

March 2017

## Panel: The Role of Endowments in Financing Higher Education

Peter Rup

*Artemis Wealth Advisors, LLC*

Follow this and additional works at: <https://thekeep.eiu.edu/jcba>



Part of the [Collective Bargaining Commons](#), and the [Higher Education Commons](#)

---

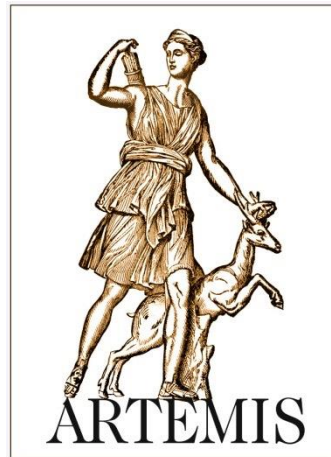
### Recommended Citation

Rup, Peter (2017) "Panel: The Role of Endowments in Financing Higher Education," *Journal of Collective Bargaining in the Academy*: Vol. 0, Article 32.

DOI: <https://doi.org/10.58188/1941-8043.1685>

Available at: <https://thekeep.eiu.edu/jcba/vol0/iss12/32>

This Proceedings Material is brought to you for free and open access by the Journals at The Keep. It has been accepted for inclusion in *Journal of Collective Bargaining in the Academy* by an authorized editor of The Keep. For more information, please contact [tabruns@eiu.edu](mailto:tabruns@eiu.edu).



# **Artemis Wealth Advisors, LLC**

## **Why Small E&Fs Typically Underperform Their Larger Counterparts**

**March, 2017**

# Typical Small Endowment Non-Discretionary Investment Model

---

The typical Investment Model of the smaller E&F has serious inefficiencies:

## ✦ Investment Committee

- ✦ Sometimes non-existent
- ✦ Lacks expertise
- ✦ Conflicts among members can be problematic
- ✦ No familiarity with sophisticated investment opportunities

## ✦ Resources

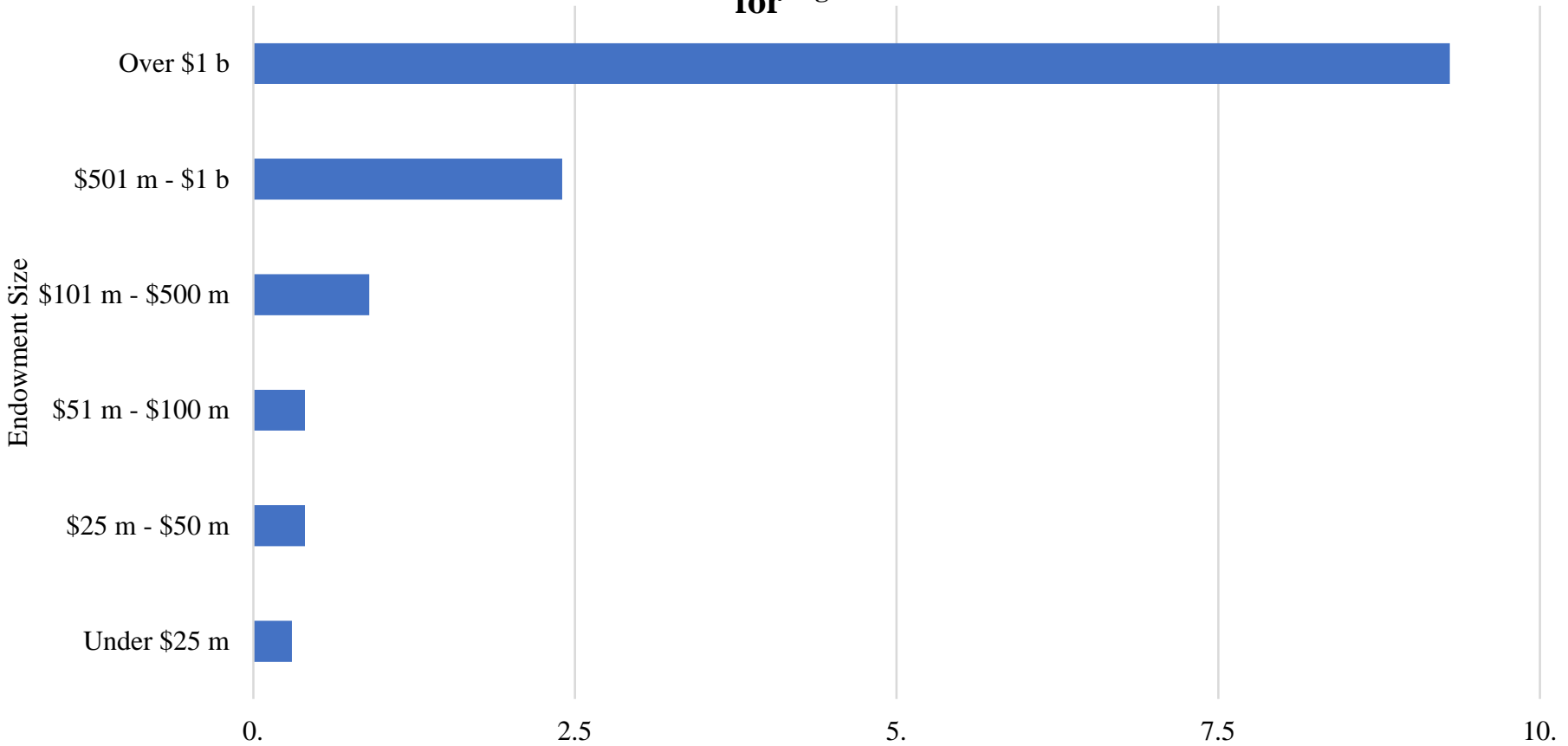
- ✦ No full time equivalent investment (“FTE”) professionals
- ✦ Consultants tend to be manager “centric” with little strategy expertise
- ✦ Passive Management lacks nimbleness in tactically adjusting to market conditions

# Professional Staffing of Investment Function Is Small

Very Little FTE Staffing at Smaller E&F's

Full Time Equivalent (“FTE”) Professional Staffing of Investment Function

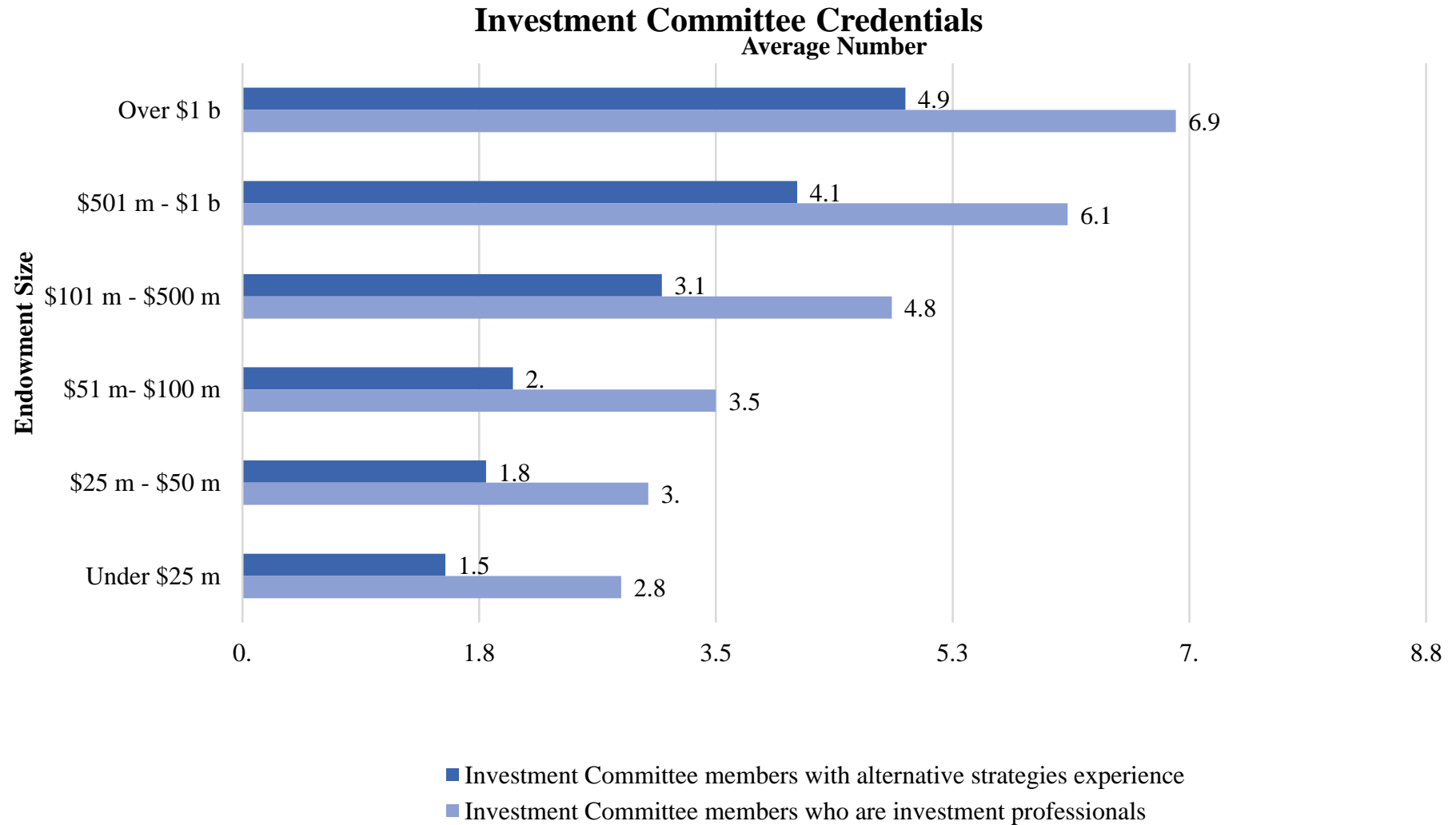
Average Number of FTEs for



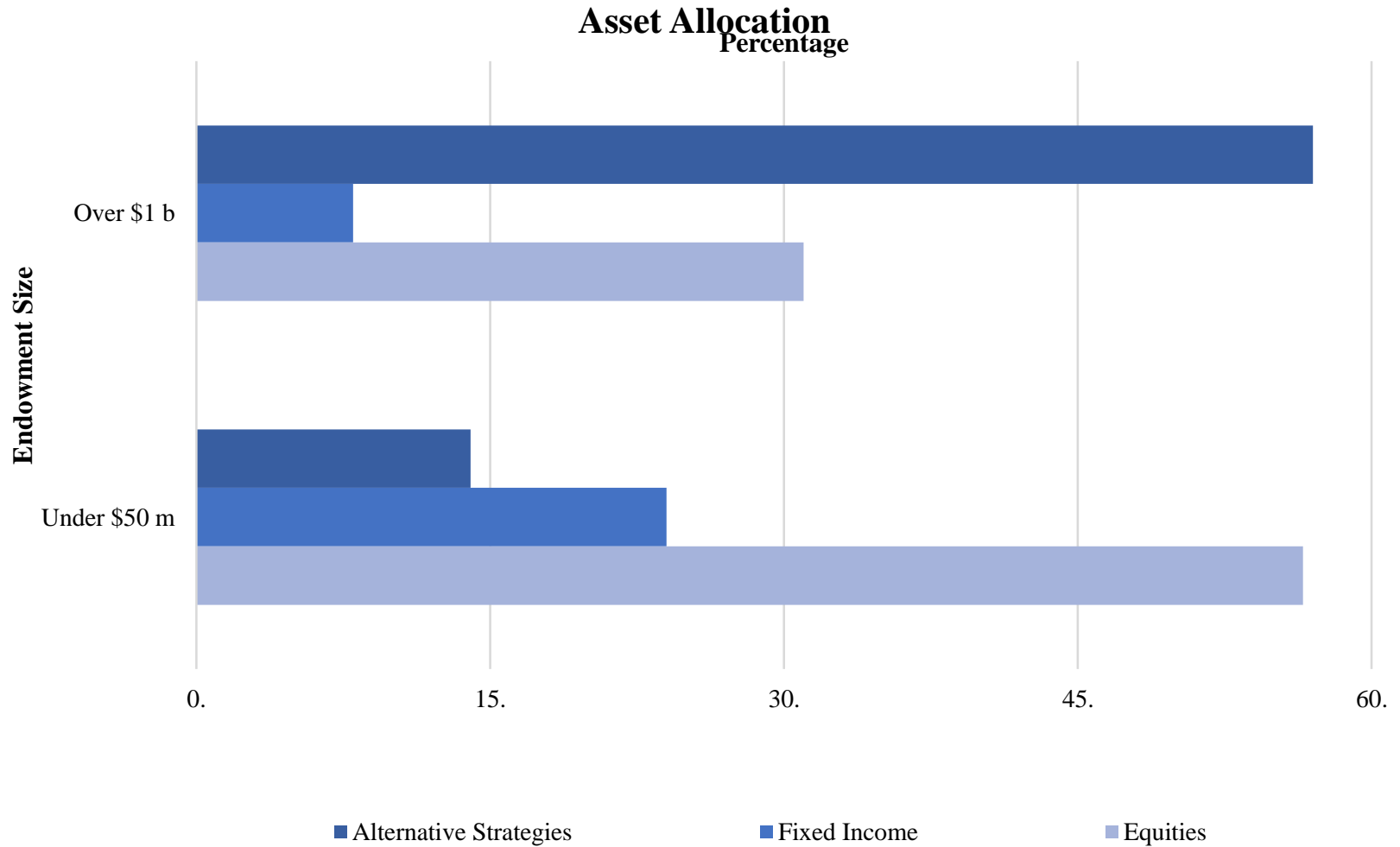
# Within Small E&F's, The CFO Wears Three Hats

---

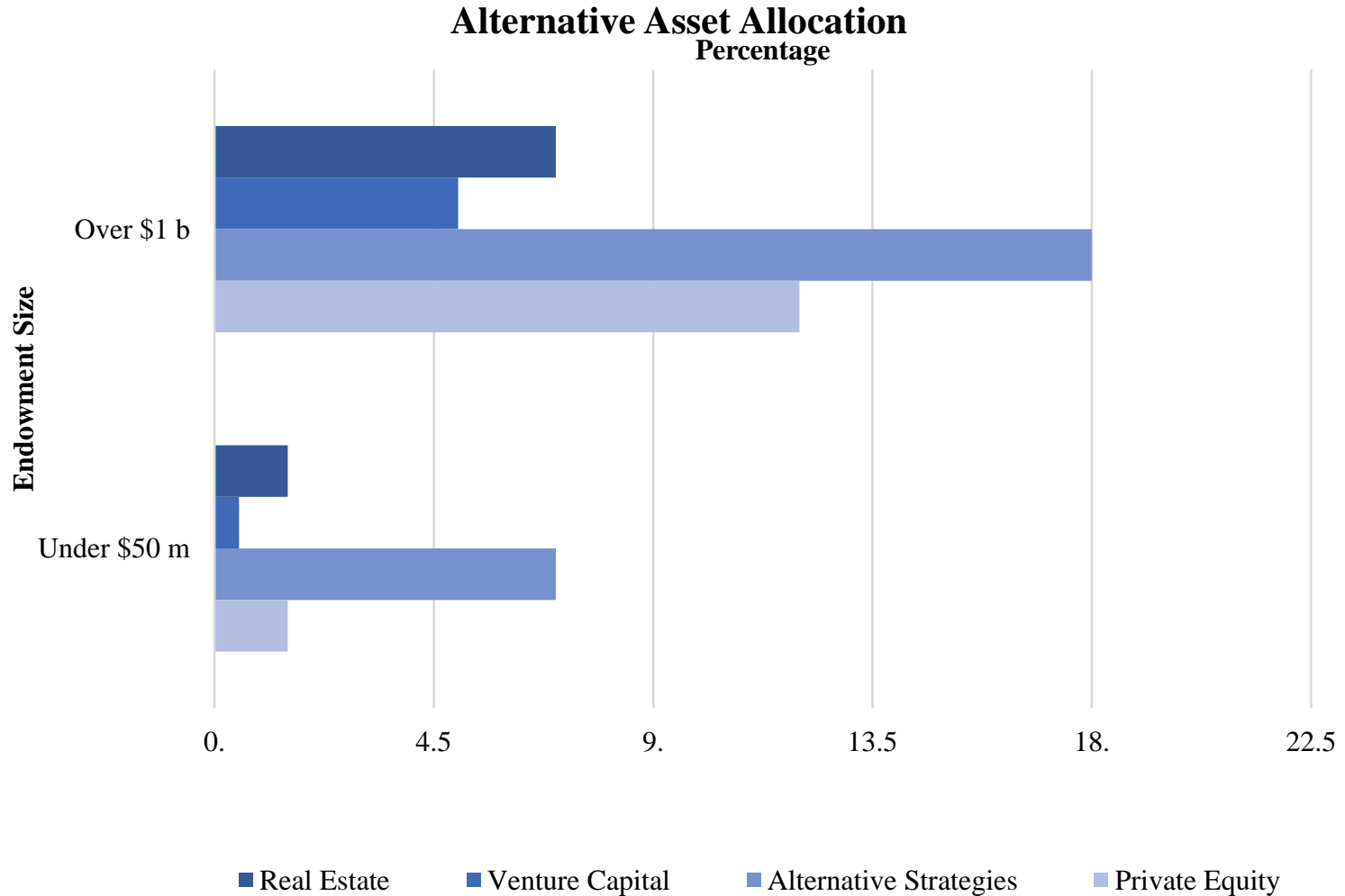
# IC Members At Small E&F's Often Lack Experience



# Small Endowments Are Underweight Alternatives

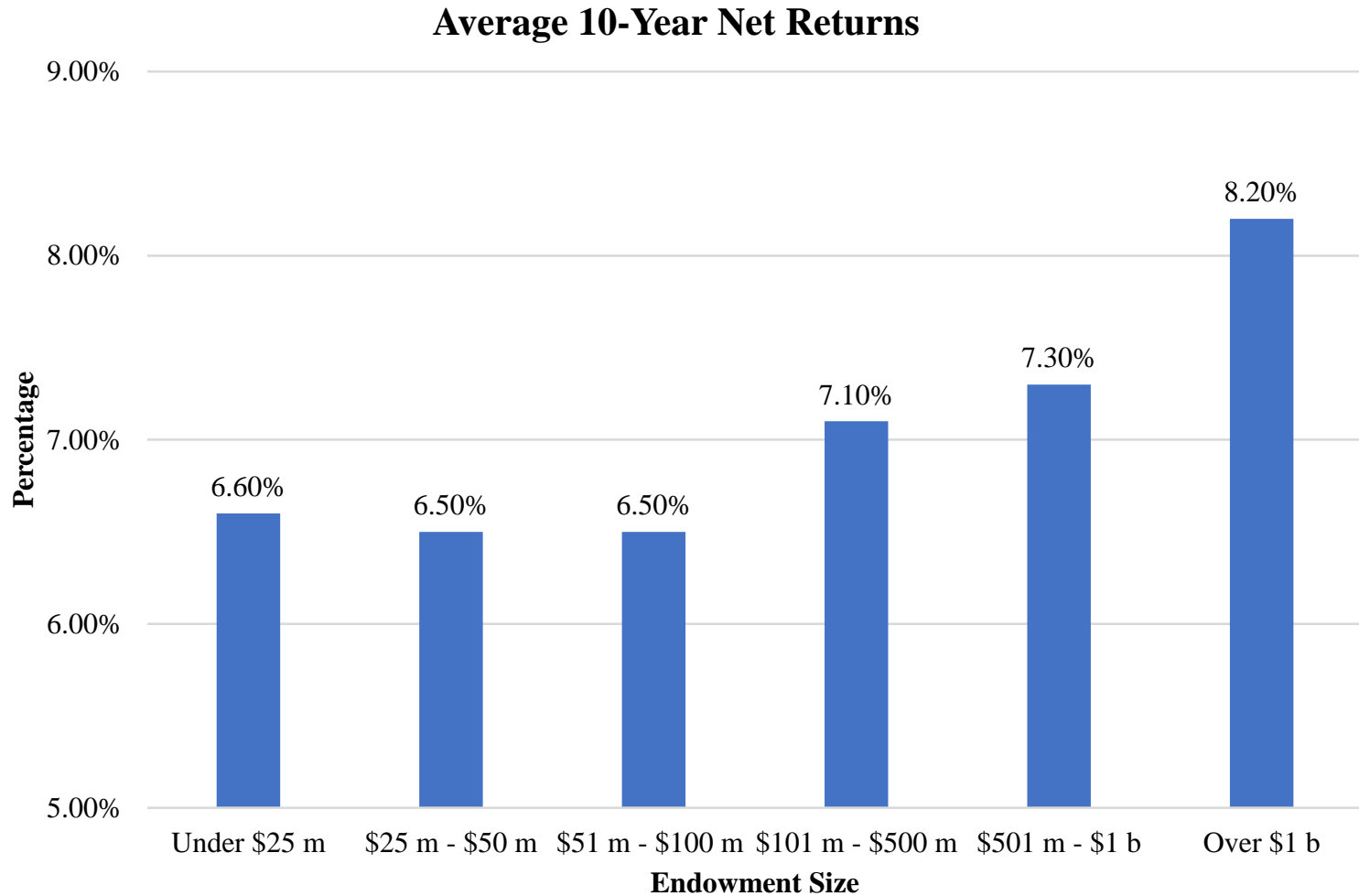


# Small Endowments Are Underweight Alternatives





# All of Which Affects Performance



# Tenants of Proper Wealth Management

---

Successful Wealth Management Requires Two Proficiencies:

✦ **Superior Asset Allocation & Strategic Rebalancing Capabilities**

✦ **Superior Security/Manager Selection**

# Tenants of Proper Wealth Management

---

Successful Wealth Management Requires Two Proficiencies:

## ✦ **Asset Allocation & Strategic Rebalancing Capabilities**

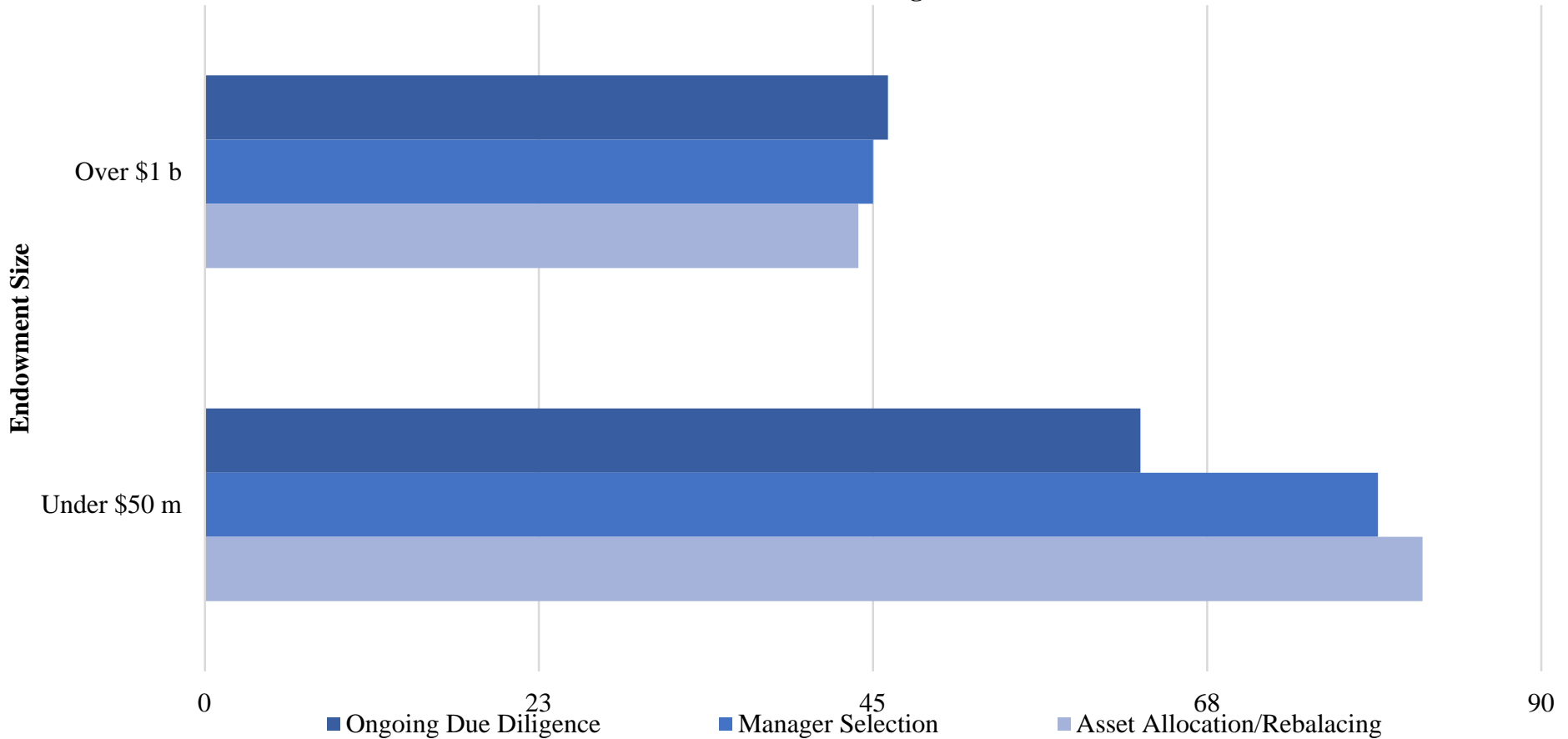
- ✦ Proper exposure is paramount in importance to manager selection
- ✦ Encompasses the following critical decisions:
  - ✦ Equity vs. Fixed Income Exposure
  - ✦ Philosophy – Growth vs. Value
  - ✦ Market Cap strata – Large vs. Mid vs. Small
  - ✦ Sector & Geographic Exposures
  - ✦ Long Only, Indexation vs. Active, Hedged Exposures

## ✦ **Bad News – Very Few Consultants Have Necessary Expertise**

# Small Endowments Lean Heavily Consultants As Their Only Source Of Asset Allocation Advice

### Use of Consultant Services by Institutions Under \$50 Million and Over \$1 Billion

Percentage



# Proper Asset Allocation Is Dynamic And Difficult To Predict

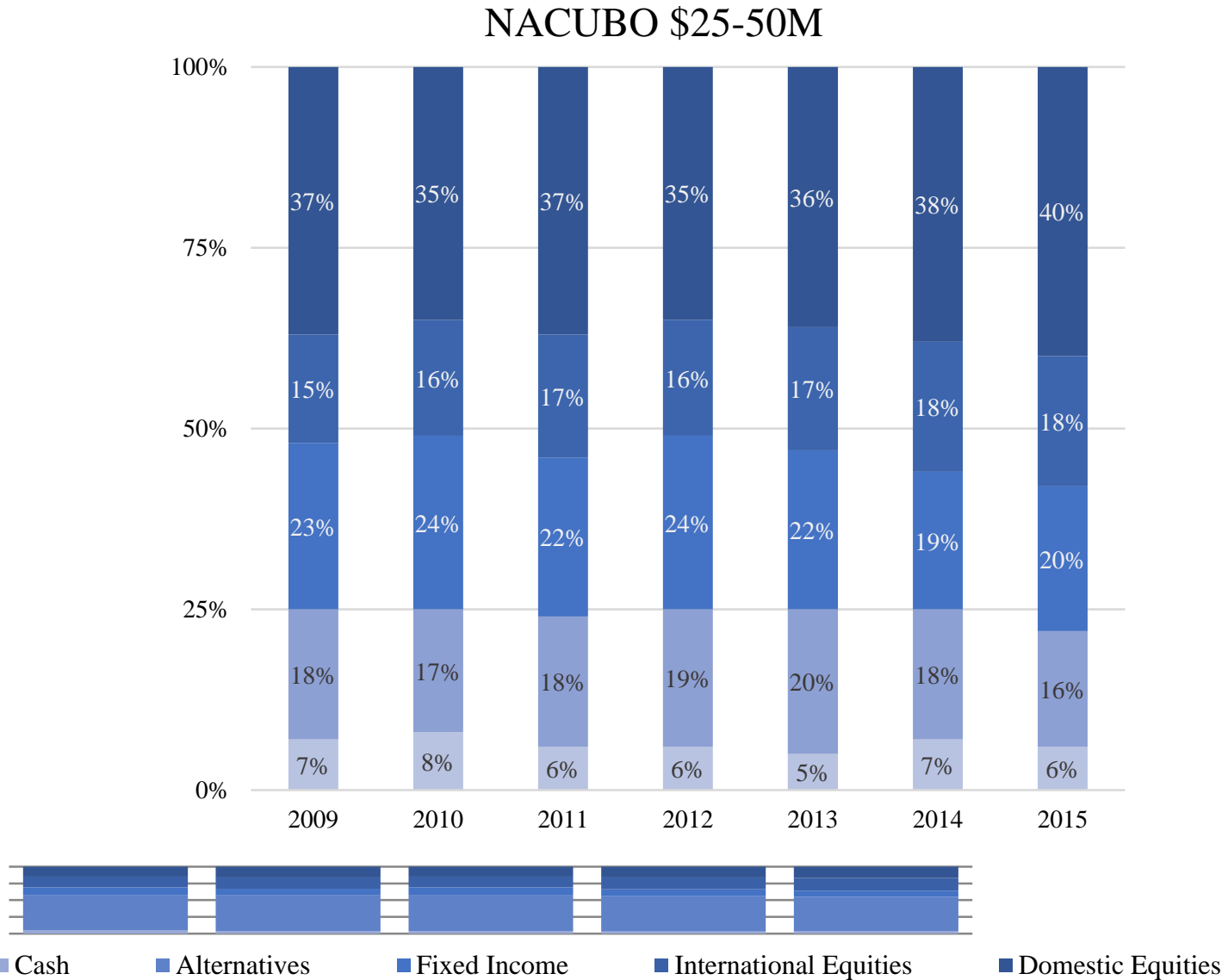
																2000 - 2015	
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Ann.	Vol.
Comdty. 31.8%	REITs 13.9%	Comdty. 25.9%	EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	REITs 12.0%	REITs 21.9%
REITs 26.4%	Fixed Income 8.4%	Fixed Income 10.3%	Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 7.9%	Small Cap 21.4%
Fixed Income 11.6%	Cash 4.1%	High Yield 4.1%	DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. 25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Small Cap 6.6%	EM Equity 21.1%
Cash 6.1%	Small Cap 2.5%	REITs 3.8%	REITs 37.1%	Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	EM Equity 5.9%	Comdty. 18.6%
High Yield 1.0%	High Yield 2.3%	Cash 1.7%	High Yield 32.4%	High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	Fixed Income 5.4%	DM Equity 17.4%
Asset Alloc. 0.0%	EM Equity -2.4%	Asset Alloc. 5.9%	Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 23.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	Asset Alloc. 4.8%	Large Cap 16.9%
Small Cap -3.0%	Asset Alloc. -3.9%	EM Equity -6.0%	Asset Alloc. 26.3%	Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Large Cap 4.1%	Asset Alloc. 13.5%
Large Cap -9.1%	Large Cap -11.9%	DM Equity -15.7%	Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	DM Equity 2.8%	High Yield 11.5%
DM Equity -14.0%	Comdty. -19.5%	Small Cap -20.5%	Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 6.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	Cash 1.8%	Fixed Income 3.4%
EM Equity -30.6%	DM Equity -21.2%	Large Cap -22.1%	Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Comdty. 0.8%	Cash 1.0%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.  
 Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Barclays Global HY Index, Fixed Income: Barclays Aggregate, REITs: NAREIT Equity REIT Index. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Barclays Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represents total return for stated period. Past performance is not indicative of future returns. Data are as of 12/31/15. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/99 – 12/31/15. Please see disclosure page at end for index definitions.

https://thekeep.ellie.org/jcb/v0i0/iss12/32

DOI: 10.58188/1941-8043.1685

**As A Result - Small Endowments Tend To Be Passively Managed**



# So What Can Small Institutions Do To Mimic Their Larger Counterparts on Asset Allocation?

---

## ✦ **Asset Allocation:**

- ✦ Absent Internal Staff - acquire the expertise by adding knowledgeable members to your Investment Committee
- ✦ Accountability - examine your Institutions historical actual portfolio allocations to gauge your consultant proficiency
- ✦ Accountability- have your Institution's results benchmarked against the market
  - ✦ 60% ACWI/40%/Barclays Aggregate is good overall proxy
- ✦ Accountability - have your Institution's results benchmarked against its peers
  - ✦ NACUBO publishes performance by size at least once a year
- ✦ Quickest Fix - evaluate whether granting/outsourcing investment discretion (OCIO) works for your Institution

# Tenants of Proper Wealth Management

---

Successful Wealth Management Requires Two Proficiencies:

## ✦ **Manager/Security Due Diligence Capabilities**

- ✦ Manager selection important - “Best Of Breed’ focus
- ✦ Secondary in importance to asset allocation
- ✦ Many feel Best of Breed is all encompassing
- ✦ Truth is even Best of Breed managers will be unable to produce sufficient returns if economic conditions are not supportive of their strategy

## ✦ **Good News – Consultants Typically Do A Better Job Here**



# What Can Small Institutions Do To Mimic Their Larger Counterparts on Manager Selection?

---

Journal of Collective Bargaining in the Academy, Vol. 0, Iss. 12 [2017], Art. 32

## ✦ **Manager Selection/Due Diligence:**

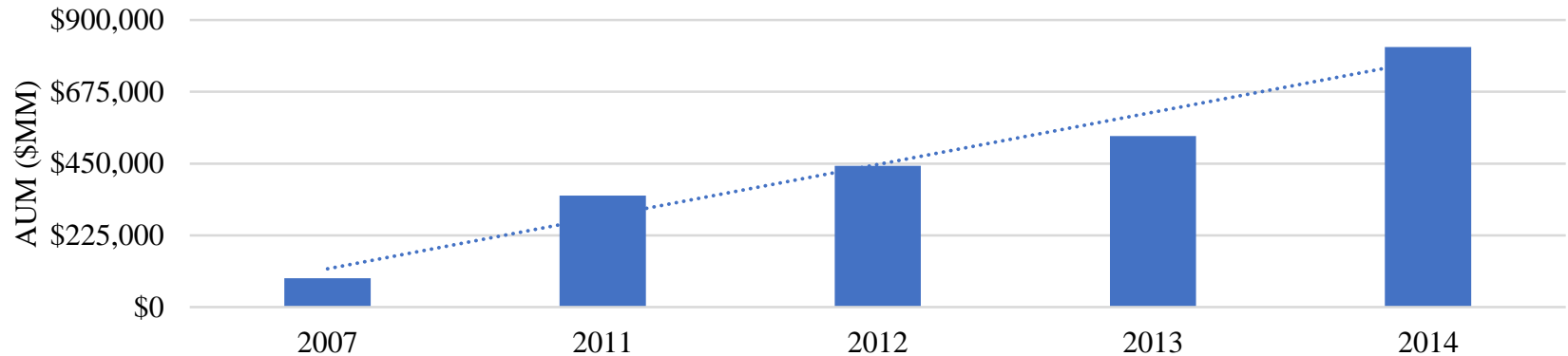
- ✦ Have your institution investigate any potential conflicts of interest which could lead to poor performance:
  - ✦ Certain advisors share fees with their platform managers
  - ✦ “Pay To Play” platforms constrain the manager universe
- ✦ Accountability - have your consultant analyze their underlying managers results against their market benchmarks – NOT against the Investment Policy Statement
  - ✦ Have them eliminate any persistent underperformers
- ✦ Have your IC evaluate Indexation as an alternative
- ✦ Quickest Fix - evaluate whether granting/outsourcing (OCIO) investment discretion works for your Institution

# Discretionary Vs. Non-Discretionary Investment Models

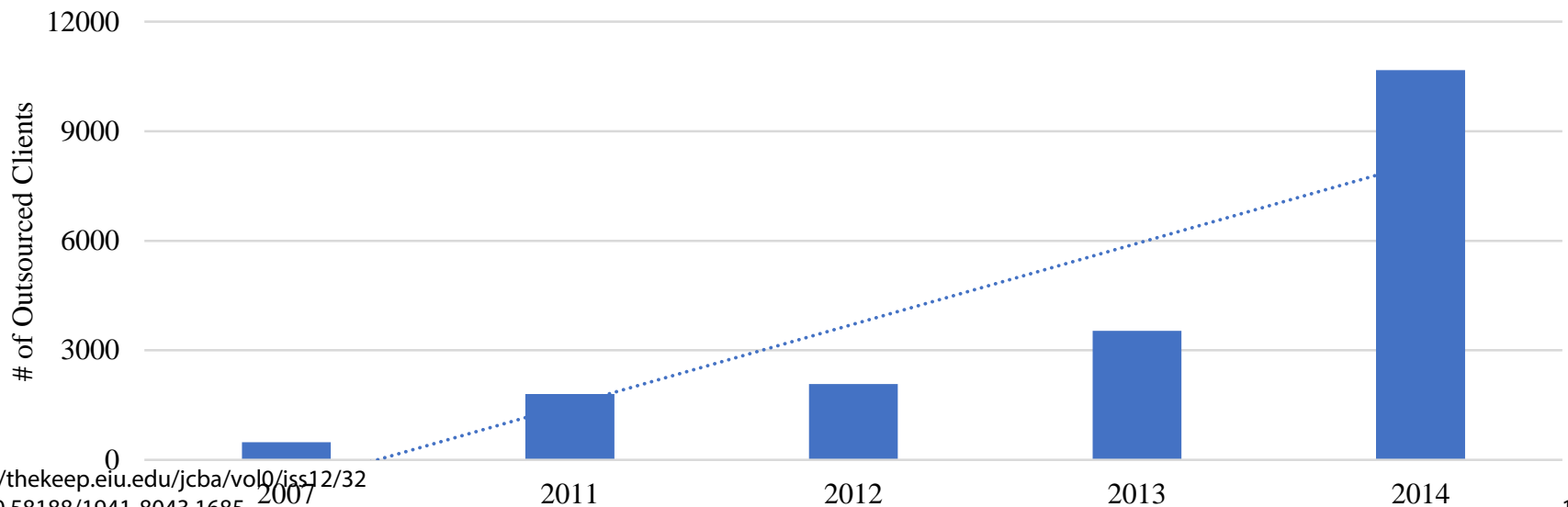
<b>Consultant</b>		
<b>GOVERNANCE ASPECT</b>	<b>Responsibilities</b>	<b>E&amp;F Responsibilities</b>
<u>Conventional Non-Discretionary Approach</u>		
Set Asset Allocation Targets	Recommends	Approves
Investment Policy Statement	Recommends	Approves
Implementation & Rebalancing	Recommends	Approves
Manager Selection	Recommends	Approves
<b>OCIO</b>		
<b>GOVERNANCE ASPECT</b>	<b>Responsibilities</b>	<b>E&amp;F Responsibilities</b>
<u>Outsourced CIO Model</u>		
Set Asset Allocation Targets	Recommends	Approves
Investment Policy Statement	Recommends	Approves
Implementation & Rebalancing	Implements	Monitors
Manager Selection	Implements	Monitors

# Discretionary Model Has Gained Significant Traction

## Full Discretion Outsourcing AUM Growth 2007-2014

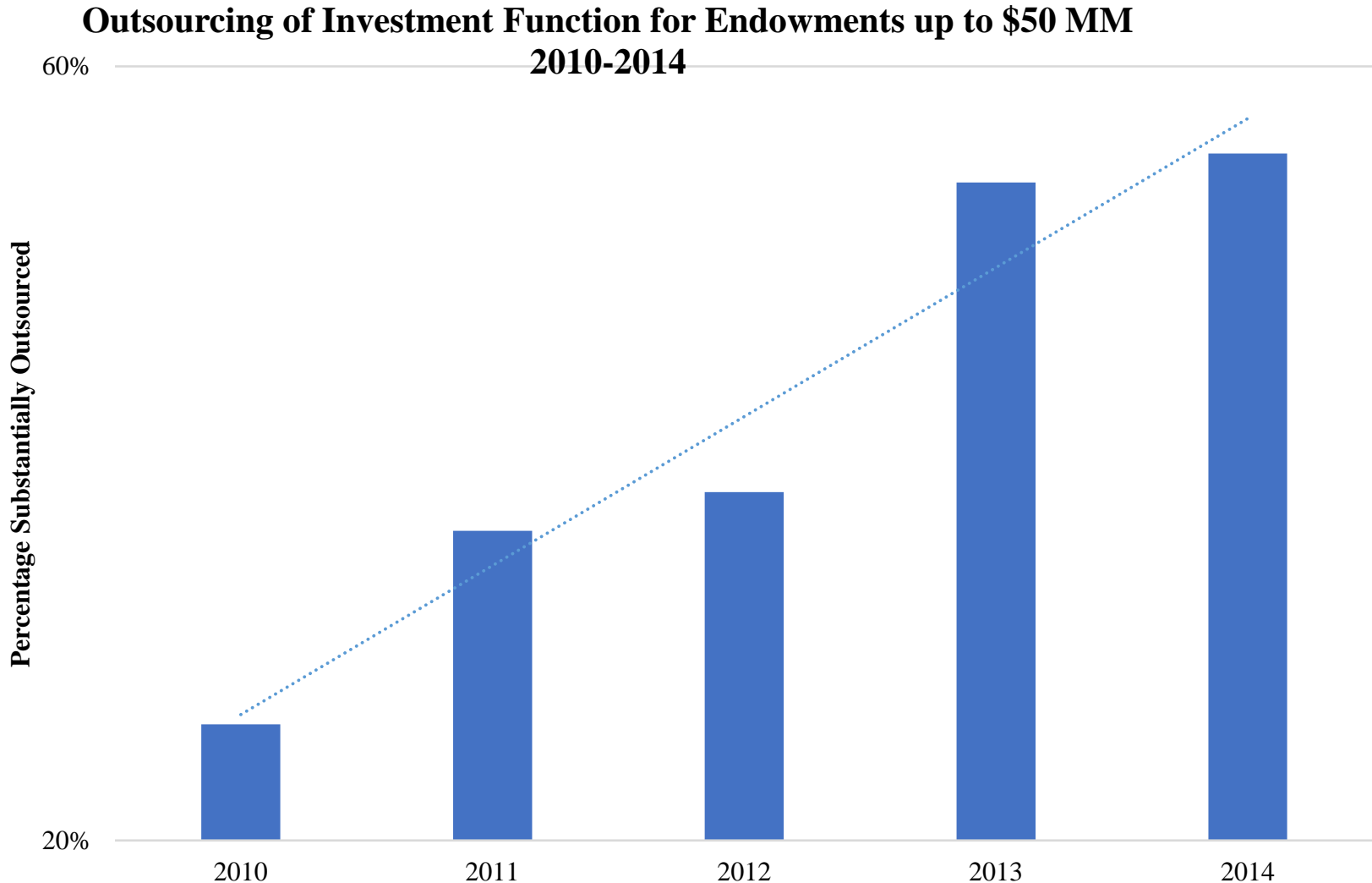


## Full Discretion Outsourcing Client Growth 2007-2014



<https://thekeep.eiu.edu/jcba/vol0/iss12/32>  
DOI: 10.58188/1941-8043.1685

# Outsourcing is a Growing Small to Mid-Size Phenomenon



# Consultant Services – OCIO Model Differentiation

Service/Attribute	Banks No Discretion	Proprietary/ Pooled Fund Advisors	Conventional Large OCIO	Boutique OCIO
Initial Asset Allocation Advice				
Ongoing Allocation Advice	?	?		
Global Strategic Reallocation of Exposures	?	?	?	
Global Tactical Reallocation of Exposures	?	?	?	
Active Hedging During Times of Market Stress	?	?	?	?
Manager Selection				
Ongoing Due Diligence	?			
Special Situations	?	?	?	
Performance Benchmarked against IPS				
Performance Benchmarked Against Market	?	?		
Published Track Record	?	?	?	
IC Committee Tutorials/Fiduciary Education	?	?	?	
Typical Fee Structure	<b>15-25BP</b>	<b>25-35BP</b>	<b>50-75BP</b>	<b>50-75BP</b>

# Biography

## Complete Biographies

---

### **Peter M. Rup - Age 60 - Chief Executive Officer and Chief Investment Officer**

- Over 27 years of experience managing investments for the family offices of UHNW individuals and their foundations
- Former Co-Director of Family Office of world renowned economist Dr. Henry Kaufman. Maintained contractual relationship as Principal Advisor to the Kaufman Family with regard to all investment matters
- Managing Director and CIO of Summit Asset Management, LLC, a family investment office of the founder of Rho Management LLC with approximately \$100M under management
- Portfolio Manager and Senior VP at Rho Management Company, LLC, a family investment office with approximately \$500M under management
- Ten years' experience as a CPA at the auditing firm Eisner L.L.P., where he was appointed the youngest Partner in firm's history
- MBA with Honors in Finance from the University of Chicago and a BS in Accounting from St. John's University
- Investment Committee Member –Virginia Tech University; Advisory Board Member – Mercy College and Molloy College.

Mr. Rup's competency is generally acknowledged within the industry. His views are routinely sought after with regard to developments in the hedge fund industry and well as for macroeconomic developments. He is a frequent guest on Bloomberg television and radio. His interviews and quotes frequently appear in Barrons, Reuters, Bloomberg and the Wall Street Journal (See [www.artemiswa.com](http://www.artemiswa.com) for "Artemis in the News").