schools, health systems, charitable foundations, or similar institutions. [1] I am not referring specifically to the Yale endowment model, but to any purposeful strategy for achieving high returns relative to risk on large pools of assets. In this framing, endowment investing can include working for family offices, endowments, foundations, and outsourced providers of investment services, such as OCIO (Outsourced Chief Investment Officer) firms.

Second, a bit of background. I love my job protecting and growing capital for a select group of families. My colleagues and I get to partner with incredibly talented investors and together work on behalf of families we know personally. We feel connected to great causes the families support—especially when investment profits we generate help contribute to that support. My work is a diverse type of investing in which we search for exceptional opportunities across public and private markets in nearly all sectors and geographies. The work is challenging, but also has elements of teamwork, balance and variety that make it less susceptible to burnout than some other jobs. I feel strongly enough about my career choice that I want to encourage others to do it. That is part of why I write this newsletter, why I told the East Rock story to HBS, and why I am teaching a course on the subject at Columbia Business School in the Fall.

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When speaking with people at early stages of their careers, I try to get them to think of a career decision as an investment decision.

If you had to "pitch" a particular job to a committee, could you make a convincing argument?

If your decision were an investment, would you put your own money into it?

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In the case of endowment investing, the "pitch" has four key components:

1. **It's a large and growing market.** There are an estimated 10,000 single-family offices globally managing an estimated $10 trillion in assets. U.S. endowments and charitable foundations represent another $2 trillion. By most accounts, the "great wealth transfer" and other factors will cause these pools to grow rapidly in the coming decades, which will intensify the already fierce competition for investment talent. A majority of family office and institutional capital is "self-

managed" by internal staff, but a fast-growing portion—about $4 trillion—is now managed by outsourced chief investment officer (OCIO) firms.

2. **A large portion of the market is poorly served.** Even in the rarified air of large asset pools, there is a relatively small number of "haves" (e.g. the endowments of MIT, Yale, and Brown) that consistently perform well, and a large number of "have-nots" that generally perform less well. Unlike hedge funds and private equity, [where size tends to be the enemy of performance](), the largest endowments have put up the best numbers over time. In the last ten years ending 6/30/23, endowments with over $5 billion in assets have averaged 9.1% annual returns while endowments between $101 million and $250 million have averaged 6.8% annual returns. The following table shows results for a variety of long-term periods:

College and University Endowment Performance
Average 5-, 10-, 15-, 20- and 25-Year Net Annualized Returns
Numbers in percent (%)

Asset size:	**$101M–$250M**	**Over $5 Billion**
Total # of Institutions	160	29
5-Year Net Annualized Return	6.5	9.4
10-Year Net Annualized Return	6.8	9.1
15-Year Net Annualized Return	5.9	7.3
20-Year Net Annualized Return	6.8	9.1
25-Year Net Annualized Return	4.9	8.5

source: Nacubo

Family office data is less clear, but informal surveys tell us that family offices tend to perform more like small endowments rather than large ones, with a few notable exceptions.

Given the benefits of size and professionalization, outsourcing is a natural solution, but the results on average have been disappointing. A broad index of OCIO firms produced 6% annual returns in the ten years ending 3/31/24, a period when most asset classes performed much better.

Is the relative underperformance of small endowments, many family offices, and OCIOs an opportunity? YES!…(please see next paragraph)

3. **There is low-hanging fruit for improvement.** You will be hard pressed to find a sector with so much financial size where the opportunities to do things better are so plentiful. By applying a handful of underutilized principles, many of which I've

written about in this newsletter series, you can do a better job than most. If you can innovate further, you can be a Hall-of-Famer. Consider that 24 years have passed since David Swensen first published his seminal book Pioneering Portfolio Management that described the Yale endowment model. New leaps forward are overdue. [2]

Within the OCIO portion of the market, we are in very early innings. Consider this well-researched list of firms produced by the executive search firm Charles Skorina & Company. How many of the names do you know? Have you ever seen their quality or performance compared publicly? (If you have, please send me a copy!) There is a long—and opportunity-filled—road ahead as these firms become better understood and transparency allows the best to separate from the rest.

4. **The job offers meaning, intellectual stimulation, and variety.** Unlike many careers, endowment investing allows you to create a direct connection with the beneficiaries of your work. You can watch as the capital you work so hard to compound helps to advance the personal goals of people you know and the missions of organizations doing important work in our communities and around the world.

   And the day-to-day stimulation can be great. If you love broad-based learning, investing is an excellent career choice. As investors, everything we read, watch, or listen to has relevance. It all helps us bring context and pattern recognition to the wide range of investments we look at across industries and across the world. As new trends and innovations arise, we move quickly to learn about them and find ways to be involved.

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Is there a catch? I don't think so, but breaking into an immature sector can be difficult. Think of it as the quid pro quo for an outsized opportunity. Recruiting for mature sectors like consulting, investment banking, and private equity is a well-known process. Recruiting for endowment investing is less regimented and employers are more difficult to evaluate. To find the right position, bring your creativity, energy, and determination.

Are there preferred backgrounds? Yes, but with a fair amount of flexibility. At East Rock, members of our team previously worked in private equity, hedge funds, venture capital, family offices, OCIOs, recruiting firms, law firms, accounting firms, and non-profit organizations. Our group has a wide variety of academic backgrounds. Endowment investing is a multi-faceted discipline that requires people with a substantial range of skills.

Is it for you? I hope my pitch will help you answer that question. As Mr McGuire said in The Graduate, I think there is a "great future in it." We see more and more talent flowing into our sector, but it's still early and a great moment to start. For further research, there is a wealth of writings and podcasts featuring the leaders and trailblazers in our space. Take a deep dive and see if their experiences match your aspirations. I think you'll find it a lot more exciting than plastics.

[1] I am leaving aside sovereign wealth funds, pension, retirement, and insurance assets, which exist in a regime I don't know as well and tend to be subject to more formulaic governance.

[2] I spend a lot of my time thinking about the leaps forward that would be most impactful. As I argue in Family Portfolios: A New Framework, portfolio construction and risk management have a lot of room to improve. But there are many other questions to explore, including how smaller endowments and family offices can bridge the resources gap with larger ones. More on this topic to come…

NEWSLETTER
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Insights from partnering with exceptional investment managers as they launch and build new firms

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