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## Panel: The Role of Endowments in Financing Higher Education - Handout: Universities are Becoming Billion Dollar Hedge Funds (A. Taylor)

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**INEQUALITY** **HEDGE FUNDS**

# Universities Are Becoming Billion-Dollar Hedge Funds With Schools Attached

*Students are beginning to urge divestment.*

By Astra Taylor

MARCH 8, 2016



A tour group visits the campus of Harvard University in Cambridge, Massachusetts. (AP Photo / Elise Amendola, File)

**H**ave you heard the latest wisecrack about Harvard? People are calling it a hedge fund with a university attached. They have a point—Harvard stands at the troubling intersection between higher education and high finance, with over 15 percent of its massive \$38 billion endowment

with over 10 percent of its massive \$60 billion endowment  
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invested in hedge funds. That intersection is getting

crowded. Yale's comparatively modest \$26 billion endowment, for example, made hedge fund managers \$480 million in 2014, while only \$170 million was spent on things like tuition assistance and fellowships for students. "I was going to donate money to Yale. But maybe it makes more sense to mail a check directly to the hedge fund of my choice," Malcolm Gladwell tweeted last summer, causing a commotion that landed him on NPR.

What has gotten less attention is how it's not just universities with eating clubs and legacies that are getting into the game. Many *public* universities are also doing so, in part because state support for education has been cut, but also to compete with richer schools by rapidly increasing their more limited wealth. Though the exact figure is hard to determine, experts I consulted estimate that over \$100 billion of educational endowment money nationwide is invested in hedge funds, costing them approximately \$2.5 billion in fees in 2015 alone. The problems with hedge funds managing college endowments are manifold, going well beyond the exorbitant—some would say extortionate—fees they charge for their services.

Consider the problem of conflict of interest on endowment boards of both public and private colleges. One 2011 survey showed that 56 percent of endowments allowed board members to do business with the university. In 2013, Dartmouth came under fire when it was revealed that some trustees—including Stephen F. Mandel Jr., who was both chairman of the board of trustees and head of the hedge fund Lone Pine Capital—also managed investments for the school.

The trustees were blasted, in a widely cited open letter, for

recycling a portion of their “sky high fees” back to the

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university as “donations” for which they were often rewarded by having a building named in their honor.

Marcie Smith, executive director of the Responsible Endowment Coalition, calls this a “rage-inducing picture.” “Universities raking in a record \$40 billion in 2015, Wall Street stacked boards of directors approving self-dealing investments, all while tuition continues to rise, student debt continues to mount, and value of a college degree declines,” she says. “The state of higher education is yet another example of austerity in America, and signals the dangerous creep of a free-market fundamentalism that thinks all institutions in society exist to enrich the bankers.”

Combine all of the above with the recent stories about hedge fund managers being exploitative sociopaths—the kind willing to inflate the price of lifesaving medicine or force elementary schools in Puerto Rico to close to make a buck—and one wonders why public institutions are doing business with them at all. Given the history of successful college divestment movements, one can easily imagine a provocative next step: campaigns that aim to force universities to stop doing business with hedge funds altogether. While they declined to give specifics since they are still in the planning phases, organizers I spoke to said just such a movement is brewing.

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All told, hedge funds have over \$3 trillion worth of assets under management globally. In theory, they exist to provide a “hedge” to protect investor portfolios in tough times.

Hedging, seen in this light, is simply one investment strategy among many. In practice, however, hedge funds are

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alternative investment vehicles that tend to be housed offshore to avoid oversight and taxes, which means they are largely unregulated, face minimal disclosure requirements, and can engage in all sorts of risky bets and market manipulations.

Not long ago, universities were, in the words of one report, “careful stewards of endowment income” and avoided such shenanigans. In the early ’70s, Harvard and Yale spearheaded committees on investor responsibility and devised ethical investment policies for endowments that considered things like social impact. In the ’90s, things began to change. Many schools, private and public, have become high-risk gamblers, with finance overtaking fundraising as the main engine of endowment growth. A more aggressive approach to investing paid off—until the economy melted down and caused some endowments to lose up to 30 percent of their value.

But experts and activists have other concerns. Some commentators, for example, are troubled by public tax-exempt educational institutions doing business with companies notorious for dodging taxes in offshore havens. More generally, tax exemption is a giant government subsidy that disproportionately benefits elite schools (the ones that attract the biggest donations and earn the largest investment returns), thus further polarizing an educational system already separated into haves and have-nots.

And it gets worse. In a report called “Educational Endowments and the Financial Crisis,” Joshua Humphreys, president and senior fellow at Croatan Institute, points to an

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President and Senior Fellow at Cato Institute, points to an even more disturbing consequence of risky investment practices. By embracing speculative trading tactics, exotic derivatives, hedge funds, and private equity, “endowments played a role in magnifying certain systemic risks in the capital markets,” Humphreys writes. What’s more, their initial success encouraged other institutional investors (think pension funds, sovereign wealth funds, and foundations) to follow in their footsteps, amplifying the system’s overall volatility and instability. In other words, endowments were not just innocent victims of the 2008 financial crisis, but actually helped enable it.

“Hedge funds, as they were initially conceived, have a potential role to play in a long-term endowment seeking to ‘hedge’ certain risks,” Humphreys told me, making clear he’s hesitant to write them off entirely. “But their arbitrarily high fee structures, the excessive compensation of their managers, and their deliberate evasion of taxes and transparency make hedge funds easy targets for stakeholders rightly concerned about the simmering crisis of higher education today.”

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Last summer, Garrett Shishido Strain, a 27-year-old graduate student in public policy at the University of Washington, filed a public records request to learn exactly how much of the university’s \$3.1 billion endowment is invested in hedge funds. After some months, officials finally claimed the information was “exempt from public inspection” on the grounds that “such information, if revealed, would reasonably be expected to result in loss to the University of Washington consolidated endowment fund or to result in

private loss to the providers of this information.” When

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reached for comment, Ann Sarna in the school’s Treasury Office claimed to have no knowledge of Strain’s request. First she said the information is available to the public on the university’s website—it is not—and then she said she could not provide a figure. “We don’t track hedge funds as a separate investment strategy,” she wrote in an email.

Strain is disappointed with the administration’s stonewalling, but not surprised. A report by Prequin, an organization that provides research to investors, states that the school’s investment in hedge funds is around \$500 million. Given that hedge funds operate on what’s called the “2 and 20” model, which means they charge a baseline of 2 percent of assets under management while taking 20 percent of any profits, the school could be spending well over \$10 million a year on hedge fund fees alone. Meanwhile, administrators only recently acquiesced to the demands of student, custodial, and food service workers who have been rallying under the banner “raise wages, not tuition,” finally agreeing to pay Seattle’s celebrated \$15 minimum wage—but not until 2017.

Strain, however, doesn’t just find it objectionable that money managers are so lavishly compensated while staff are underpaid and students overcharged. He also objects to the fact that by funneling money to hedge funds, public universities are, incongruously, supporting the antisocial policies hedge fund managers are notorious for rallying behind: rolling back corporate regulation, slashing the minimum wage, eliminating pensions, privatizing public schools, trammeling unions, cutting taxes for the wealthy, and forcing broke nations further into insolvency (through “vulture” funds that specialize in distressed sovereign debt).

This is true for the University of Washington specifically. Public records show that it does business with various hedge funds—including the aforementioned Lone Pine Capital—associated with the Managed Funds Association, “the voice of the global alternative investment industry.” Or, to be more blunt, the industry’s lobbying arm.

And what does the voice of industry call for? According to public filings, the Managed Funds Association has crusaded against various policies designed to curb inequality. For example, in 2014 it fought the Inclusive Prosperity Act, which aimed “to impose a tax on certain trading transactions to...stop shrinking the middle class.” The act would have levied a small tax on financial transactions, including stock trades, and funded things like low-income housing assistance, public transit, and—here’s the kicker—student debt relief.

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The time has come for students to connect the dots between ballooning student debt, the poor treatment of campus workers, and the obscene wealth of hedge fund oligarchs. Once they do, they can fight back by following in the footsteps of recent mobilizations against the financial sector. In 2013, a group called Kick Wall Street Off Campus forced Minnesota’s Macalester College to move some, though not all, of its money out of Wells Fargo to protest the bank’s role in community foreclosures. In June of last year, Santa Cruz County pulled together to get its money out of five giant banks—including Citicorp, JPMorgan Chase, and Barclays—that pleaded guilty last spring to felony charges that they rigged the world’s foreign-currency market. Similar *campaigns could easily be waged against university*



Of course, kicking hedge funds off campus won't solve the college crisis or instantly reform the financial sector. Nevertheless, targeting hedge funds remains a promising tactic for uniting students and workers against hedge funds' efforts to increase inequality, and using our tuition dollars and public subsidies to do so. This tactic would be especially effective at public institutions, where divestment campaigns should be coupled with calls for increased state funding for higher education and better pay for low-wage workers.

“It's easy to feel powerless, but hedge funds need university endowments, just like they also need public pensions. If that money was taken away, it would really affect them,” Strain says, and he's right. Campus divestment movements have a proven track record, going back to campaigns against apartheid in the 1980s. Over the last few years, climate activists have pressured school trustees to divert trillions of dollars from fossil fuels, and last year Columbia became the first university to divest from private prisons. Hedge funds deserve to be next on the chopping block. ●

## **2 COMMENTS**

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**ASTRA TAYLOR** Astra Taylor is the director of the documentary films *Zizek!* and *Examined Life*. She has written for *Monthly Review*, *Adbusters*, *Salon*, *The Baffler*, *Bomb Magazine*, *n+1* and other outlets. She is the co-editor of the book *Occupy! : Scenes from Occupied America* (Verso).

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