



At a prestigious university, aiming higher and spotlighting shortfalls could have made all the difference.

*From Star to Founder*

EastRock

## **An Elite Endowment Lost Its Way. Here's a True North to Guide It Back**

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January 14, 2026

ANYONE RESPONSIBLE FOR A family fortune, an endowment, or a similar pool of capital should be guided by a set of clear, ambitious performance targets.

If that sounds obvious, the world of portfolio management may surprise you. Too often, performance in this world is judged against customized benchmarks that establish a low bar for success. It's a bit like the fictional Lake Wobegon, a place where all portfolio managers are above average.

I spend a lot of time thinking about performance targets because their influence cascades throughout the portfolio management process.

By aiming for elite results—rather than vanity benchmarks—we can inspire innovation and stronger execution.

By comparing actual results with top-tier competition, we can identify weaknesses in

portfolios and processes before those weaknesses turn into crises.

Anything less is not merely a missed opportunity but creates the very real danger that underperformance will go undetected, thereby postponing essential corrective action.

In this article, I will present a case study in which lagging performance went unrecognized for far too long, with disastrous consequences.

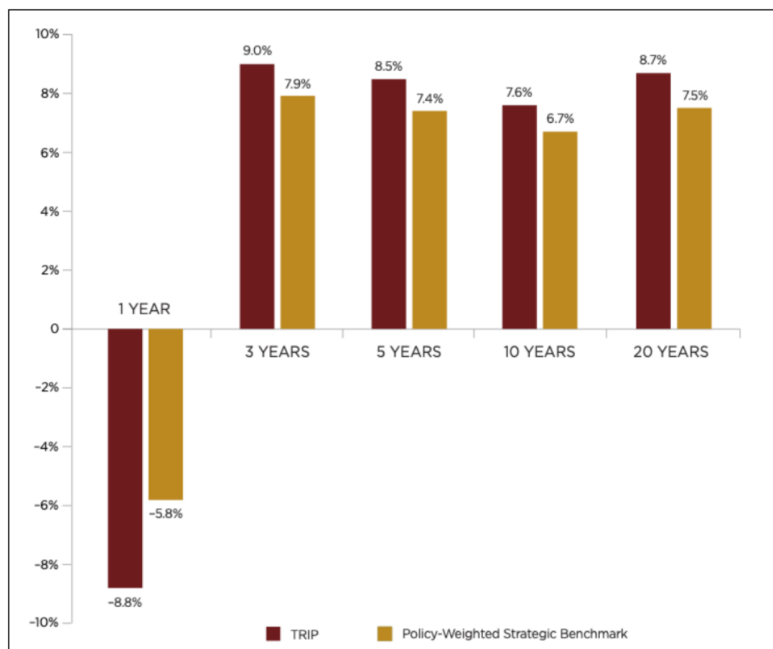
Then I'll introduce an innovative goal-setting framework that focuses efforts on what truly drives better outcomes—a proper balance between lofty return aspirations and defensive measures that guard against loss and excess illiquidity.

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The University of Chicago (UChicago) was founded in 1890 with funding from the Rockefeller family. By 2011, its endowment held approximately \$7 billion in assets, making it the 12th largest university endowment in the United States.[1] To keep the public informed about the endowment's investment strategy and performance, the university published an annual report with data and commentary.

A reader of the 2022 Annual Report would find mainly good news. Despite negative performance over the trailing twelve months, UChicago's performance exceeded its benchmark over each time horizon of three years or more:

**University of Chicago  
Total Return Investment Pool (TRIP)  
Performance Through Fiscal Year 2022**



Taking the ten-year horizon, for example, UChicago produced a 7.6% annual rate of return during the period 2013–2022, nearly a full percentage point better than its benchmark. How was this outperformance achieved? The report provides an explanation:

*For many years, the Office of Investments has partnered with exceptional asset managers who invest the endowed funds of the University. To select and engage investment managers who are experts in the strategies they employ, the Investments staff of the University conduct a rigorous due diligence process. In doing so, the University of Chicago has cultivated long-standing relationships with the most innovative and successful asset managers across industries.*

But it would soon become clear that this upbeat commentary masked a more concerning state of underperformance that had been developing for many years.

UChicago student newspaper The Chicago Maroon sounded an alarm less than two years later:



The article lamented UChicago's "dramatically increased budget deficit," which was caused, in part, by endowment returns that "underperformed its peers for nearly a decade."

Wait, what? Wasn't it just two years ago that UChicago was ahead of its benchmark for the prior 3-, 5-, 10- and 20-year periods?

Yes, but it turns out that the benchmark wasn't much of a hurdle and peer institutions had been achieving investment returns that were much, much higher than UChicago's for quite a while.

UChicago doesn't publish the formula behind its "Policy-Weighted Strategic Benchmark," but examples from other universities offer insight into how it works.

The University of California, for example, lists the following components of its benchmark:

### University of California Benchmark Components

<b>Public Equity</b>	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free — Net Dividends
<b>Fixed Income</b>	Bloomberg Barclays 1-5 Year US Government/Credit Index
<b>Private Equity</b>	Russell 3000 Index + 3%
<b>Absolute Return</b>	HFRI Fund of Funds Composite
<b>Private Credit</b>	75% Credit Suisse Leveraged Loan Fossil Free Index / 25% Merrill Lynch U.S. High Yield BB-B Constrained Fossil Free Index + 1.5%
<b>Real Estate</b>	NCREIF Fund Index — Open End Diversified Core Equity (ODCE) non lagged
<b>Real Assets</b>	Actual Real Assets Portfolio Returns
<b>Cash</b>	Bank of America 3-Month US Treasury Bill Index

To calculate benchmark performance, University of California takes a blended average of the eight benchmark components listed above. Each component is weighted according to its sizing in the endowment's target portfolio composition, which is often referred to as its "policy portfolio."

If that sounds confusing, don't waste too much time sorting it out because this Frankenstein process results in a vanity benchmark that won't tell you very much. It fails to punish endowments for misguided policy portfolios and aims too low—as if performing slightly above average in a mediocre field were a victory.

A superior way to assess performance is a simple comparison with true peers. For a university, that means benchmarking against schools similar in endowment size and academic level, which are both correlated with performance. Had UChicago done that, the results would have looked awfully different than the story told in its annual reports.

During the 10-year period ending June 30, 2022, for example, peers that included Brown, Duke, MIT, Princeton, and Yale generated 11% to 13% annual returns. Placed in this context, UChicago's 7.6% annual return over the same span looks outright poor.

The difference likely cost UChicago \$5 billion to \$10 billion of endowment value!

By late 2025, the consequences of investment underperformance, combined with other missteps, were unavoidable. The WSJ announced that the “The school that produced Milton Friedman and 34 other Nobel Prize-winning economists is struggling to manage its pocketbook.”[2]

Faced with an acute crisis, UChicago announced a set of measures that would seem unfathomable just a few years earlier, including:[3]

- A one-year suspension of admissions for dozens of graduate programs
- 20%+ spending reductions at research centers and institutes
- 30% reduction in faculty hiring
- Elimination of approximately 400 administrative staff positions
- Sale of the prized Center for Research in Security Prices (CRSP)

Could this pain have been avoided? In 2025, UChicago’s budget deficit was \$160 million. An endowment \$5 billion to \$10 billion larger would have provided \$125 million to \$250 million more in annual support.[4] Even smaller amounts would have gone a long way towards mitigating this very difficult episode. If only corrective action had happened sooner.

Which brings us to the power of performance measurement. A more robust system would have surfaced issues sooner and might have eliminated the need for correction entirely. With this potential in mind, I’d like to share an innovative goal-setting framework designed to drive the portfolio management process to a higher level.

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In the early years of East Rock Capital, we had a simple goal: beat Yale. It felt like a great True North. Yale had the best performing endowment and its leader, David Swensen, was Michael Jordan. We didn’t know if such a lofty goal was possible, but we knew it would force us to think hard, work hard, and innovate.

We were mindful that this True North might be *too simple*—that we might downplay risk in the quest for returns—but at least for a while that seemed unlikely. We were a new venture with a single client and the thought of losing money for the one family that made a large bet on us was simply terrifying. In addition, our training and dispositions were conservative.

Later we felt that long-term vigilance required that we codify our commitment to preserving capital and keeping that capital liquid enough to meet our clients’ needs.

The result was a three-point system for triangulating True North that we use today and recommend in any portfolio context. The points are:

- 1. Compete with a worthy peer group.**
- 2. Beat them in the bad years.**
- 3. Stay liquid (enough).**

Let's go through each point one-by-one.

### **Point 1: Compete with a worthy peer group.**

What makes a peer group worthy? First, it should be hard to beat. If not, it won't have much impact on levels of motivation and creativity. Second, the group's performance data must be available, and available on a timely basis. Third, peers should be as similar as possible in terms of investment mandate and constraints.

For most large asset pools, I recommend a small peer group of top endowments that is chosen based on long track records of strong performance.

Some will point out fundamental differences between endowments and, say, family fortunes. Here, I argue for endowments for three main reasons:

1. **Performance.** Large, academically-elite endowments have not only outperformed 70/30 portfolios, but they have also outperformed public pensions and sovereign wealth funds that report publicly, making them a worthy group of competitors.
2. **Transparency.** Unlike family offices, endowments produce large amounts of publicly available performance data, which in many cases they disclose in compliance with legal requirements.
3. **Investment objective.** Endowment managers grapple with the same fundamental questions as families and other institutions—specifically how to grow a pool of capital over decades while generating sufficient income to support spending and avoiding catastrophic drawdowns or liquidity shortfalls. While endowments generally benefit from tax status that is favorable relative to standard taxable investors, endowments nonetheless gravitate to strategies such as private equity, real estate, and public equities that are tax efficient for anyone.

### **Point 2: Beat them in the bad years.**

Competing with a worthy peer group creates a positive mindset but may incentivize risk-taking. The next triangulation point is an important offset that focuses attention on avoiding losses through idiosyncratic investing, hedging, and other tactics.

The way it works is to look at two separate tables—one that shows a standard track record relative to peers and another that shows relative performance during subpar years for the competitive set (the “bad years”).

The following two hypothetical examples demonstrate the insights that can arise from this analysis:



**Table 1: 10-Year Performance Summary  
(Period Ending 6/30/2022)**

	Median of Peers*	Hypothetical Family Pool A**	Hypothetical Family Pool B**
2013	12.5%	14.1%	14.2%
2014	19.6%	14.9%	22.5%
2015	11.5%	13.1%	12.2%
2016	0.8%	6.4%	-4.0%
2017	12.7%	9.8%	14.9%
2018	13.2%	11.1%	16.1%
2019	6.9%	8.0%	5.8%
2020	6.8%	5.1%	4.9%
2021	51.5%	29.2%	57.8%
2022	-1.5%	7.2%	-6.2%
<b>10-Year</b>	<b>12.2%</b>	<b>11.7%</b>	<b>12.7%</b>

**Table 2: Bad Year Performance Summary  
(Period Ending 6/30/2022)**

	Median of Peers*	Hypothetical Family Pool A**	Hypothetical Family Pool B**
2016	0.8%	6.4%	-4.0%
2022	-1.5%	7.2%	-6.2%
<b>Annualized</b>	<b>-0.4%</b>	<b>6.8%</b>	<b>-5.1%</b>

\* Peer set: Brown, Duke, MIT, Princeton, Yale

\*\* Not actual returns

While the 10-year return in Table 1 measures how the family pools performed versus peers on an overall basis, the returns in Table 2 during two subpar years are an indicator of the risk taken to achieve those results. In the tables above, Family Pool A nearly kept pace with its peers in the aggregate while taking substantially less risk—very impressive! Family Pool B, on the other hand, outpaced its peers but did poorly in bad years, which indicates that B likely carried greater risk in the form of large exposures to “popular” investment strategies that went up in good years and down in bad.

Circling back to UChicago, we see that its one-year returns in 2022 (a subpar year for nearly all endowments) were quite a bit worse than peers:

## UChicago Versus Peers, FY 2022

Institution	12-Month Performance
UChicago	-8.80%
Median of Peers*	-1.50%
Variance	-7.30%

\* Peer set: Brown, Duke, MIT, Princeton, Yale

Considering that UChicago's returns had trailed peers for many years prior, the experience of 2022 is a substantial red flag. One would hope that the earlier low returns were a product of investing in fundamentally different strategies than its peers. But the FY2022 result indicates the opposite.

Could triangulation point two—the focus on subpar years—have helped us see UChicago's problems earlier? The answer is “yes.”

2016 was a subpar year for the peer group. UChicago's return was -1.9% that year. The peer group median: 0.8%. 2016 offered an early clue that UChicago's lower returns were not due to lower risk-taking or a focus on idiosyncratic strategies.

Now let's turn to the mindset impact of “beat them in the bad years.”

While triangulation point one measures overall performance, point two helps us understand how much of that performance comes from Alpha[5] versus Beta[6]. The better we do in point two, the more our overall returns are likely driven by Alpha.

At any given return level, Alpha returns are better because they offer a smoother and more reliable ride. The reason: the Alpha component of the portfolio can be driven by events as disparate as FDA approval of new therapeutics, actuarial trends in life insurance, class action litigation, weather patterns, merger announcements, and much more. Beta comes in varieties, but fewer and more correlated with each other. As a result, in any given period, some varieties of Alpha are likely to work and others not, while Beta typically works or it does not.

Knowing this, managers who want to pass the “beat them in the bad years” test are incentivized to conduct an intense effort to find disparate, non-correlated investment strategies.

### **Point 3: Stay liquid (enough).**

True North points 1 and 2 are focused on movements up or down in the value of a portfolio. But a third point is required to keep us alert to whether the people or institutions that depend on the portfolio can access that value in the form of cash.



When executed well, illiquid investments in private equity, distressed debt, real estate, and other non-public strategies offer a return premium, on average, over more liquid investments. The opportunity to earn an “illiquidity premium” creates tension between returns and the availability of cash. For this reason, we create a set of liquidity targets that comprise True North point 3.

Perhaps more so than points 1 and 2, point 3 is a personal choice for each family or institution.

For a very wealthy family, to take one example, we tend to set targets roughly as follows, expressed as a percentage of the entire financial portfolio:

- Available immediately: 30%
- Available within one year: Another 20%
- Long-term illiquid (3–5 years+): 50%

Because of the opportunity to earn illiquidity premiums from private investments, a larger illiquid allocation is an advantage, which is important to consider when selecting peers in point 1. I have argued for top endowments as an ideal peer set in many cases, but it’s important to note that their appetite for illiquidity is quite high—in line with the wealthy family allocations above. For pools that require a more liquid approach, alternative peers could be institutions like Nevada PERS and the New Zealand Superannuation Fund, which are strong performers that run more liquid.

Regardless of the exact liquidity targets we set, point 3 keeps us focused on how to stay liquid (enough). Past liquidity crises, [including the Harvard Endowment’s terrible experience in 2008](#), reminds us that never, ever running out of cash is among the most important of all goals in portfolio management.

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I often argue that portfolio management exists in a strange dark age—that the inertia of outdated practices must be broken for progress to occur. Using vanity benchmarks is one of those practices.

At UChicago, the investment team, the Board of Trustees, and its Investment Committee faced tremendous pressure to deliver on the expectations of the people they serve. The experience of cutting programs and selling a prized research center must have been agonizing.

For anyone in a similar position, the True North framework I propose is a way to chart a different course. It balances ambition and discipline—pushing for strong returns while imposing guardrails that keep us safe. As a codified commitment to high standards and transparency, it makes outperformance both more likely and more meaningful.

[1] <https://www.chronicle.com/article/college-and-university-endowments-2010-11/>

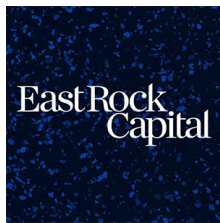
[2] "Colleges Face a Financial Reckoning. The University of Chicago is Exhibit A." WSJ, October 30, 2025

[3] University Actions and Budget | Office of the Provost (<https://provost.uchicago.edu/actions-budget>).

[4] Assuming a 5% payout rate

[5] Idiosyncratic return

[6] Market return



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