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Foundation & Endowment Money Management

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In This Issue

Rice Hires CIO

Rice Management Company, the investment arm of **Rice University**, has hired **Allison Thacker**, a portfolio manager at **RS Investment**, to be its new president.

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Top Stories

Whacks Hedge Funds

British Columbia Eyes Emerging Markets

The **University of British Columbia** is planning to search for an emerging markets equity manager for its roughly CAD950 million endowment. The Vancouver school has carved out the maiden 10% allocation following an asset review, which also called for the elimination of the portfolio's 6.5% hedge fund allocation, said **Roger Polishak**, director, manager relations and

(continued on page 16)

Chicago To Reduce Private Investments

The **University of Chicago** is reducing its exposure to private investments for its $6.2 billion endowment. The endowment has around 40-45% in private investments. The idea is to reduce that pot by 5-10% over the next three-four years in an effort to be more liquid, said CIO **Mark Schmid**. Most of the money will be transitioned to global public equity investments, he added.

Over the past two to three years, Chicago has been decreasing its public equity exposure,

(continued on page 16)

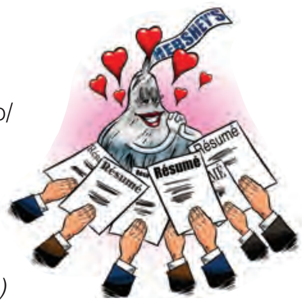
Investors Tepid On Junk Bonds

Low interest and default rates made high-yield bonds attractive to nonprofit investors after the financial crisis peaked in 2008, but the current prognosis for these investments is considerably bleaker. The past month has been a rollercoaster ride for investors following **Standard & Poor's** decision to downgrade U.S. Treasuries, creating uncertainty for high yield. *FEMM* Contributing Reporter **Joe D'Allegro** recently spoke with **Mark Okada**, co-founder and cio of **Highland Capital Management**; **Tim Ng**, director of research at

(continued on page 13)

Hershey Trust Seeks CIO

Hershey Trust Company, the entity responsible for managing the assets of the **Milton Hershey School Trust**, is searching for a ceo/cio to oversee an investment portfolio of more than $8 billion. Hershey has hired recruiting firm **David Barrett Partners** to assist with the process, and hopes to have the position filled in the next several months, said **Connie McNamara**,



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At Press Time

Mizzou Seeks Consultant

The **University of Missouri System** is searching for a consultant to advise its $1 billion endowment, $2.7 billion defined benefit plan and $1.7 billion general pool. Mizzou has issued a request for proposals that were due Aug. 29.

The Tigers had been using **Rocaton Investment Advisors**, but the firm's contract has expired, explained **Tom Richards**, treasurer. The firm was invited to re-bid. The school is looking for firms with at least 25 clients and $100 billion in assets under advisement. The Tigers will give preference to independently owned consulting shops.

Once the winner is selected, the firm will review the asset allocations. "All three portfolios are due for regularly scheduled asset allocation studies, which will be initiated once the winning firm is in place," said Richards.

The endowment's target allocation is 50.5% in global equity, 14% in global fixed income, 7% in Treasury inflation-protected securities, 6% in high-yield, 5% in emerging markets debt, 7.5% real estate, 5% in private equity and 5% in absolute return.

The DB plan's target allocation is 37% in global equity, 15% in global fixed income, 15% in Treasury inflation-protected securities, 12% in high-yield, 5% in emerging markets debt, 6% real estate, 5% in private equity and 5% in absolute return.

Rice Taps Investment Chief

Rice Management Company, the investment arm of **Rice University**, has hired **Allison Thacker**, a portfolio manager on **RS Investment**'s equity growth team, as its new president. She replaces **Scott Wise**, who left last year to head up a new outsourced cio business for **TIAA-CREF** (*FEI*, 5/20/10).

Thacker will be the chief investment officer of Rice's $3.8 billion endowment. **Ron Long** is currently the interim president at Rice Management. **B.J. Almond**, spokesman, declined to comment.

Thacker co-managed six RS mutual funds, including the $591 million RS Small Cap Growth Fund and the $302 million RS Technology Fund.

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Mark Faro, Managing Editor
mfaro@iinews.com

Searches & Hires

York University Seeking Consultant

York University is searching for a consultant to advise its roughly CAD320 million endowment and CAD1.3 billion pension fund. The Toronto-based school issued a request for proposals that was due last month. It had been using **Towers Watson**. **Leona Fields**, manager, pension fund, told *FEI* the school had not made a hiring decision yet, declining to elaborate further.

The endowment has a 15% allocation to Canadian equities, 20% to small- and mid-cap U.S. equities, 25% to global equities and 10% to emerging markets equities. There is also a 25% allocation to Canadian bonds and a 5% slug for global high yield bonds.

The pension fund has an allocation to 15% U.S. equity, 10% infrastructure, 30% Canadian bonds, 15% Canadian equity, 15% international and 15% global equity.

Illinois Plans Searches

The **University of Illinois** is planning to search for managers to handle maiden investments in global equity, hedge funds and real estate for its roughly $290 million endowment. The new forays follow a study conducted by **Hewitt EnnisKnupp**. The school's new asset allocation policy calls for a 24% allocation to global equity, 10% to hedge funds and 7% to core real estate.

The Illini could issue requests for proposals as early as the fall, but first plan to wrap up an ongoing fixed-income search for the endowment and operating portfolio.

Further details could not be gleaned as **Dean Hagan**, director of university investments, declined to comment.

Creighton Ponders International Bonds

Creighton University is examining whether to invest in international fixed income for the first time. The Bluejays only have domestic fixed income allocations in its roughly $430 million portfolio, with a smattering of international exposure through its investment in **PIMCO**'s *Total Return Fund*, said **John Jesse**, associate v.p. of finance.

The Omaha, Neb.-based school is considering carving out a dedicated international mandate. It has not determined a possible allocation size, and any move would likely be done in 12 months, said Jesse. The university's consultant, **Summit Strategies**, is researching the play.

The idea behind investing in international bonds is that there are higher yields in those markets, said Jesse. "I am not interested in getting 20 basis points for holding [U.S.] Treasuries for a year or two," he quipped. The challenge of investing overseas will be navigate higher risks in areas such as the euro zone, Jesse explained.

Earlier this year, the Bluejays made a change to their equity roster. The school dropped **DG Capital Management** from a $25 million large-cap growth assignment, replacing the firm with **CastleArk Management**. Creighton made the move because DG had underperformed its benchmark, said Jesse.

Hampton Roads Taps Spider

The $217 million **Hampton Roads Community Foundation** has hired **Spider Management Company** to manage its portfolio. The Norfolk, Va.-based foundation had been using **Hammond Associates** as a consultant, but decided to switch to the outsourced cio model, said **Martha Ambler**, cfo.

Ambler declined to name other outsourced cio firms the foundation considered, but said the switch was not a reflection on Hammond. Instead, the investment committee wanted an outsourced cio model where decisions about asset allocation and manager selection could be delegated, she said. This allows the committee time to focus on bigger issues such as spending policies, explained Ambler.

Spider is the investment arm of the **University of Richmond**, but it also manages third-party assets through *The Richmond Fund,* a pooled vehicle that allows other endowments and foundations to invest alongside the university. Richmond is one of the few universities to offer this model and its efforts earned it the ***Large Endowment of the Year*** award in *FEMM*'s 2008 Nonprofit Awards for Excellence.

St. Olaf May Boost PE

St. Olaf College's $335 million endowment may increase its exposure to private equity and real assets. The Northfield, Minn.-based school invests 13% and 10.5% in private equity and real assets, respectively. If it decides to make further commitments, it would likely be to new funds being raised by incumbent managers, said **Mark Gelle**, cio. The endowment invests in funds of funds for those strategies and prefers to work with existing managers because it has already conducted due diligence and feels comfortable with the firms, he added.

St. Olaf also recently made some changes to its hedge fund lineup. It reduced its investment in **Elliott Management** because it had grown to $18 million and the school wanted to take some gains off the table, said Gelle. It pared down the investment by $5 million and invested that capital and additional money for a total of $6 million in **Och-Ziff Capital Management**. The move was based on the recommendation of its consultant **Mercer** in St. Louis; the group formerly known as **Hammond Associates** made the recommendation.

The school also had to redeploy capital it received from

Shumway Capital Partners when it decided to close down its long/short equity fund (*FEI*, 2/8). It received about $4 million and redeployed the money to incumbent managers **JAT Capital Management**, **Sound Energy Partners** and **Anchorage Capital**.

D.C. University Seeks Manager

The **University of the District of Columbia** is searching for an investment manager to run its roughly $30 million endowment. The school had been using two managers, **JPMorgan** and **AllianceBernstein**, but now wants to use one firm for the entire portfolio, said **Steve Graubart**, managing director of finance. "We felt given the size of the portfolio it made sense to have one manager," he added. It has issued a request for proposals.

The timing of the rfp is the result of a periodic review and the school had no issues with either incumbent manager, said Graubart. Both are free to compete for the consolidated mandate as it's an open rfp process, he added.

The rfp was issued through the office of the cfo for the District of Columbia. A date for responses has not yet been set.

Iowa Taps Neuberger Berman For High Yield

The board responsible for overseeing $498 million in endowment assets for the **University of Iowa**, **Iowa State University** and **University of Northern Iowa** has hired **Neuberger Berman** for a $24 million high yield assignment. The mandate had been with **Post Advisory Group**, but the board decided to make a switch due to turnover at that firm, said **Patrice Sayre**, chief business officer at the **Board of Regents**, **State of Iowa**. Post's cio, **Allan Schweitzer**, left to join **Beach Point Capital Management**.

The board interviewed Neuberger Berman, **Oaktree Capital Management** and **PENN Capital Management** for the assignment. It selected Neuberger Berman due to its organizational strength, resources and expertise, said Sayre. Also, the firm was chosen because it has been successful in various economic environments while managing risk, she added.

Mike Dudkowski of **Wilshire Associates** advises the fund.

International Searches & Hires

Swedish Foundation Makes Multiple Manager Changes

The Swedish foundation for strategic environmental research **Mistra** has reshuffled its portfolio and made several manager roster changes. The SEK2.8 billion foundation has terminated two SEK100 million European equity mandates with **State Street Global Advisors** and **Amundi**, replacing them with a **Carlson Investment Management** global equity fund. Administrative Chief **Fredrik Gunnarsson** said Mistra's committee decided on the shift as it lost belief in the Euro. "We don't want anything in the Euro at the moment," he said. The research foundation in Stockholm now has no exposure to Europe through any direct mandates, he added.

Mistra also terminated a SEK140 million emerging markets equity mandate with **Bankinvest** for performance reasons and hired two replacements. **Lloyd George Management** handles SEK75 million, while **First State Investments** manages a SEK65 million mandate, he explained. He added that Bankinvest is still on the management roster handling emerging market bonds.

Officials at the terminated management firms could not be immediately reached for comment at press time.

Additionally, Mistra has also committed SEK30 million to a new clean tech private equity fund through **Adler**. The first investment was SEK1.5 million.

Recent asset allocation changes were also made, with equity reduced to 44% from 50% and the money reallocated to fixed income, private equity and hedge funds. The bond portfolio and the alternative assets now have 49% and 7%, respectively. Further changes are not yet planned but some talks are taking place to reduce equity further. "Nothing is in the pipeline for the moment, but we're having some discussions," Gunnarsson said.

The discussion long-term investment policy will take place at a September board meeting. Some changes to the strategy are possible, but not definite, Gunnarsson concluded.

Kiwi Fund Reviews Equity Managers

The Community Trust of Southland, a New Zealand grant-making organization, is reviewing two investment managers for an equity assignment worth NZD180 million ($158.4 million). It is comparing **AMP Capital** and **First NZ Capital** against the proposals to those of four or five outside suitors following a recent tender process, CEO **John Prendergast** said. The trust can pick one or two managers to run its equities portfolio; a decision due over the next month.

The trust grants NZD8-10 million per year to nonprofits in Southland province and surrounding areas. It reviews managers every three years. It also uses the services of **Capital International**, **Franklin Templeton**, **Direct Capital Partners**, **PIMCO** and **Tyndall Investment Management**.

The 23-year-old trust is also in the process of shifting investments away from property into private equity and Australasian equities, Prendergast said. Much of its money slated for property is still in cash, he said. "We have struggled to find a tax-efficient property investment vehicle that does not involve us directly owning property assets," he said. "We have been after a diversified property fund that meets our requirements but haven't found one."

To make the shift, the trust would reduce cash investments by 4-5%, in turn raising private equity investments by 5-10%. "The funds have been in cash whilst we go through the process

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11th Annual NONPROFIT AWARDS

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Lifetime Achievement Award Recipient
Laurance Hoagland, Chief Investment Officer,
The William & Flora Hewlett Foundation

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Large Nonprofit of the Year
- University of Chicago
- Pennsylvania State University
- University of Texas Investment Management Company

Mid-Sized Nonprofit of the Year
- Bucknell University
- Lehigh University
- Virginia Tech Foundation

Small Nonprofit of the Year
- Berkshire Taconic Community Foundation
- Elizabethtown College
- William T. Grant Foundation

Multi-Manager of the Year
- The Endowment Office
- Investure
- Morgan Creek Capital Management

Marketer of the Year
- Alissa Grad, Golub Capital
- Jeff Muehlethaler, PIMCO
- Jim White, Bridgewater Associates

Consultant of the Year
- Nolan Bean, Fund Evaluation Group
- Ron Klotter, Hewitt EnnisKnupp
- Kristin Reynolds, NEPC

Hedge Fund Manager of the Year
- Canyon Capital Advisors
- Contrarian Capital Management
- Third Point

Private Equity Manager of the Year
- Cerberus Capital Management
- KPS Capital Partners
- Oaktree Capital Management

Real Assets Manager of the Year
- EnCap Investments
- Jefferies Asset Management
- Northwood Investors

Equity Manager of the Year
- Dimensional Fund Advisors
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to decide who to give our Australasian equity mandate to," Prendergast said.

The trust now invests 20% in Australian shares, 20% in global shares, 26% in global fixed interest and 20% in New Zealand fixed interest. Cash accounts for 9% and private equity for 5%.

U.K. Health Foundation Appoints New Custodian

The Health Foundation has named **Northern Trust** as its custodian after a closed tender that involved six global participants. The appointment came after a periodic review, according to Finance Manager **Daniel Thorndyke**. "The custodian's contract came up, so [the search] was nothing in particular other than being just a time for that contract to be reviewed," he said. **Mercer Sentinel Group**'s London office assisted with the tender.

The £170 million fund's previous custodian was **State Street Global Advisors**, which also participated in the tender. Thorndyke said the firm's failure to be reappointed was not an indication of underperformance. "Northern Trust came out on top. To be quite honest, they seemed to offer the best service, the best value for money, and they were just what we were looking for," he explained.

According to Thorndyke, the contract will last for three to five years. Northern Trust will be tasked with providing custodian and accounting services, alongside performance reporting.

Helsinki Foundation Mulls Manager Replacement Or Asset Shift

The €1 billion Helsinki-based **Suomen Kulttuurirahasto** (Finnish Cultural Foundation) will terminate a global equity manager and is considering either replacing the incumbent or moving the money into another asset class. Decisions are expected during the autumn and changes will be in place by Christmas, said CIO **Ralf Sunell**. "We haven't made any decisions yet. The market is quite challenging at the moment so we have a meeting with our finance committee and then we will decide," he explained.

The foundation wants to terminate the undisclosed equity manager due to unsatisfactory performance, Sunell said. It is considering several asset classes should it choose to make a reallocation, but the most probable scenario is moving the money to cash holdings. "There are many possibilities, but one is just to have cash because the market volatility is quite big at the moment," he added.

A proposal for the finance committee is being prepared and there are already preferred managers on a list if the decision goes towards a manager replacement. "It's up to the committee which way we take but we have a shortlist of managers that we are willing to recommend if they decide to keep the money in equities," Sunell explained.

The foundation invests 55% in equity, 25% in fixed income, just under 20% in direct real estate and the remainder in private equity.

Scottish Fund Considers Multi-Manager Retender

The endowment funds for **Renfrewshire Council** will make decisions on whether to extend or tender the contract of incumbent multi-asset manager **Newton Investment Management** in March as part of it due diligence process.

Senior Finance Manager **Alastair MacArthur** said that the fund is satisfied with performance and may take the option of extending the current contract for another two years when it concludes in April 2012. Decisions will be made at a committee meeting before then, and if the contract is to be retendered, then a notice will go out to the *Public Contracts Scotland* Web site and the *Official Journal of the European Union*.

The asset allocation consists of 39.3% U.K. equity, 26% international equity, 12% U.K. fixed interest, 19.5% corporate bonds, 1% international bonds, 1.1% property and 1.1% in cash. The common good funds have a total value of £13 million, while Paisley and Renfrewshire council staff members are part of the wider **Strathclyde Pension Fund**. The council uses **Hymans Robertson** as its investment advisor.

Swiss Foundation Unconvinced By Incumbent's Strategy

Anlagestiftung Winterthur AWi has been reviewing the investment strategy of its global bonds and global equity funds—***AWi Global Obligationen*** and ***AWi Global Aktien***, managed by **AXA Investment Managers Paris** and **AXA Rosenberg**, respectively. Managing Director **Jean Claude Scherz** said that the CHF1.2 billion foundation was not satisfied with the strategy employed to manage the funds and will discuss potential changes with the incumbent. However, Institutional Client Relationship Manager **Michael Zuppiger** asserted that no changes will be made to the manager roster following a recent review. "We are happy to keep things as they are," he said. The performance of the funds, which was Scherz's other concern, has been recovering over the past couple of months. No comment could be obtained from the officials at the management firm.

Separately, the foundation closed down one of its active balanced funds managed by AXA Investment Management last year. Scherz said this was due to lack of assets in the fund and performance concerns. AXA's German office **AXA IM Deutschland** remains the incumbent manager of three other balanced funds with different equity levels—*BVG 25* *andante*, *BVG35 allegro* and *BVG 45 vivace*. **AXA Investment Managers Schweiz** is in charge of domestic and foreign bonds denominated in Swiss francs and Swiss real estate. Last April, the Swiss office also won a mandate for the management of a new real estate fund, ***AWi Immovation Wohnen***, which invests directly in Swiss real estate.

Norwegian Foundation Puts Equity Manager On Watch

Det Norske Veritas Pensjonskasse in Norway has placed an undisclosed equity manager on watch over performance. The NOK4.3 billion foundation is in the process of reviewing the external manager and will finish the examination in the third quarter, said Corporate Treasurer **Tore Eilertsen**. It is likely that the provider will be retained but the possibility of termination is there, he said, without detailing the performance numbers. The equity manager would not be replaced, he said. "Should there be a termination then we would just redistribute among existing funds," he added.

The mandate is around 2-3% of the assets, Eilertsen said. Manager hires or terminations for other asset classes have not taken place during the last year, he added. DNV's asset mix consists of 40% in equity, 55% in fixed income and 5% in real estate.

Welsh Charity Selects Manager, Seeks Advisor

The **Wales Council for Voluntary Action** (WCVA) has appointed a manager for its communities investment fund and may start a procurement process for an independent advisor in the next few months.

After an *Official Journal of the European Union* search completed earlier this year, the organization appointed **WCVA Services**. "It was an open tendering process and there was a number of applications from social lenders, but the organization that was chosen was a trading arm set up by the WCVA, who already managed the first phase of funding," said Program Officer **Geoff Jones**.

The fund was set up with money from the **European Union** and the Welsh Government to fund third-sector and social enterprise organizations, with a focus on public service delivery, and the £6 million fund needs to be allocated within the next three years. "Because of the nature of the funding it's not really actively managed. It just remains invested in cash, not in equity or bonds or anything else, and will be drawn down as and when we get successful applicant organizations," Jones said.

The fund may seek a financial advisor to assist in the funding process, again tendering through the public sector contract Web sites. "Obviously we've already got our networks but there might be a need to bring someone in on a more formal basis," Jones added.

People

Maryland Seeks CIO

The **University System of Maryland Foundation** is searching for a new cio to oversee its roughly $900 million in assets. The foundation had been weighing multiple options, including hiring an outsourced cio firm following the departure of CIO **Michael Barry** to **Georgetown University** (*FEI*, 6/29). It has hired recruiting firm **Charles A. Skorina & Company** to assist with the search, said **Leonard Raley**, president and ceo.

The foundation opted against outsourcing because it manages portfolios for 17 university-related institutions and it needed someone to be hands-on with that group, said Raley. Maryland also felt having a cio would be better for fund raising and allow the foundation to be more nimble to navigate market volatility.

There is no set time frame to bring the new cio onboard. In the interim, two high profile members of the investment committee are taking a more hands-on role: **David Saunders**, founder of **K2 Advisors**, and **Neil Moskowitz**, retired cfo of **Credit Suisse First Boston**.

Stevens Seeks Investment Staffer


Randy Greene

Stevens Institute of Technology is searching for its first-ever in-house investment staffer. The Hoboken, N.J.-based school is looking for an assistant v.p. for investments and treasury operations to be involved with its $145 million endowment and cash management, said **Randy Greene**, cfo, v.p. for finance and treasurer.

The role will be a hybrid between

Endowment & Foundation CIO Searches

Fund	Old CIO	Head Hunter	Comments
Rice Management Company	Scott Wise	Russell Reynolds Rice	has hired Allison Thacker from RS Investment as its new cio.
University of Cincinnati	Tom Croft	Russell Reynolds	The Bearcats are looking for a new cio following the upcoming retirement of Tom Croft.
Carnegie Mellon University	Ed Grefenstette	Interviewing Firms	The school is talking to recruiters and plans to search for a cio.
Cornell University	Michael Abbott	None	Abbott was hired on Nov. 1, following the resignation of James Walsh in June 2010. He recently stepped down.
University of Maryland System Foundation	Michael Barry	Charles A. Skorina & Co.	The foundation is searching for a cio.
Stanford Management Company	Ken Frier	None	Frier just left after less than one year.
Carnegie Corporation of New York	Ellen Shuman	None	The foundation handed the cio role over to two incumbent staffers: Meredith Jenkins and Kim Lew.
Milton Hershey School Trust	David Rudisill	David Barrett The Partners	trust is searching for a new cio.

Source: ***FEMM***

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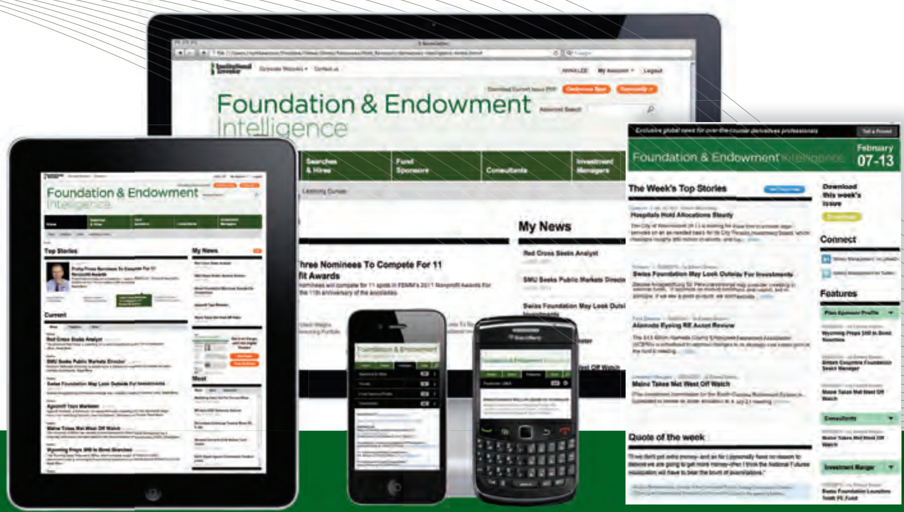

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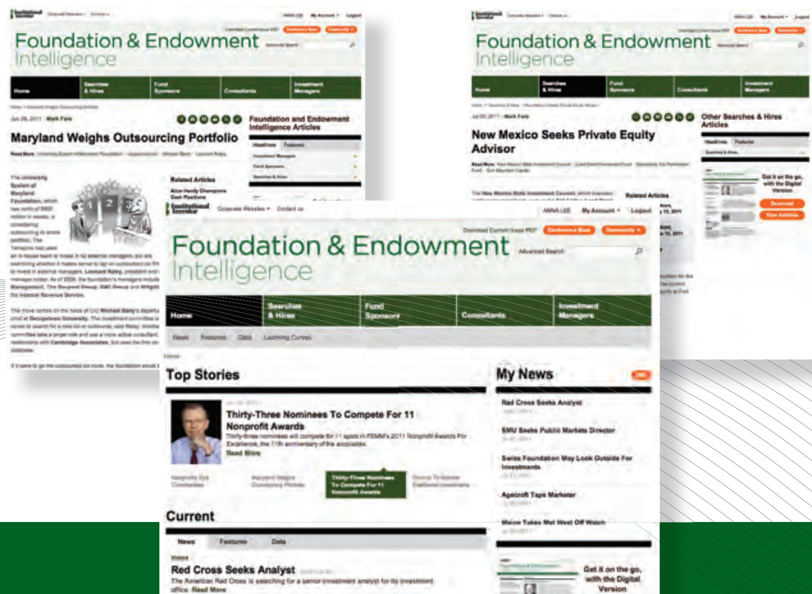

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investments and treasury operations. For investments, the endowment uses **Morgan Stanley** as a consultant, and the new hire will work with the firm and be the primary liaison with the investment committee, said Greene. The new hire will also be tasked with cash management responsibilities, so the ideal candidate will be someone working in a treasury function that has the qualities of a cio, he explained.

To assist with the search, Stevens has tapped the assistance of **Judy Van Gorden**, who was previously treasurer for **Arizona State University Foundation** and formerly cio and treasurer at **University of Colorado**. Greene noted that she was not in the business of recruiting but nevertheless agreed to assist with the search as a consultant. Stevens opted to involve her in the process because she has experience with the hybrid role and also has numerous industry contacts through her involvement with the **National Association of College and University Business Officers**, he explained.

Arkansas Seeks Cash Manager

The **University of Arkansas** is searching for an investment professional to manage its treasury operations. The Razorbacks are looking for a new investment manager because the incumbent, **Allen Lacy**, is retiring. He told *FEI* that he is stepping down in the next few months after 31 years at the school.

The cash portfolio is managed by four firms: **Bank of Oklahoma**, **Bank of America**, **Fidelity** and **AIM**. The quartet was hired last year to manage about $40 million (*FEI*, 4/9/10). The move was to replace **Commonfund**'s *Short Term Fund*, which ran into trouble in fall 2008 due to a liquidity crunch and was forced to halt redemptions. Arkansas was able to recoup its entire investment, but was inconvenienced by the liquidity issue, explained Lacy.

The school's endowment is separate, and is managed by the **University of Arkansas Foundation**.

Marketing

HedgeMark Hires Dubrovay

Jaeson Dubrovay

HedgeMark International has hired **Aksia**'s **Jaeson Dubrovay** as managing director, portfolio solutions. The firm has also hired **Kristoffer Houlihan** as managing director, portfolio risk solutions and **Stephanie Kakalios** as director of project management.

A HedgeMark spokesman declined to comment on the reason for the new hires or how they fit in with the firm's long-term strategy. CEO **Kenneth Phillips**, in a prepared statement, said Dubrovay and Phillips will be instrumental in communicating the firm's capabilities to prospective clients and investment advisors. The firm's operations team, he noted, would benefit directly from her leadership experience.

Dubrovay had been a partner at New York hedge fund consultancy Aksia. Prior to that, he was a consultant at **NEPC**. While at NEPC, he won *FEI*'s Consultant of the Year award in 2009.

Houlihan had been a director in risk management at Irvine, Calif.'s **Pacific Alternative Asset Management Co.**, while Kakalios had most recently served as coo at **R.G. Niederhoffer Capital Management**.

Fund Focus

Rotary Endowment Eyes Global Tactical Asset Allocation

Jeanette Hamilton

Rotary International is considering adding a $40 million global tactical asset allocation strategy to its $220 million endowment. The addition was recommended by the firm's consultant, **NEPC**, as a way to reduce equity risk and introduce flexible-mandate managers, said CIO **Jeanette Hamilton**. A final decision will be made at a board meeting at the end of the September.

Hamilton noted that the allocation, if made, would likely be given to a short list of managers–including **PIMCO** and **GMO**–being recommended by NEPC. The new allocation would be funded by reducing the allocation to U.S. equity and other holdings.

With 1.2 million members across the globe, Rotary International has both an endowment and a foundation. The endowment–called the permanent fund–allocates 30% to U.S. equities, 25% to non-U.S. equities, 10% to non-core bonds, 5% to core bonds, 9% to real assets, and 7% to hedge funds, 7% to real estate and 7% to private equity. It returned 24% for the fiscal year ending June 30.

If the global asset allocation is made, it would constitute 18% of the total fund and be funded primarily with monies from U.S. equity, which would drop to 18% of the total fund. The remaining funds would come from non-U.S. equity and bonds.

The $380 million foundation–called the annual programs fund–supports health, education and poverty-fighting initiatives throughout the world. It targets 20% to U.S. equity, 20% to non-U.S. equity, 35% to fixed income, 10% to real assets, 10% to real estate and 5% to hedge funds. This fund has adequate global exposure, Hamilton said, and the organization is pleased with its asset allocation. It returned 21.5% for the fiscal year ending June 30.

Rotary also has a $120 million *PolioPlus* fund, which funds polio-eradication initiatives worldwide. It is entirely invested in low-risk fixed income.

Managers

Rotary International currently uses 20 managers to serve its funds. These include PIMCO for core fixed income, **Westfield Capital Management** for U.S. equity; **Adams Street** and **Mesirow Financial** for private equity; **Grantham**, **Mayo**, **Otterloo** for international equity; and **UBS Global Asset Management** for real estate.

Hamilton and her team look for managers with consistent performance over at least the previous five years and a stable management team. "It's hard not to look at performance, but we don't terminate managers for short-term poor performance by itself," she noted. Rotary will terminate managers if they don't meet performance objectives over a full market cycle, as well as those that lose one or more key investment professionals, and those that undergo organizational changes, such as mergers and acquisitions.

The organization works with **Kristin Reynolds**, a senior consultant in **NEPC**'s endowment and foundation consulting team. Reynolds performed a comprehensive review of the funds after coming on board less than two years ago.

BNY Mellon has served as Rotary International's custodian bank since 2005.

Personal

Hamilton works from Rotary International's headquarters in Evanston, Ill. She has overall responsibility for the organization's investments, cash and currency management, insurance and risk management functions. She has over 30 years of experience in the investment and treasury area and has been with Rotary for the past 16 years. Prior, she worked at **Children's Memorial Medical Center** and the **Balcor Company**.

> "It's hard not to look at performance, but we don't terminate managers for short-term poor performance by itself."
>
> **—Jeanette Hamilton, Rotary International**

She earned her B.A. in economics from **St. Olaf College** and her MBA from the **University of Chicago**. She is a CFA charter-holder and a member of both the **CFA Society of Chicago** and the **CFA Institute**. She also is a Certified Treasury Professional and a member of the **Association for Financial Professionals**, and holds the Associates of Risk Management (ARM) designation.

Hamilton lives in Lincolnshire, Ill., and in her free time enjoys golfing, biking, hiking, photo journaling, reading, cooking and vacationing with her husband and adult children.

Consultant Viewpoint

U.S. Debt Downgrade: Weathering Market Corrections

***By* MaryAnn DiMaggio*, managing director and head of global fixed income research,* Clearbrook**

Standard & Poor's Aug. 5 downgrade of the U.S. long-term debt rating from AAA to AA+ created a host of short- and long-term impacts for investors. The downgrade, which is the first ever for the U.S., was realized in part by S&P's forecast for the continued growth of U.S. debt coupled with a greater level of political uncertainty in dealing with the country's overall debt burden. The ratings outlook was deemed negative, implying that another downgrade is possible. While **Moody's Investors Service** and **Fitch Ratings** affirmed the U.S.'s rating at AAA, they too share this negative outlook.

The immediate reaction from the market has been an increase in volatility–four straight days of 400 plus point moves, the most in the **Dow Jones** Industrial Average's history. But while these wild swings might not immediately dissipate, it's important for institutional investors to remember that their portfolios are geared for the long term–thoughtful asset allocation based on long-term capital market assumptions, disciplined rebalancing around policy targets and a modest allocation to tactical or opportunistic investment buckets will serve them well.

There are, however, immediate opportunities for institutional investors who are looking for attractive returns relative to the risk that was created with the recent market dislocation. The current market represents an ideal time to dust off investment policy statements and rebalance portfolios accordingly.

First, let's look at the facts–the U.S. has the deepest and most-liquid capital markets in the world. Prior to the downgrade, U.S. Treasury and government agency debt securities accounted for more than 50 percent of the world's AAA paper. The downgrade should not impact the liquidity or safety of this investment. In fact, economic weakness, equity market volatility and flight-to-quality flows could spark increased demand for U.S. government securities.

Immediately after the downgrade, the **Federal Reserve** and other government agencies indicated that risk weights for U.S. government securities as they relate to capital requirements for banks would not change. This should alleviate any concerns surrounding bank capital. Elsewhere in the markets, it is likely that collateral posting requirements of U.S. government securities will increase to some extent, particularly if volatility continues, effectively reducing leverage.

Given the current macroeconomic and financial market environment, short term strength will be evident in gold, safe-haven currencies such as yen and Swiss franc, higher rated non-European sovereigns such as Mexico, Brazil, Canada and Australia, and in high quality U.S. company stocks and bonds. This movement into higher quality credits has been exacerbated by the realization that a global economic slowdown is upon us, particularly in the U.S. and Europe.

There might also be some "knock-on" effects in markets that rely on the U.S. government for employment or financial disbursements. Moody's has placed several AAA-rated states on watch, including Maryland, Virginia, New Mexico, South Carolina and Tennessee. Municipal bonds such as healthcare or housing bonds, backed by agencies reliant on government disbursements, could also see a negative impact.

Over the long term, the political brinksmanship on Capitol Hill followed by the ratings downgrade could heighten the focus of foreign central banks in diversifying away from the U.S. dollar. Given this outlook, a traditional balanced portfolio of U.S. stocks and bonds should also include allocations to real assets, alternative strategies and diversification into emerging markets.

The dramatic short term decline in risk assets presents an opportunity to rebalance these allocations back to within policy targets and potentially profit from their rebound in value. Specifically, equities as represented by the S&P 500 are now trading at 11.8 times 2011 earnings and many stocks carrying an AAA credit rating are yielding above 3%. With economic growth estimated to slowdown to a steady but middling 1.5%, this presents a good environment for high yield debt, which has seen yields rise back up to 7.50% to 8.00%, approximately 6.00% plus above Treasury rates.

Emerging Market Bond Index (EMBI) spreads have increased by 50% over the past several weeks, and sovereign debt of highly rated countries on a local currency basis would provide a competitive yield as well as the potential for currency appreciation versus the dollar. Lastly, bank debt has declined in value during this correction, providing a competitive yield that would reset as interest rates rise, providing investors with some capital appreciation.

Institutional investors should not overreact to the debt downgrade by one rating agency when the depth and liquidity of U.S. capital markets continues to exhibit long-term strength. Attractive opportunities exist but investors would be wise to stick with a long term investment discipline.

***MaryAnn DiMaggio** is managing director and head of global fixed income research at **Clearbrook**, an independent investment consulting firm. She was previously with **Evaluation Associates**.*

MaryAnn DiMaggio

Asset Class

Investors Tepid

(Continued from page 1)

Clearbrook Global; **Michael Welz**, v.p. and senior investment strategist at **USI Consulting Group**; and **Jonathan Satovsky**, chairman and ceo of **Satovsky Asset Management** about junk bonds' place in nonprofit portfolios in the coming months.

FEMM: ***Should nonprofits increase or decrease their high-yield bond holdings?***

Mark Okada

Okada: We believe nonprofits should decrease their high-yield bond holdings and instead allocate more to senior secured bank loans. Bank loans are floating-rate, so they provide a hedge against rising interest rates. Senior secured loans are also providing protection in an economic slowdown. Historically, that security has helped loans experience only half of the default losses of high-yield bonds. On top of all this, the loan market is still wide to its historical averages, as opposed to high-yield bonds.

Jonathan Satovsky

Satovsky: We recommend that non-profits limit high-yield bond exposure to between 0-10% of an overall portfolio. The central debate of the long-term health of our economy is the true health of the U.S. banking system. If our banking system is healthy and vibrant, [banks] can extend credit and lending to companies that get into a cash flow squeeze. On the other hand, if our banking system has a significantly longer time frame, many high-yield bonds may run through cash and risk default and significant difficulties in a bumpy economy.

Welz: High yield has experienced a significant rally over the last two years. From an average price of 55 cents on the dollar with an average yield of about 20%, the asset class recently traded at a premium with a yield of less than 7%. Under these conditions, the capital appreciation potential appears to be much less appealing than two years ago and may now be insignificant.

Ng: High yield is a paradox right now, as the tremendous rally in the high-yield market has pushed bond prices to a premium above par, and now yields are at an all-time low. Conversely, the high-yield market with an average yield of approximately 6.5%, is trading at one of the widest spreads against Treasury securities in history, due to the generational low rates we are seeing in the Treasury market. Investors are chasing yield and companies are issuing bonds at a record pace. Corporations can lock in low rates and get low-cost financing, so they are terming-out their borrowing costs. This has helped drive the default rate on high-yield debt to less than 1.5%, very low by historical standards.

FEMM: ***How are interest rates trending, and how will it affect the issuance of high yield bonds?***

Satovsky:. In the intermediate- to long-term, there is little room for continued declines in interest rates unless we slip into Japanese-like economic malaise, which appears to be an increasing possibility. With long-term risks of rising interest rates and possible credit spreads widening, the risk/return characteristics are certainly less compelling at this point in time. Presuming our economy is on the mend in the coming several years, at some point the Fed will have to begin a longer period of tightening.

Ng: Unemployment and rising oil prices have put a drag on the economy. The general wisdom is that interest rates will remain artificially low for at least the next year to combat that drag. Corporations are taking advantage of this environment to refinance existing bonds and improve their balance sheets, which is evidenced by the number of new bond issues that have come to the market in 2010 and 2011. There was $155 billion in new corporate bonds issued last year. The projection for 2011 is $235 billion. One of the side effects of this increase in issuance due to the low interest rate environment and voracious appetite for higher yields coming from investors is the quality of the bonds being issued has declined. The greater the number of lower credit-quality high-yield bond issues that come to market, the higher the probability that default rates will begin to climb.

> “Investors are chasing yield and companies are issuing bonds at a record pace.”
>
> **—Tim Ng, Clearbrook Global**

Okada: Currently, new issuance is at record levels because borrowers want to price their debt now, before interest rates rise. But with uncertain timing, moving into some interest rate protection assets like TIPs or T-Bills can create a very high opportunity cost with low returns if a nonprofit's timing is off. Moving into bank loans gives you interest rate protection at a much lower opportunity cost, as we believe loans should outperform the other floating rate alternatives.

FEMM: ***How is Standard & Poor's downgrade of U.S. credit affecting the high yield market?***

Ng: Over the long term, the political brinksmanship on Capitol Hill followed by the ratings downgrade could heighten the focus of foreign central banks in diversifying away from the U.S. Dollar. With economic growth estimated to slow down to a steady but middling 1.5%, this presents a good environment for high-yield debt, which has seen yields rise back up to 7.5-8%, approximately 6% plus above Treasury rates.

Okada: We do not believe the downgrade has had any significant direct effect on the high yield market. Perversely, the downgrade's most significant impacts so far is interest rates have fallen, not risen, and the **Federal Reserve**'s very bold response to leave rates low for two years, which is very stimulative. The high-yield bond and loan markets have fallen in recent weeks, but that is due to fears of economic slowdown or even a recession, not because of the downgrade. We have seen technical pressures, such as retail mutual funds selling due to investor outflows, not fundamental drivers.

FEMM: *High-yield bonds are volatile investments. How do they fit into a portfolio?*

Welz: High-yield bonds are not the typical fixed income investment due to some equity-like characteristics. While volatile on a stand-alone basis, high-yield offers diversification potential for an investment portfolio. It fits into a portfolio as a bridge between equity and fixed income. Attractive yields can help institutions to fulfill cash flow needs. Additionally, in a recovering economy the high yield investor can benefit through attractive total return.


Michael Welz

Okada: Looking at volatility in a vacuum is shortsighted. When you look at the facts, you see that high-yield bonds and bank loans compare very favorably to other asset classes. Over the last 20 years, the Sharpe Ratio of high-yield bonds is 0.66 and bank loans is 0.5. Compare that to the S&P 500 at 0.34, commodities at 0.07, and REITs at 0.39. During the same time period, loans have had a lower standard deviation than investment-grade bonds, treasuries, equities, REITs, and commodities; high-yield has been lower than equities, REITs, and commodities.

> "The high-yield bond and loan markets have fallen in recent weeks, but that is due to fears of economic slowdown or even a recession, not because of the downgrade."
>
> **—Mark Okada, Highland Capital Management**

Satovsky: We see them as long-term positions used to supplement yield for more income-oriented investors; we do not typically recommend that an investor's core bond exposure be allocated to high yield as high volatility and potential liquidity problems, amongst other things, can make them inappropriate to hold in large amounts for many investors. When yields are extremely wide and interest rates are trending down, as had been the case from 2008 to present, they can play a fantastic equity alternative since they are higher up in the capital structure and can be first claim as creditor of corporation in default.


Tim Ng

Ng: High-yield bonds can provide some insulation as interest rates go up because of the differential between non-investment and investment grade returns. High-yield bonds can provide diversity to a portfolio versus the volatility and returns seen from traditional equity and fixed income investments, while in some instances they can produce an equity-like return if they are purchased at the right time of the cycle. But due to the higher return and higher volatility nature of high-yield bonds, the position should be sized according to an investor's tolerance for risk.

Search Directory

The following directory includes search and hire activity from news and information service iisearches for the month ending Wednesday, May 25. The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed. The Potential category includes early notice of potential future activity and should not be construed as an ongoing search. All amounts are in US$ millions unless otherwise stated. To report manager hires and new searches, please call **Jabez Grant**, deputy data editor, at (212) 224-3936 or email at jgrant@iinews.com. The below is a snapshot of activity; for more information, including access to RFPs and contacts, please visit iisearches.com.

Potential Searches

Fund & City	Total Amount	Assignment	Account Size	Consultant	Comments/Firm Hired
St. Olaf College, Northfield, MN	USD335	U.S. / Private Equity	N/A	Hammond Associates / Mercer, St. Louis	The endowment may increase its 13% exposure to private equity. If it decides to make further commitments, it would likely be to new funds being raised by incumbent managers. The endowment invests in funds of funds for the asset class and prefers to work with existing managers because it has already conducted due diligence and feels comfortable with the firms.
St. Olaf College, Northfield, MN	USD335	U.S. / Alternative / Real Assets	N/A	Hammond Associates / Mercer, St. Louis	The endowment may up its exposure to real assets, currently at 10.5%. If it decides to make further commitments, it would likely be to new funds being raised by incumbent managers. The endowment invests in funds of funds for the asset class and prefers to work with existing managers because it has already conducted due diligence and feels comfortable with the firms.
University of Illinois, Urbana, IL	USD290	U.S. / Real Estate	N/A	Hewitt EnnisKnupp (formerly Ennis, Knupp & Associates), Chicago	The endowment is planning to search for real estate managers following a study conducted by its investment advisor, Hewitt EnnisKnupp. Its new asset allocation calls for a 7% core real estate allocation.
University of Illinois, Urbana, IL	USD290	Global / Active Equity	N/A	Hewitt EnnisKnupp (formerly Ennis, Knupp & Associates), Chicago	The endowment is mulling searches for global equity managers, following a study conducted by its investment advisor, Hewitt EnnisKnupp. Its new asset allocation calls for a 24% allocation to the asset class.
University of Illinois, Urbana, IL	USD290	U.S. / Hedge Funds	N/A	Hewitt EnnisKnupp (formerly Ennis, Knupp & Associates), Chicago	The endowment is mulling searches for hedge fund managers, following a study conducted by its investment advisor, Hewitt EnnisKnupp. Its new asset allocation calls for a 10% hedge fund allocation.
University of Texas Investment Management Co., Austin, TX	USD27,300	Emerging Markets / Multi Asset	N/A	Cambridge Associates, Boston	The fund is looking at boosting investments in frontier markets, such as Africa, Asia (excluding India and China) and South America (excluding Brazil). It already invests around 2-3% of its portfolio in the space, which could be increased to 4-5%. The exposure includes public and private equity, and although there is no specific target, it would likely commit $50-250 million for public equity and $50-150 million for private equity.
Renfrewshire Council	GBP13	Global / Multi Asset	GBP13	Hymans Robertson	The fund will make decisions on whether to extend or tender the contract of incumbent multi-asset manager Newton Investment Management in March as part of it due diligence process. It is satisfied with performance and may take the option of extending the current contract for another two years when it concludes in April 2012.
University of British Columbia Endowment Fund	CAD950	Canada / Real Estate	N/A	None	The fund is eyeing additional real estate commitments. It invests around 7.3% in the asset class but has a 10% target. Its main interest is Canadian real estate as it believes the market is more stable than the U.S. and Europe.
University of British Columbia Endowment Fund	CAD950	Emerging Markets / Active Equity	N/A	None	The endowment is planning to search for an emerging markets equity manager following an asset review, which carved out a maiden 10% allocation to the asset class. It has allocated about 3% to an index fund run by State Street Global Advisors, and plans to seek at least one manager to actively manage the remaining 7% by year's end.

New Searches

Fund & City	Total Amount	Assignment	Account Size	Consultant	Comments/Firm Hired
Nevada System of Higher Education Endowment, Reno, NV	USD216	U.S. / Consultant	N/A	None	The system has issued a request for proposals seeking an investment consultant for its endowment fund. All proposals are due Sept.1 with a selection slated for Dec. 1.
Oklahoma Tobacco Settlement Endowment Trust Fund, Oklahoma City	USD650	U.S. / Consultant	USD650	None	The fund has issued a request for proposals for investment consulting services. The RFP responses are due Sept. 26.

For more searches and hires, check out FEI's data section at foundationendowment.com.

Chicago To *(Continued from page 1)*

opting to boost credit-oriented investments during the crisis. The staff has now switched its strategy to ensure returns and liquidity. Schmid declined to quantify the endowment's public global equity exposure, but noted the move would involve looking both at incumbent managers and new firms.

Chicago has a strategic asset allocation that views the portfolio from a "total enterprise" approach, taking into account several factors such as the entire university's balance sheet, 10-year budget projections and leverage, said Schmid, who came on board in the summer of 2009, having previously been the cio of **Boeing**'s defined benefit plan. Since his arrival, the school has been more focused on risk management: one of his first moves was to search for a chief risk officer. ***—M.F.***

British Columbia *(Continued from page 1)*

investment operations for **UBC Investment Management Trust**. UBC is also eyeing more investments in infrastructure and real estate.

The Thunderbirds previously did not have dedicated exposure to emerging markets equity, instead relying on exposure through its international equity managers. It decided to carve out a 10% allocation because there will be better returns long-term in those markets than in developed countries, said Polishak. UBC allocated about 3% to an enhanced index fund managed by **State Street Global Advisors** and the remaining 7% will be actively managed. The plan is to search for at least one manager, and the process could be well under way by the end of the year, said Polishak. The Thunderbirds have just started eyeing prospective managers and have not yet decided on criteria for the search, he added. The play will be funded by reallocations stemming from the review, including using the to-be vanquished hedge fund slug, and reducing U.S. and international equity.

The school is in the process of redeeming its hedge fund holdings with **Arden Alternative Advisors**, **BlackRock Alternative Advisors**, **Blackstone Alternative Asset Management** and **Diversified Global Asset Management**. The board decided to eliminate the allocation due to concerns about fees and transparency, said Polishak. This means hedge funds are off the table for the next two to three years, he added.

The Thunderbirds also decided to increase their exposure to infrastructure. The school now invests around 3.3% but there is a 5% target. UBC invests with **Kindle Capital Management**, **Macquarie** and **RREEF Infrastructure**. The school's investment in Kindle is appealing because it offers a chance to invest alongside other Canadian institutions on syndicated deals, said Polishak. One possibility could be to invest more with the firm, but options such as investing in other infrastructure managers are also on the table, he added.

UBC is also eyeing real estate. It invests around 7.3% in the asset class but has a 10% target. The main interest is Canadian real estate because the market is more stable than the U.S. and Europe, said Polishak. ***—Mark Faro***

Hershey Trust *(Continued from page 1)*

spokeswoman.

Roughly half the portfolio consists of **The Hershey Company** stock, with the remainder invested in various asset classes. The former investment chief was **David Rudisill**, who retired earlier this year after 35 years. In 2009, he earned a total of a little more than $1 million, according to a filing with the **Internal Revenue Service**.

Hershey is looking for someone with investment expertise who also can fill the leadership role of a ceo, said **David Barrett**, founder of David Barrett Partners. The hire will be the public face of the organization and will deal with the **Pennsylvania Banking Department** and **Pennsylvania Attorney General**'s office, he added. Also, given the large holding of Hershey stock, the person will deal with the chocolate company itself. Hershey is eyeing candidates from endowments, foundations, family offices and asset management firms, said Barrett. ***—M.F.***

Quote Of The Week

"I am not interested in getting 20 basis points for holding [U.S.] Treasuries for a year or two."—**John Jesse**, associate v.p. of finance at **Creighton University**, on why the school is considering investing in international fixed income for the first time (see story, page 3).

FINAL WORD

Investment Committees & Gold Fever

If you've watched at least an hour of cable television over the past few weeks, you've no doubt seen an increase in advertisements for investing in gold. These corny spots feature the likes of **G. Gordon Liddy**, of Watergate scandal fame, pitching the services of **Rosland Capital**, and nine-time Olympic gold medalist **Mark Spitz** hawking the virtues of **Lear Capital.**

What does this mean for endowment cios? Investment committee members—some of whom, no doubt, believe TV commercials over your expertise—will start calling asking why you don't have any gold bullion stashed away underneath the university's football stadium. Trying to rationalize with these people will get you nowhere. How could they resist the allure, given that high-profile people whose heydays were in the 1970s are now telling them to buy gold? It's only a matter of time before **KC & The Sunshine Band** drink the shimmering Kool-Aid, and then it will be too late to discuss your views on the dollar and inflation.

Perhaps the best response to the investment committee is to tell them it's not the right time. Until a celebrity from at least the 1990s starts going on about gold investing, any decision would be way too premature. Then start worrying when some down-on-their-luck *Friends* cast member starts extolling the virtues of bullion.