

Can you guess which class of investors is most likely to have a persistent advantage?

*From Star to Founder*

EastRock

## New Research Identifies the Most Predictive Track Records in Finance

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[CRISTIAN TIU](#) IS AN EXPERT at evaluating track records of endowments and pensions.

[In a recent unpublished study](#), he found that top-performing endowments have an incredible ability to stay on top over successive periods of time.

This finding is a very big deal not just for endowments but for families, pension managers, sovereign wealth funds, and more—really anyone with responsibility to grow and protect a whole portfolio of assets.

Why? Because understanding the advantages that keep the best endowments on top is a window into “what works” in portfolio management more broadly.

Tiu’s research proves that the extraordinary track records of MIT, Brown and Bowdoin College—to name a few—have not occurred by chance. On the contrary, these endowments have a special something that works consistently.

Those who manage or depend on a portfolio of financial assets should really want to know what that special something is.

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Let's start with Tiu's research.

By analyzing [NACUBO](#) data, Tiu finds that major endowments that perform in the top quartile of their peer group for a five-year period have a **48% chance of being in the top quartile again in the next five years**.<sup>[1]</sup> That's nearly double the 25% rate expected by random chance.

For reference, major endowments in the top quartile for the last 10 years returned between 8.3% and 10.9% annually. Endowments that performed in the top quartile during **both** halves of this period (5 years + 5 years) performed at the upper end of this range.

Compare these returns to the standard 70/30 portfolio, which returned about 6% during the same period, and the median university endowment (per NACUBO), which returned 6.7%.

Clearly, there is a lot at stake when it comes to entering the top quartile.

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To understand how extraordinary Tiu's findings are, it helps to understand how much less persistence we see from other fund types:

### Performance Persistence Among Various Fund Types

<b>Equity Mutual Funds</b>	23% chance that a top quartile fund for five years repeats top quartile performance during the next five years <sup>2</sup>
<b>Hedge Funds</b>	38% chance that a top quartile fund for five years repeats top quartile performance during the next five years <sup>3</sup>
<b>Buyout Funds<sup>4</sup></b>	<p>34% chance of a top quartile fund being followed by another top quartile fund from the same buyout firm (prior fund judged at end of fund)</p> <p>24% chance of a top quartile fund being followed by another top quartile fund from the same buyout firm (prior fund judged at fundraise of new fund)</p> <p>22% chance of top quartile fund being followed two funds later by a top quartile fund from the same buyout firm (earlier fund judged at fundraise of new fund)</p>

Even venture capital, which is so well known for persistence that allocators often think of VC as an access game (i.e. it's all about having an "in" at top funds) is not as persistent as endowments:

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<b>Venture Capital<sup>5</sup></b>	44% chance of a top quartile fund being followed by another top quartile fund from the same VC firm (prior fund judged at end of fund)
	30% chance of a top quartile fund being followed by another top quartile fund from the same VC firm (prior fund judged at fundraise of new fund)
	29% chance of top quartile fund being followed two funds later by a top quartile fund from the same VC firm (earlier fund judged at fundraise of new fund)

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The lower persistence of these funds is a strong hint at what makes whole portfolio management challenging: it requires constant cycling into new funds in order to outperform. That is a lot of work and many either can't or won't do it.

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Why is studying endowments a key to understanding what works, and doesn't work, in institutional and family investing?

A few simple reasons:

1. **Performance.** Large endowments have not only outperformed 70/30 portfolios, but they have also outperformed public pensions and sovereign wealth funds that report publicly.
2. **Transparency.** Unlike family offices, endowments release detailed annual investment reports and provide data to NACUBO. Many have a culture of sharing and openness driven by CIOs who teach classes and speak at conferences. In the class I taught at Columbia Business School last Fall, four CIOs of major endowments came to speak openly about what they do and how they do it.
3. **Mission Overlap.** Endowment managers grapple with the same fundamental questions as families and other institutions, starting with the fundamental question of how to grow a pool of capital over decades while generating sufficient income to support spending and avoiding catastrophic drawdowns or liquidity shortfalls.

These three characteristics of endowments are what makes Tiu's work possible and relevant.

And what his work tells us is one of the big truths of investing that more people really ought to know: **when it comes to directing whole portfolios, managers are either good at it, or they are not.**

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But why? What makes one portfolio manager consistently better than its peers?

Endowment data tells us two of the answers: networks and resources.

**Networks.** A surprisingly powerful predictor of endowment returns is the academic selectivity of the college or university that the endowment supports. [Josh Lerner and colleagues identified this relationship](#) and attribute it to alumni that help their universities identify and gain access to top-tier investment managers. This help comes through a variety of channels, including via alumni serving as members of the endowment investment committee, leaders of exclusive investment firms arranging access for their alma maters, and diverse subject matter experts on campus and in the alumni network providing specialized knowledge. It is easy to see how these sorts of network advantages could be sustained over time.

**Resources.** Another robust pattern in endowment returns is that larger endowments are remarkably consistent in outperforming smaller ones:

**College and University Endowment Performance by Endowment Size**  
**Median 5-, 10-, 15-, 20- and 25-Year Annualized Returns**  
**Period Ending 6/30/2024**

*Numbers in percent (%)*

Asset size:	\$101M-\$250M	Over \$5 Billion
5-Year Net Annualized Return	7.7	9.9
10-Year Net Annualized Return	6.3	8.2
15-Year Net Annualized Return	8.0	9.7
20-Year Net Annualized Return	6.7	8.9
25-Year Net Annualized Return	5.9	9.5

*source: Nacubo*

Unlike private equity funds and hedge funds, [which tend to perform better when they are smaller](#), endowments benefit from scale. Greater financial and human resources allow for better manager sourcing, diligence, and terms. The resources to constantly find new managers is another sustainable advantage relative to those who cannot.

Want a third answer? While difficult to measure statistically, a third source of advantage may be [apprenticeship under one particular person: David Swensen, the longtime CIO of Yale](#). The strong track records of Paula Volent at Bowdoin and Seth Alexander at MIT, among others, makes the apprenticeship theory potentially compelling. It sure seems like the Swensen DNA has been successfully transferred to new institutions. Time will tell if a third generation of apprentices (Swensen “Grandcubs”?) finds similar success.

[Note: Tiu finds that skill at asset allocation is **not** a source of consistent advantage, an important point that probably deserves its own post in the future.]

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Ultimately, successful endowments may achieve persistence through varying mixes of networks, resources, apprenticeships, and probably more.

The important thing is—whatever these endowments rely on—it works, again and again.

Now, **given the predictive power of track records in whole portfolio management, do families and institutions make proper use of them?**

I think the answer is generally “no.”

While private equity firms and hedge funds fill their pitchbooks with track records of lesser predictive value—remember that these funds show only modest performance persistence—wealth advisors, institutional asset managers, and outsourced CIO firms (OCIOs) are much less inclined to disclose their full return history.

Why? One answer is logistics. Many of these firms have as many return histories as they have clients. That’s a lot to report. A second answer, however, is the results themselves, which for OCIOs as a group have been underwhelming—[about 6% per year for the last ten years](#).

How should families and institutions respond?

Demand more.

Demand greater access to [smaller funds that provide better performance and less risk, on average](#), than larger funds.

Demand portfolio turnover so funds that have lost their persistence are replaced with new ones that are still in their [sweet spot](#).

Demand innovative fund structures that can help avoid excessive diversification and dangerous unfunded commitments.

But perhaps most of all, demand greater transparency with respect to performance. Given how history repeats itself in whole portfolio management, it would be crazy not to.

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I often say that whole portfolio management exists in a bit of a dark age. I praise top endowments, but even those at the top [are probably leaving returns on the table due to excess diversification](#) and [taking illiquidity risk due to unfunded commitments](#). It's disappointing that I can only name one "must-read" book on portfolio management ([Swensen's Pioneering Portfolio Management, of course](#)) and that book was first published 25 years ago!

Much has been learned since, but that knowledge has not been well disseminated. If that happens—and performance transparency would really help the Cristian Tius of the world to push our understanding forward—portfolio management might well enter a whole new era.

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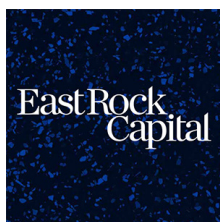
[1] Source: [https://drive.google.com/file/d/1HpPZAuWkd8oUx-GYY6CjF8LtE\\_zGmvsm/view?pli=1](https://drive.google.com/file/d/1HpPZAuWkd8oUx-GYY6CjF8LtE_zGmvsm/view?pli=1); major endowments defined as university and college endowments with >\$1bn of assets

[2] Source: S&P Spiva Persistence Scorecards; 2014-present

[3] Source: "Following the leader: Comparing Asset Allocation Strategies and Performance for Endowment Funds and Pension Funds" by Keith C. Brown, Yuxiang Jiang, Juha Joenvaara and Cristain I. Tiu. Forthcoming.

[4] Source: <https://www.sciencedirect.com/science/article/pii/S092911992300010X>; post-2000 funds

[5] Ibid



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