

Foundation & Endowment Money Management

The monthly issue from Foundation & Endowment Intelligence www.foundationendowment.com

In This Issue

UNCF Eyes Credit

The **United Negro College Fund** is considering strategies that will help it capture market volatility for its \$100 million endowment and is interested in funds that focus on credit markets.

See story, page 2

At Press Time

Mercer: Time To Change Manager Selection 2

Searches & Hires

Northwest Foundation Eyes Real Assets 4

Texas School Considers Euro Distressed Debt 4

Arizona Fund Seeks Consultant 4

International Searches & Hires

HK School Weighs EM Managers 5

German Foundation Keeps Strategy 5

People

Klotter Heads To R.V. Kuhns 6

Marketing

University Inflation Increases 8

Departments

Conference Coverage 8

Fund Focus 15

Search Directory 19

COPYRIGHT NOTICE: All materials contained in this publication are protected by United States copyright law and may not be reproduced, distributed, transmitted, displayed, published, broadcast, photocopied or duplicated in any way without the prior written consent of Institutional Investor. Copying or distributing this publication is in violation of the Federal Copyright Act (17 USC 101 et seq). Infringing Institutional Investor's copyright in this publication may result in criminal penalties as well as civil liability for substantial money damages. ISSN# 1529-2355

Top Stories

Hartford HealthCare Reviews Domestic Equity

Hartford HealthCare, a hospital system in Connecticut with a \$700 million endowment and \$1 billion defined benefit plan, is reviewing its U.S. equity investments, which total around \$500 million. It then plans to study its fixed-income portfolio, which is worth around \$300 million. The reviews stem from the formation of a system-wide effort earlier this



(continued on page 20)

Mizzou Overhauls Equity Portfolio

The **University of Missouri System** has revamped its equity portfolio, switching from domestic/international mandates to global equity for its \$1 billion endowment and \$2.7 billion defined benefit plan. As a result of the shakeup, five new managers were added, while six mandates were terminated, said **Tom Richards**, treasurer. Mizzou made the play because now there is less of a distinction between U.S. and non-U.S. equities due increasing correlations.

(continued on page 20)

Greek Tragedy?

Investors Warm To European Private Equity

Despite a raging financial crisis in Greece that is threatening the entire Euro zone, the appetite for European private equity is going strong. To find out why, *FEI* Contributing Reporter **Joseph D'Allegro** cast a wide net, snagging commentary from two officials from **Cambridge Associates**—**Miriam Schmitter**, managing director of ex U.S. private equity research and

(continued on page 17)

Nonprofit Awards For Excellence

UTIMCO, Virginia Tech Take Top Honors

The **University of Texas Investment Management Company** and **Virginia Tech Foundation** won accolades at *FEI*'s annual awards ceremony on Sept. 18 when they were named Large Nonprofit and Midsize Nonprofit of the year, respectively. **Laurance Hoagland**, cio of **The William & Flora Hewlett Foundation**, was also honored at the **Fontainebleau Miami Beach** with a Lifetime Achievement Award. This year's event, co-hosted by *FEI* and **Information Management Network**, also recognized several other firms and individuals. For more details on the winners, see page 8.

At Press Time

UNCF Eyes Credit Opportunities

The **United Negro College Fund** is considering strategies that will help it capture market volatility for its \$100 million endowment and is interested in funds that focus on credit markets. CIO **Gerald Chen-Young** told *FEI* that he's interested in funds that focus on volatility-capturing, particularly within the credit space. This is different from many investors that consider volatility strategies as mostly long volatility plays.

UNCF is also keen on emerging markets debt denominated in local currencies. Chen-Young said he liked longer-duration exposure because of its beta carry, and he isn't overly concerned with the inflation scare in emerging markets. While individual markets might face inflation challenges, that's not the case across the board, he said.

Should Funds Change Manager Selection Methods?

Manager selection is gaining a growing importance amid volatility and scarce return opportunities, but **Mercer** proposes moving away from a quantitative and desk approach to a combined qualitative and on-site analysis. That approach seeks to understand the funds offered by managers and how they work on the one hand, and engage with the manager through meetings and discussions on the other. "The former looks at past performance, while the latter is future-oriented," said Researcher **Peter Hegglin**, speaking at Mercer's *Investment Symposium* in Zurich.

For Mercer, four factors affect manager selection: idea generation, analysis and investment philosophy; the portfolio construction process; the implementation of the investment process, including consideration for regulations and risk controlling; and the way a particular fund fits into the overall strategy of the firm. When considering these issues, Mercer usually makes a long list of managers, which is then reduced to a short-list through discussions with the client and a beauty contest. The consultant may also advise its client on any changes affecting the situation during the life of the mandate.

The advantage of the qualitative engagement selection method is that it focuses on detail, provides greater insight and sustainable results. However, it is pricey and consumes more time and resources than a quantitative desk approach. This is quicker and more affordable, but in Mercer's opinion offers only short-term, superficial advice. Hegglin pointed out that it is important to consider how a product fits into the overall portfolio of a client, as well as the controlling and monitoring capabilities of a manager, fees and liquidity issues, alongside looking at the firm's historical performance.

Yoder, Ambrose & Rittereiser Sound Off

Want to see F&E's best and brightest in action? Head over to www.foundationandendowment.com. We caught up with **Jay Yoder**, head of real assets at **Altius Associates** and head of the investment committee for **Albright College**, and asked him about real assets and managing a smaller endowment. *FEI* also speaks with **Colin Ambrose**, cio of **UJA Federation of New York**, on emerging markets, and **Cathleen Rittereiser**, director of investor relations at **Concordia Advisors** and co-author of *Foundation & Endowment Investing*, on the qualities of top cios. Visit the Community Section of www.foundationandendowment.com to see the videos.

Foundation & Endowment Intelligence

EDITORIAL

Steve Murray
Editor

Tom Lamont
General Editor

Veronica Belitski
Executive Editor
(212) 224-3297

Mark Faro
Managing Editor
(212) 224-3813

Stanley Wilson
Washington Bureau Chief
(202) 393-0728

Louis Pope
Data Editor *iisearches*
(212) 224-3211

Jabez Grant
Deputy Editor *iisearches*
(212) 224-3211

Alexandra Scaggs
Reporter
(212) 224-3610

Kieron Black
Sketch Artist

PRODUCTION

Dany Peña
Director

Deborah Zaken
Manager

Melissa Figueroa,
James Bambara,
Douglas Lee
Associates

Jenny Lo
Web Production &
Design Director

ADVERTISING

Adrienne Bills
Associate Publisher
(212) 224-3214

Patricia Bertucci
Associate Publisher
(212) 224-3890

PUBLISHING

Graham Chitty
Publisher
(44-20) 7779-8798

Anna Lee
Marketing Director
(212) 224-3175

Ronda DiMasi
Senior Marketing Manager
(212) 224-3569

Vincent Yesenosky
Head Of US Fulfillment
(212) 224-3057

David Silva
Senior Fulfillment Manager
(212) 224-3573

SUBSCRIPTIONS/ ELECTRONIC LICENSES

One Year \$2,825
(In Canada Add \$30
Postage, Others Outside
U.S. Add \$75)

Steve McDermott
Account Executive
(212) 224-3466

George Wittman
Client Development Manager
(212) 224-3019

Keith Arends
Account Manager
(212) 224-3533

REPRINTS

Dewey Palmieri
Reprint & Permission Manager
[New York] (212) 224-3675
dpalmier@institutional
investor.com

CORPORATE

Jane Wilkinson
Chief Executive Officer

Allison Adams
Group Publisher

Steve Kurtz
Chief Operating Officer

Customer Service

Po Box 5016, Brentwood,
TN 37024-5016.

Tel: **1-800-715-9195**
Fax: **1-615-377-0525**

UK: **44 20 7779 8704**

Hong Kong: **852 2842 6910**

E-Mail:
customerservice@iintelligence.com

Institutional Investor Hotline
(212) 224-3570 and
(1-800) 437-9997 or
Hotline@iintelligence.com

Editorial Offices

225 Park Avenue South,
New York, NY 10003

Foundation & Endowment
Money Management is a general
circulation news monthly. No
statement in this issue is to be
construed as a recommendation to
buy or sell securities or to provide
investment advice.

Foundation & Endowment
Money Management ©2011

Institutional Investor, Inc.
Issn# 1529-2355

Copying prohibited without the
permission of the publisher.

 Institutional Investor
Intelligence

INTRODUCING Foundation & Endowment Intelligence

Foundation & Endowment Money Management, your trusted source for news on nonprofits' investment management, has evolved.

achieve

Your Exclusive Pipeline to Managing Investments for Nonprofits

Compete

Get beyond the headlines to the real details and perspectives affecting your performance.

Advance

In-depth monthly features providing deeper insight into the world of nonprofit institutional investment including fund sponsor profile & asset class features, Investor Insights and trend stories to get you up to speed on complex issues fast.

Achieve

Actionable sales leads of foundation and endowment funds looking for new CIOs, as well as our Search & Hire Directory- an interactive listing of nonprofit search & hire activity that are critical for winning business.

Engage

Snapshot polls and blogs on current market issues, podcasts, videos, industry events and more.

www.foundationendowment.com



Subscribe Today

You won't find this kind of Intelligence that boosts your chances for success anywhere else.

+1 800 437 9997 / +1 212 224 3570
hotline@iintelligence.com

Searches & Hires

Minnesota Foundation Eyes Real Assets

The roughly \$400 million **Northwest Area Foundation** is looking at opportunities in real assets. The St. Paul, Minn.-based foundation has carved out a 10% allocation to real assets, and is looking to fill the remaining 5% outstanding with strategies such as infrastructure and energy, said **Scott Kirby**, manager of investments.

Northwest recently allocated 2.5% to an active commodities strategy managed by **Blackstone** and 2.5% to Treasury inflation-protected securities. It was keen on adding real assets exposure because it is an inflation hedge and growth opportunity, said Kirby. There is continued demand for oil and alternative energy as well as infrastructure opportunities in emerging markets, he added.

The foundation is also examining its 35% equity allocation, which consists of both domestic and international strategies. Part of the review, which does not have a timeframe, is to consider emerging and frontier markets strategies, said Kirby.

Jeffrey Slocum & Associates out of Minneapolis advises the fund.

Abilene Christian Ponders Euro Distressed Debt



Jack Rich

Abilene Christian University is taking a look at European distressed debt for its roughly \$295 million endowment. The school invests around 3-5% in distressed debt, but that exposure is mostly U.S.-centric, said **Jack Rich**, president and cio of **Abilene Christian Investment Management Company**. The university is now keen on exploring dedicated European strategies, he added.

Abilene Christian has not determined a possible allocation size, but it plans to look at the space over the next six to 12 months, said Rich. It is interested because there are some market dislocations created by situations such as the sovereign debt crisis in Greece.

Arizona Land Fund Seeks Consultant

The **Arizona Permanent State Land Funds**, a \$3.15 billion public endowment fund, is searching for a consultant. The **Arizona State Treasurer's Office**, which has oversight of the fund, has issued a request for proposals, which is due Oct. 3.

No more than 60% of the assets can be invested in equities, with the remaining balance allocated to fixed income, according to the RFP. Respondents will be evaluated based upon costs (40%), experience (25%), methodology (25%) and conformance to the

scope of the work (10%). The contract will be for a three-year term beginning Nov. 1.

Further details could not be gleaned as calls to Deputy Treasurer **Mark Swenson** were not returned by press time. Among the endowment's beneficiaries are the **University of Arizona**, **Northern Arizona University** and **Arizona State University**.

Texas College Taps Bernstein

Brazosport College has hired **Bernstein Global Wealth Management** to manage its \$2.58 million endowment. The Lake Jackson, Texas-based school recently issued a request for proposals because its five-year contract with incumbent **Morgan Keegan** had expired (*FEI*, 6/11).

Three finalists provided presentations to the board: Bernstein, Morgan Keegan and **Merrill Lynch**. Brazosport opted for Bernstein because it was impressed with the firm's research capabilities, said **Ginger Wooster**, director of business services. It was also comfortable with Bernstein's performance, particularly the downside protection it provided clients in 2008, she added.

Volatility Funds Spark Institutional Interest

The **United Negro College Fund** and the **University of Connecticut Foundation** both are looking to invest in funds focused on volatility, while **General Electric Asset Management** is avoiding them in lieu of simpler defensive strategies, according to their presentations at the *Global Alpha* forum.

Gerald Chen-Young, the chief investment officer of UNCF, said he's looking for a way that strategies can capture recent market swings. But instead of going long the VIX Index, he's seeking firms that trade on multiple platforms, earning returns on each independently. The University of Connecticut Foundation is also seeking strategies that can get returns from volatility, along with strategies focused on niche areas like mortgage-backed securities, said CIO **Kevin Edwards**. But **Tomas Arlia**, cio of hedge fund strategies for GE Asset Management, says he's avoiding any funds linked to extreme market swings. "It's really hard to understand these volatility strategies and I wonder how many of you really understand these," he said.



Kevin Edwards

Arlia was also at odds with the other two panelists on global macro strategies. Both Chen-Young and Edwards said they're looking for a manager that can accurately predict how the global economy will move. There's a joust between inflationary emerging markets and deflationary developed-world economies, Chen-Young said. "Getting the read right in that tussle is important." Arlia, on the other hand, said that GE's hedge fund strategy won't depend

on getting the correct prediction. "I think, 'What is my downside scenario?'" he said.

All three investors agreed that if hedge fund returns don't outperform, there will be a flight to large hedge funds with a strong track record and implied quality. Plus, investors won't be willing to pay the normal 2/20 fees that hedge funds normally charge. Arlia predicts that funds will begin to tailor their offerings to the type of investor they want to target, and Edwards said that the largest investors – "mega-allocators" – will be able to get service beyond even high returns. The funds may begin to dictate fee schedules, and get "knowledge transfer," or extensive education on financial markets.

International Searches & Hires

Nobel Foundation To Replace Bond Manager

The SEK3.1 billion **Nobel Foundation** in Sweden plans to start a replacement search for an undisclosed fixed-income manager during the fourth quarter. CIO **John Vivstam** said the replacement is not due to performance but "other issues," declining to go into detail. The mandate size is \$10 million.

The foundation might also look for managers in other asset classes but further details on possible searches could not be ascertained. It regularly performs manager additions and terminations, Vivstam said. "We are leaving managers and getting new ones on board every year," he added.

Swiss Foundation To Switch Manager, Tap Into Infra

Zurich-based foundation **Vita Sammelstiftung** is planning to replace the manager handling its commodities portfolio for undisclosed reasons. Commodity investments are currently held in the *Sarasin Commodity Diversified* fund with **Bank Sarasin**, hedged into the Swiss franc; this part of the portfolio amounts to 2.83%. The manager could not be reached for comment.

Frank Keidel, who is in charge of corporate communications at Vita, explained that the board of trustees regularly reviews the investment strategy and manager roster and will be making a decision at the next assessment.

It also plans to increase its allocation to private equity and broaden its investment strategy by investing in infrastructure. At the end of last year, the foundation decided to reduce its tactical bonds allocation from 50% to 48%, raising the equity share to 21% and allocation to alternatives to 10% in response to the debt crisis. Since then, tactical allocation to bonds has been reduced further to 44.5%, and alternatives increased to 14%. Yet this year the biggest losers in the portfolio were the equity and alternative investments, which yielded negative returns in the second quarter. At the end of July, the performance of

the investment portfolio was -0.99% and the foundation was underfunded at 96.2%.

Hong Kong University Studies EM Managers

The **Chinese University of Hong Kong's** HKD4.1 billion endowment fund has shelved plans to hire an emerging market equities manager due to unfavorable market conditions. The school will reopen discussions at the next investment committee meeting in October, said Senior Finance Manager **Billy Tam**.

Emerging markets equities initially seemed like a promising investment to the fund's members, Tam explained. However, confidence in the asset class fell after recent events in the global market, causing the endowment to reconsider the move. "We're taking a look at the market but it's been going down, it's now not that promising," he acknowledged.

The search may be back on if the "wheels of the market change," Tam said. He did not disclose the potential mandate size, but said the university would either look into buying into a dedicated fund or would give the new manager an unconstrained mandate. The school would invite selected parties to make proposals if the committee approves the appointment in October.

The endowment now has one emerging market equities manager—**Capital International**—which handles an HKD100.7 million mandate. There are around 30 external fund managers in total. **Graystone Consulting** is the investment advisor.

German Foundation Keeps Strategy After Review

VolkswagenStiftung's internal team has completed an annual review of its global investment strategy and has decided that no changes are necessary. It used its own model to make a forecast for the year ahead. "Our returns on investments are barely above 0%, but this is to be expected in the current market conditions and we think we are well positioned in the long term," asserted **Dieter Lehmann**, cio in Hannover. He does not attribute the low returns to the external managers, since the foundation invests most of its assets passively, with an emphasis on diversification.

The German foundation's strategy is to allocate around 55% of its €2.8 billion portfolio to fixed income, which comprises both bonds and cash. At this time, 27.3% is invested in equity; half of this is allocated to blue chip companies within the euro zone, while the other half is scattered in stocks elsewhere. Around 15% is allocated to real estate, while the remaining 2.7% is invested in private equity. All investments in hedge funds were recently terminated and the manager taken off the roster, since the committee was unsatisfied with the returns of the asset class.

The investor now uses seven external managers, whose names Lehmann declined to disclose. Two of these hold equity mandates, two handle fixed income, one is retained for real estate and two for

private equity. They are in charge of 40% of total assets, while the rest are managed internally.

Dutch Transport Foundation Picks Asset Advisor

Pensioenstichting Transport in the Netherlands has selected fund manager and fiduciary firm **TKP Investments** to deliver strategic advisory services and investment administration. This covers the risk management and monitoring of all investments, as well as the conducting of asset/liability matching studies and reporting, said **Roelie van Wijk**, ceo of TKP. "We will integrate all of their managers into our platform, combine that in our reporting and show them where the risks are to give strategic advice on it," she said.

Hans Kestens, chairman of the €700 million fund, said TKP's expertise in the Dutch market helped seal the deal. The fund is confident that the firm has knowledge of all aspects of asset management and investment administration.

Transport previously managed the services internally. All its external managers remain the same, and the fund has decided to remain in charge of manager replacement and selection decisions, van Wijk said.

Scottish University Starts Strategy Review

The pension scheme for non-academic staff at the **University of Glasgow** has completed its triennial actuarial valuation and has begun a strategy review with recently appointed actuary and consultant **Hymans Robertson**. "In the short-term we may move some of our assets to some managed funds that have a lower risk profile but that promise equity-like returns," said **Jim Ross**, head of pensions. "Both our current investment managers offer these types of solutions," he added. The existing strategy is invested 100% in equity, split 60/40 between U.K. and international investments with **Newton Investment Management** and **BlackRock**.

People

Klotter Exits EnnisKnupp For R.V. Kuhns

R.V. Kuhns & Associates has hired **Ron Klotter**, principal at **Hewitt EnnisKnupp** focused on endowments and foundations, to be director of Midwest consulting. Klotter told *FEI* that he will be tasked with creating a Chicago-based practice for the firm, which until now only had a real estate team based in the Windy City. Klotter will continue to focus primarily on endowments and foundations, but will likely also seek corporate pension clients.

Portland, Ore.-based RVK is close to bringing on another

consultant, and with the real estate team, there will be around 7 people in the Chicago office. The aim is to staff up the office, and the headcount could double in the next 12-18 months, said Klotter. "There are a lot of good consultants here in Chicagoland," he noted.

Klotter, who was nominated by *FEI* for its consultant of the year award (turn to page 8 to see award winners), joined EnnisKnupp in April 2010 from **Ellwood Associates**, where he was that firm's endowment and foundation practice leader. He retained all but one client in the face of **Hewitt Associates** acquiring EnnisKnupp, only to have **Aon** purchase the newly-formed company shortly thereafter. Klotter told *FEI* that the successive mergers led to his departure because he wanted to be with an independent consulting firm.

A call to **Steve Voss**, principal at Hewitt EnnisKnupp who runs the firm's Chicago office, was not returned.

Commonfund Hires Consultant Relations Chief

Commonfund has hired **Lou Ann Dolan** from **TCW** to head its consultant relations effort. She replaces **Ralph Yearwood**, who left last month after five years on the job. Dolan has two staffers on her team, and the firm is searching for a third member of the consultant relations team, said **Keith Luke**, head of strategic planning.

Dolan was a managing director for consultant relations at TCW, a role she also previously held at **JPMorgan Investment Management**. She was also a consultant at **Mercer** and **Callan Associates**. Commonfund was attracted to her because of her experience on both the investment management and consulting sides, said Luke.

Yearwood had been planning to do something different, and the firm had been conducting a search while he stayed on until a successor was found, said Luke. Yearwood could not be reached for comment.

Endowment & Foundation CIO Searches

Fund	Old CIO	Head Hunter	Comments
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.
Milton Hershey School Trust	David Rudisill	David Barrett Partners	The trust is searching for a new cio

Source: **FEMM**

Foundation & Endowment Money Management Presents The...

11th Annual NONPROFIT AWARDS

SUNDAY, SEPTEMBER 18, 2011



FONTAINEBLEAU MIAMI BEACH, MIAMI, FL

Thank You to Our Sponsors

**Large Nonprofit of the Year
Award Category Sponsor:**



**Mid-Size Nonprofit of the Year
Award Category Sponsor:**



Table Sponsors:



commonfund



GC
GOLUB CAPITAL



P I M C O



For More Information On Attending Or Sponsoring Next Year's Awards, Please Contact:
Adrienne Bills, Associate Publisher, abills@iineews.com, 212-224-3214

Marketing

University Inflation Increases

University endowments are facing a higher rate of inflation as they enter their new fiscal years. The **Commonfund Institute's** Higher Education Price Index (HEPI) is measuring inflation at 2.3% for fiscal year 2011, up from 0.9% the previous year. This will affect endowments' investments because some schools use HEPI as a hurdle rate, said **William Jarvis**, managing director

at Commonfund. In a previous study, Commonfund found that of those schools that use HEPI, 23% use it as an investment benchmark or hurdle rate.

The move puts inflation back in line with 2009 levels and represents a turnaround from the past three years that have seen deflation. "The deflationary period appears to be tempering or reversing," said Jarvis.

Many universities prefer HEPI over the consumer price index because it is customized to consider more labor costs. Universities' costs are heavily driven by salaries and benefits, added Jarvis.

Foundation & Endowment Summit

Information Management Network held its Sixth Annual Foundations & Endowments Summit at Fontainebleau in Miami Beach last month. Managing Editor Mark Faro moderated a panel and covered the event.

Ford Foundation Eyes Downtrodden Managers

The roughly \$10.8 billion **Ford Foundation** is keen on managers with out-of-favor strategies. The New York-based giant is taking small positions in these strategies with the aim of rapidly increasing its investment when conditions improve, **Devana Cohen**, associate director, public investments, told attendees at **Information Management Network's Foundations & Endowments Summit**. She did not specify any specific out-of-favor strategies.

Ford is also interested in emerging and frontier markets. In this space, it has taken a core-satellite approach, said Cohen. Also focusing in this space is **Bucknell University**. CIO **Christopher Brown** said one concern is that the endowment's liabilities are all U.S.-dollar denominated.

financial crises, but there were too many players and too few opportunities, said **Jeffrey Haber**, controller of the \$700 million **Commonwealth Fund**. Now that the playing field has thinned out, there are better opportunities, he added.

Reporter's Notebook

- **Cataclysmic Event Coming: John Pomeroy**, cio of **Pennsylvania State University**, told attendees at **Information Management Network's Foundations & Endowment Summit** that the U.S. is due to have another crisis that would cause the country to get its fiscal house in order. "We're due to have another cataclysmic event or a series of them," predicted Pomeroy. He outlined a cyclic theory by which every so many years the country had gone through a major event, beginning with the Revolutionary War. This was then followed by such historic events as the Mexican War, Civil War, Great Depression and World War II. The subscriber to the cyclical economics theory said the country is two-thirds through a low point in the cycle.

Nonprofits Eye Distressed Debt

Nonprofits are increasingly turning their attention to distressed investment strategies. **The William & Flora Hewlett Foundation's** roughly \$7 billion portfolio increased its target to distressed investments to 15% from 10% last year. "It's a great distressed environment," CIO **Laurie Hoagland** told attendees at **Information Management Network's Foundations & Endowments Summit**. He describe the current recession as a monetary crash not seen since the 1930s. The situation could take another 5-10 years to improve, so there will be ample distressed investing opportunities, he added.

The roughly \$300 million **University of Connecticut Foundation** is also looking at distressed investments. The Huskies are keen on distressed opportunities in a number of asset classes, said CIO **Kevin Edwards**. Another player in the space is the \$600 million **Virginia Tech Foundation**. CIO **Daniel Ward** told attendees about an investment in a distressed manager focused on the airline industry.

Distressed investing became popular in 2008 during the

- **Toy Story:** After spending years in finance, there's not too much to be impressed with when it comes to conference swag. But **Deutsche Bank** aimed to please with little toy cars that accelerated when pulled back and let go. Perhaps knowing their largely American audience, the German bank selected cars that more resembled **Ford** Mustangs and other muscle cars as opposed to offerings from **Mercedes** or **BMW**. They seemed to be a hit, as one attendee even spent time playing with two during a panel on inflation.

- **SEC Slam:** One problem plaguing equity markets is high frequency trading, according to **James Hoover**, founder of **Dauphin Capital**, which managed the endowment of **Elizabethtown College**. Traders employing these tactics serve only to distort prices, and the **Securities and Exchange Commission** should take notice, he told attendees. "I wish the SEC would wake up," quipped Hoover.

2011 Nonprofit Awards For Excellence

Large Nonprofit of the Year

University of Texas Investment Management Company

The **University of Texas Investment Management Company** gets this year's gold star for its audacious investment in the precious metal. The firm built a hedging position by purchasing and taking delivery of \$750 million in gold bullion last year. The Longhorns' investment came in handy: the initial position was about 3% of the portfolio, but it's now ballooned to around 4.5%, **Bruce Zimmerman**, ceo, told *FEMM*.

UTIMCO, which manages around \$20 billion, is also at the forefront of other hedging plays, including a tail risk strategy managed with derivatives. The strategy is designed to provide insurance against low-probability events that could significantly erode the portfolio's assets. It recently upped the maximum allowable derivatives investments limit to 0.75% from 0.25%, partly to hedge against emerging markets continued growth, said Zimmerman. The other hedges are against inflation and sovereign defaults and should help cushion UTIMCO against widespread

sovereign downgrades, restructurings and defaults, he explained.

The Longhorns are also keen on exploring further niche investing. To assist in making such novel plays, UTIMCO also created three task forces last summer: portfolio positioning, credit and emerging markets. Among its unique investments is a \$200 million portfolio of Brazilian sovereign local currency inflation-linked bonds. The fund is also eyeing more opportunities in frontier markets, where it currently invests around 2-3% of its portfolio, but wants to boost that to 4-5%.

UTIMCO returned 16.8% for the fiscal year ending June 30, 2010, and was up a little over 20% for the fiscal year ending June 30, 2011. This beats many of its peers, as the average university endowment returned 11.9% for the fiscal year ending June 30, 2010, according to **NACUBO-Commonfund's** annual study. For the fiscal year that ended in June 2011, the average nonprofit returned 20%, according to the **Wilshire Trust Universe Comparison Service**.

Mid-size Nonprofit of the Year

Virginia Tech Foundation



Daniel Ward

The \$600 million **Virginia Tech Foundation**, led by Investment Manager **Daniel Ward**, has made a series of tactical plays over the past year far more progressive than many of its larger peers. The Hokies returned 19.6% for fiscal year 2011, putting the school solidly in the top

quartile of performers.

Last year, the fund invested in a distressed credit manager focusing on the airline industry and pharmaceutical royalties—niche plays that many larger peers might not make. Since then,

the Hokies have divested entirely from U.S. Treasuries as the fund doesn't see a long-term return possibility there, said Ward. There was a brief rally in Treasuries in August amid market volatility, but Virginia Tech was still able to benefit by taking a different angle, investing in swaptions that put it short U.S. interest rates.

Plus, Virginia Tech cut energy and European equities shortly before the U.S. downgrade that sent markets on a roller-coaster ride, and re-invested at the end of August when the pricing was better, resulting in a 6-7% return.

Ward has scrapped the traditional asset allocation model and now moves tactically according to risk weightings. He's also kept the manager lineup smaller than his peers, preferring more concentrated exposure to firms.

Small Nonprofit of the Year

Elizabethtown College



James Hoover

Elizabethtown College doesn't act like a stereotypical small nonprofit, outshining small and large peers alike in its skill and bravado. Exhibiting boldness of much larger institutions, the school's \$60 million endowment made a maiden investment in gold, tapping **Paulson & Co.**'s gold fund

as part of an inflation-hedging strategy. It also invested in a master limited partnership fund managed by **RR Advisors** and a managed futures strategy by **Abbey Capital**. In total, Elizabethtown invests

60% of its portfolio in alternatives, including about 40% in hedge funds and 20% in private equity and real assets.

Led by **James Hoover**, principal and founder of **Dauphin Capital Partners**, an alumnus of the school who serves as its outsourced cio, Elizabethtown also kept a handle on liquidity by keeping 7% of its assets in cash to balance out illiquid investments. This allows Hoover to minimize volatility, albeit sacrificing some upside. "The goal is to achieve intergenerational equity, by pursuing an absolute return objective and not getting involved in a relative performance derby," said Hoover. _

The bet paid off: Elizabethtown returned 18.5% for the fiscal year ending June 30, 2011.

2011 Nonprofit Awards For Excellence

Multi-Manager of the Year

Morgan Creek Capital Management



Mark Yusko

Morgan Creek Capital Management has been on a tear this past year, picking up new accounts for its outsourced cio stable. CEO **Mark Yusko** is known to be active in the industry and puts in plenty of face time with clients. The firm also has the capability to work in specialized niches. One of its new catches was the **University of Toronto Asset Management Corporation**, which hired Morgan Creek to advise on its CAD913 million private equity portfolio. CIO **Bill Moriarty** told *FEI* at the time that it was more cost-efficient to outsource

the private equity portfolio to Morgan Creek than to hire more in-house staff.

"The personal service is fabulous," said **Roger Viola**, president of the **Topeka Community Foundation**. For 2010, the foundation returned more than 8%. For the first two quarters of 2011, Topeka returned more than 2%, thanks to its strategy of reducing volatility and investing in asset classes with low correlations, like private equity, hedge funds and emerging markets.

Morgan Creek's total assets now exceed \$2 billion. It also added the **University of North Florida** to its client roster, which also includes the **Morris Animal Foundation**, **The Burnett Foundation** and **James Brown Graham Foundation**.

Consultant of the Year

Nolan Bean, Fund Evaluation Group



Nolan Bean

Since 2010, **Fund Evaluation Group's Nolan Bean** has helped the firm move to a risk-based investment model, landing an appointment to FEG's investment policy committee and several nonprofits as clients. He also created a presentation that the firm's consultants rolled out to their clients,

and created an exposure report—now used by the firm to pitch new business—that tracks total portfolio risk. The strategy was well-received by clients keen to limit risk in a volatile environment.

Bean advises 12 clients, 11 of which are endowments or

foundations. He landed three new ones since the start of 2010—a big haul for the nonprofit space. Among his new pickups were **Franklin & Marshall College** and the **University of Louisiana at Lafayette**.

Clients tout Bean's investment knowledge and ability to work with staff and committees and a fearless attitude to inform them when he believes too much risk is being taken. Bean also wins praise for his ability to find opportunistic investment opportunities. "Nolan has helped us transform from a 60-40 model to an endowment model that's very liquid—thus, we can consider opportunities as they arise," said **Jim Bethea**, director of investments at **University of Iowa Foundation**. Bean is also accessible, willing take phone calls or trade emails 24 hours a day, he added.

Marketer of the Year

Jeff Muehlethaler, PIMCO



Jeff Muehlethaler

Jeff Muehlethaler, the sole executive tasked with raising assets from nonprofits at **PIMCO**, hauled in \$2.5 billion from endowments and foundations in 2010, and thus far has raised roughly \$2 billion in 2011. The firm now manages around \$36 billion for endowments and foundations.

Among the new assignments that Muehlethaler won were **Bucknell University**, **Northwest Area Foundation** and **Skillman Foundation** for the firm's unconstrained bond strategy, and the

University of Utah for a core fixed-income mandate.

"He strikes a nice balance between marketing and knowledge of investing," explained **Scott Kirby**, manager of investments at Northwest. Muehlethaler also goes the extra mile by conducting asset allocation analysis and does not waste time with unnecessary sales calls, he added.

Muehlethaler also successfully sold offerings outside PIMCO's well-known core strategy, including raising assets for the firm's emerging markets local bond fund from the **University of St. Thomas** and **Fordham University**. He also reeled in new assets for PIMCO's global asset allocation strategy from nonprofits such as the University of Utah and **The Mill Neck Foundation**.

THE RISING STARS OF FOUNDATIONS & ENDOWMENTS

The **Rising Stars of Foundations and Endowments** are chosen annually by the publishers of *Institutional Investor Intelligence* and represent up-and-comers whose accomplishments in, and contributions to, the industry make them stand out among their peers and position them as future industry leaders. Stars may hold any professional position and may hail from foundations, endowments, asset management firms, law firms, accountants, investment advisory firms and consulting firms.

This year's **2011 Rising Stars of Foundations & Endowments** were honored at the **11th Annual Nonprofit Awards Dinner & Ceremony** on Sunday, September 18, 2011 at the Fontainebleau Miami Beach in Miami Beach, Florida.

COLIN AMBROSE

CIO
UJA-FEDERATION OF
NEW YORK

JENNY HELLER

INVESTMENT DIRECTOR
ALFRED P. SLOAN
FOUNDATION

CATHLEEN RITTEREISER

DIRECTOR OF
INVESTOR RELATIONS
CONCORDIA ADVISORS

DEVANA COHEN

ASSOCIATE DIRECTOR OF
PUBLIC INVESTMENTS
FORD FOUNDATION

JOSEPH HOPE

DIRECTOR OF
INVESTMENTS
COLGATE UNIVERSITY

JAMIE SPRUYT

INVESTMENT ANALYST
BNY MELLON ASSET
MANAGEMENT

DREW DINGER

INVESTMENT ANALYST
HAVERFORD COLLEGE

RAY JACOBSON

CIO
DAVIDSON COLLEGE

SARAH STEIN

MANAGING DIRECTOR &
CO-DIRECTOR OF
RESEARCH
HALL CAPITAL PARTNERS

STEFANIE FRESE

VICE PRESIDENT
BARCLAYS CAPITAL

TIM JARRY

CIO
COLLEGE OF THE HOLY
CROSS

TINA SURH

CIO
NEW YORK UNIVERSITY

LISA GENASCI

CEO
THE ADM CAPITAL
FOUNDATION

SCOTT PITTMAN

SVP AND CIO
MOUNT SINAI MEDICAL
CENTER

CATHERINE ULOZAS

CIO
DREXEL UNIVERSITY

2011 Nonprofit Awards For Excellence

Hedge Fund Manager of the Year

Third Point



Daniel Loeb

Third Point, the hedge fund firm run by **Daniel Loeb**, stood out from the pack by charting a new course that garnered solid returns. Once known for Loeb's acerbic activist letters, the firm has morphed into an event-driven shop with solid returns and \$7.9 billion in assets as of July 1.

"Some in the industry might call this 'style drift' and even 'worrisome.' However, it is actually an example of appropriate adjustment in strategy in that it still applies the essential core philosophy and skills of catalyst-driven value investing," explained **Mike Hennessy**, managing director at **Morgan Creek Capital Management**. Performance indicates a bet well made: Loeb's largest fund, *Third Point Offshore Fund*,

returned 33.5% in 2010, and was up an estimated 3.9% this year through the end of August.

Since mid-2010, Loeb's been buying subprime mezzanine bonds at around \$0.30-0.40 on the dollar and in the fourth quarter set sights on the energy sector, specifically spinouts of business units using master limited partnership structures. More recently, the firm benefited in the second quarter through short positions in the ABX and CMBX indices. Third Point sold CMBX short in the first quarter as it was rallying, and benefited from the play in the second quarter as the index dropped.

The firm also scores with investors for its client service. Third Point offers quarterly exits with a 5% penalty on redemptions in less than one year, having revised its terms in the summer of 2009. The firm's also quick to report monthly returns to investors.

Private Equity Manager of the Year

Cerberus Capital Management

Cerberus Capital Management has pared back its fund sizes and shifted its management style to earn solid returns over the past year. The firm has launched a fund targeting mid-market buyouts, a popular strategy with private equity investors, expanded its executive roster and posted internal rates of return from the high teens to the high twenties. It also increased the number of partners at the firm and reorganized the compensation structure to better align management's incentives with investors.

Cerberus had gotten a reputation as a giant during the buyout boom but the firm is now imposing discipline on its fundraising efforts, keeping funds small and nimble. The firm's

last big buyout fund, *Cerberus Institutional Partners Series IV*, was raised in 2007 and had about \$7.5 billion in assets. It's now aiming to keep fund sizes about half that size. The '07 vintage has fared well, earning an 8.1% internal rate of return. Cerberus is currently raising funds for *Cerberus Levered Loan Opportunities Fund I*, which will focus on mid-market buyouts.

The firm also impressed with its handling of the acquisition of **Chrysler**, and sent back more than \$4 billion of distributions to investors over the past year. "They have very good sourcing on deal flow," said an investment staffer at a Southern university endowment. Cerberus' nonprofit investors include **Dickinson College** and **University of California, Berkeley Foundation**.

Real Assets Manager of the Year

EnCap Investments



David Miller

EnCap Investments, a major player in the private equity energy sector, has proven popular with nonprofits. The **University of Louisville Foundation** and **St. Olaf College** tapped the firm for energy investments last year when it was raising *EnCap Energy Capital Fund VIII*, in which the firm pulled in \$3.5 billion. The Texas firm wasted no time finding

deals, and has already deployed 70% of that capital, noted **Joseph Gahlinger**, director of investment and financial management at Louisville. The Cardinals' investment was their second with EnCap.

Louisville was attracted to EnCap for its reputation in the oil and energy sector, and performance, he added.

The firm, which is run by Managing Partners **David Miller**, **Gary Petersen**, **Martin Phillips** and **Robert Zorich**, has raised 15 oil and gas investment funds totaling \$11 billion since opening in 1988. EnCap also has a solid performance record. For example, its sixth private equity fund, which was launched in 2006, had an internal rate of return of 15.7% through June 30, 2011.

Other nonprofit investors in the firm's various funds include the **University of Texas Investment Management Company**, **Texas Tech University** and **Abilene Christian University**.

2011 Nonprofit Awards For Excellence

Bond Manager of the Year

DoubleLine Capital



Dave Hennessy

Jeffrey Gundlach's new firm, **DoubleLine Capital**, takes this year's honors by outshining two of the best bond managers in the business. **Bill Gross** at **PIMCO** and **Dan Fuss** at **Loomis Sayles** brought their A-games to the table in the last year, but Gundlach's shop not only delivered solid performance—it did so as a start-up under a cloud of litigation. Gundlach led more than 40 employees out the door from **TCW** in a highly-publicized divorce, kicking off a successful enterprise in his first full year of stand-alone business.

The firm successfully transitioned many endowment and foundation clients that invested with the team at **TCW**, including **Memorial Sloan-Kettering Cancer Center** and **Kenyon College**. It also has reeled in new clients, such as **The UCLA Foundation** and **Mount Holyoke College**.

The firm, which now manages north of \$15 billion, launched its flagship total return fund on April 6, 2010, which is up 25.88% since inception through Aug. 31, 2011. Its benchmark, the **Barclays Capital U.S. Aggregate Bond Index**, returned 11.44%. For the year, the fund is up 7.99% through Aug. 31, versus 5.88% for the benchmark. "DoubleLine doesn't need any sensational adjectives to define them. Their results speak for themselves," noted **Joe Nelson**, v.p. of finance at Kenyon.

Equity Manager of the Year

Prosperity Capital Management



Mattias Westman

Prosperity Capital Management has attracted endowments and foundations to its Russian strategies with solid performance. Prosperity's flagship *Russian Prosperity Fund* returned 48% last year, trouncing the **MSCI Russia** index, which was up 17%. It's also bested the index by 110 basis points year-to-date through August.

The firm, led by Founding Partner **Mattias Westman**, manages roughly \$4.2 billion, including about \$252 million for endowments

and foundations, in this exotic, niche space. "[They've] done a good job navigating a difficult market," said one endowment investor.

The firm, whose strategies also include the Commonwealth of Independent States and Central Asia, takes a concentrated approach. The flagship's top 10 holdings comprised 73% of the portfolio at the end of May. Its three largest positions hail from the oil and gas space: **Bashneft**, **LUKOIL** and **Gazprom**.

The firm's endowment and foundation investors include the **University of Texas Investment Management Company** and **University of Washington**.

TRIAL ORDER FORM

www.foundationandendowment.com

Yes! Register me for free trial access to **Foundation & Endowment Intelligence**, your exclusive pipeline to managing investments for nonprofits.

NAME _____

TITLE _____ FIRM _____

ADDRESS _____

CITY/STATE _____ POSTAL CODE/ZIP _____ COUNTRY _____

TEL _____ FAX _____ E-MAIL _____

The information you provide will be safeguarded by the Euromoney Institutional Investor PLC group, whose subsidiaries may use it to keep you informed of relevant products and services. We occasionally allow reputable companies outside the Euromoney Group to mail details of products which may be of interest to you. As an international group, we may transfer your data on a global basis for the purposes indicated above.

() Please tick if you object to contact by telephone.

() Please tick if you object to contact by email.

() Please tick if you object to contact by fax.

() Please tick if you do not want us to share your information with other reputable businesses.

Tel: 1-212-224-3570
+44 (0) 20-7779-8999
Fax: 1-615-377-0525

Email: hotline@iintelligence.com
Mail: Institutional Investor Intelligence
P.O. Box 5016, Brentwood
TN 37024-5016

Foundation & Endowment
Intelligence Incorporating Foundation & Endowment
Money Management

2011 Nonprofit Awards For Excellence



St. Olaf College's Mark Gelle (far right) chats with money managers.



John Kukral of **Northwood Investors** relaxing during cocktails.



Ron Klotter of **R.V. Kuhns** (right) soaks up some sun.



FEI's Mark Faro (center) chats with guests.



Serious oceanside chatter?



Joe Rooney of **Burgundy Asset Management** (center) converses in paradise.



Dave Hennessy of **DoubleLine Capital** (second from left) chats with public fund pros.



Colin Ambrose from **UJA Federation** accepts his Rising Star award.



Lifetime Achievement winner **Laurie Hoagland** addresses the crowd.



Timothy Henning of **Nuveen Asset Management** presenting the Large Nonprofit Award to **Verne Sedlacek** of **Commonfund**, who accepted the award on behalf of **UTIMCO**.



The Rising Stars strike a pose.



Thomas Eichenberger of **State Street Global Advisors** presents the Mid-Size Nonprofit Award to **Daniel Ward** of the **Virginia Tech Foundation**.

Fund Focus

Central Florida Eyes Alternatives

University of Central Florida Foundation is planning to increase the allocation to alternatives in its \$126 million endowment. The university is considering the addition of real estate and private equity to further diversify its portfolio and lessen equity risk, said **Joseph Mera**, associate director of accounting and financial management services.

Mera noted that the fund is not in a rush to make the additions, as there is still volatility in those markets. “We have not started the long process of due diligence we perform on alternative asset managers. I doubt it will be within this year, but we may start the process the following fiscal year,” he added. The Knights’ fiscal year ends June 30.

The Knights will fund the additions with new endowed contributions and portions of their equity and fixed income allocations, but have not determined how much in real estate and private equity they may add. “It depends on the manager, what strategies we want to implement, and how it will impact the portfolio,” Mera said.

Asset Allocation

As of June 30, the endowment pool allocated 42% to domestic equity, consisting of large-, mid- and small-cap assets utilizing core, growth and value strategies. It also allocated 21% to international equity, 21% to fixed income, 12% to diversifying strategies and 4% to real assets.

Five years ago, the fund had 69% in equity and 31% in fixed income, with the equity portion divided 60% to large-cap, 22% to international equity and 18% to small-cap. “We have reduced our fixed income and equity allocations in order to further invest in hedge funds and other alternatives to diversify our portfolio,” Mera said.

The fund returned 22.7% last fiscal year, the fifth year in a row that the endowment outperformed its benchmark, established by surveys of peers done by **BNY Mellon** and **NACUBO**.

The endowment makes use of 30 managers. It selects and retains managers using a number of criteria. “Aside from risk adjusted returns, we also look for consistency and conviction in their investment strategy,” Mera said. He added that UCF’s

managers are hired to play a specific role in its endowment pool, and so the fund doesn’t tolerate style drift.

Consultant

The fund has used **LAMCO Advisory Services** of Lake Mary, Fla., for consulting services since 2007. President **Mark Lamoriello** is the lead consultant on the account. “They have been a great addition to the foundation,” Mera said. The consultancy works with the board of directors’ investment committee and the foundation’s staff to develop investment strategies, provide tactical allocation advice, and to hire and review investment managers.

Personal

Mera has been with the foundation for five years. Prior to joining the endowment, he was employed with the **Bank of New York** (now BNY Mellon) as a trust fund accountant in the investment management services division in Lake Mary, Fla. Earlier, he worked as a financial analyst for **CFI Westgate**. He graduated from UCF

“We have reduced our fixed income and equity allocations in order to further invest in hedge funds and other alternatives to diversify our portfolio.”

—Joseph Mera

with a degree in accounting and told *FEI* that he was happy to return to his alma mater when the opportunity arose.

When not working with the investment pools at the foundation, he is heavily involved in the alumni association, currently serving as a board member. He is also president of the **Orlando Young Professionals Leadership Group**, an organization that provides leadership development and networking opportunities for professionals. Mera is an avid tennis player, and participates in tennis leagues in downtown Orlando.

ACCESS MONDAY’S ISSUE ON FRIDAY

Access the most recent issue of *Foundation & Endowment Money Management* as a PDF the Friday before it’s available in print. Log onto www.foundationandendowment.com and click on “Download Current Issue PDF” at the top of the page.

To obtain access please contact the subscription hotline at 1 (800) 437 9997 / 1 (212) 224 3570 or hotline@iintelligence.com

iiSEARCHES

Institutional Investor

analytics

alerts

*Coming soon...*the all-new iiSEARCHES

news

search



The #1 source for global institutional plan sponsor activity and sales & marketing intelligence just got even better.

Call Keith Arends at (212) 224-3533 for more details or to register for an advanced trial to the new and improved service.

www.iisearches.com

Asset Class

Investors Warm *(Continued from page 1)*

Ralph Jaeger, a senior research consultant— along with **Russell Steenberg**, global head of **BlackRock Private Equity Partners**; **Ray Maxwell**, a venture partner at **Invesco Private Capital**; **Joseph Malick**, a managing director at **Neuberger Berman** and head of the firm's private equity fund of funds group in Europe; **Sam Tyfield**, a partner at the law firm **Katten Muchin Rosenman**; and **Frank Angella**, managing partner at **Grove Street Advisors**.

FEMM: *Why would an endowment or foundation want to invest in European private equity now?*



Miriam Schmitter

Schmitter: While investors may be right to be cautious, Europe is the world's largest economy with an estimated 28% of the world's nominal GDP and there are still many privately held businesses in Europe with strong long-term growth prospects. European private equity managers that are best positioned to acquire those companies should be a key

component of investors' portfolios to diversify, augment returns, and generate alpha.



Ray Maxwell

Maxwell: Although it appears to be perverse, we believe that it is actually a good time to be making an allocation to European private equity. There is a clear differentiation between the economies of Northern Europe and those of the South. The Northern economies may be wounded, but have the capacity for longer-term growth. In general,

valuations have become more sensible and debt is available, albeit at lower levels than in the past.

Malick: Above-median private equity has consistently outperformed the public equity market. We believe that a temporally consistent, meaningful allocation to private equity as part of a diversified portfolio will generate substantially more long-term alpha than an allocation driven by market timing.

Angella: From a deal flow perspective Europe should continue to provide a range of opportunities that are appropriate for private equity including family transitions, regional or global expansions and corporate carve outs. Whether it is a good time to make an allocation is a different question. Clearly there are a near-term set of risks relative to the overall "Euro project," with potentially major consequences for economic growth and institutional stability.

Tyfield: Whilst European private equity is changing, it has not become an appreciably less attractive investment to which to make

an allocation in general; in fact, given some changes which have been forced on the industry by economic circumstance, it might be more attractive than before. Investors should, however, be more conservative about the opportunities that are available to private equity investment and the potential size and regularity of returns over the course of the life of the funds.

Steenberg: Looking across the European landscape, private equity firms are poised to take advantage of a number of opportunities to acquire and build successful PE-backed companies. Several catalysts for private equity transactions include asset disposals by European banks and corporates, the sale of family-owned mid-market companies, the consolidation of fragmented industries and the cross-border expansion of national leaders. Furthermore, a down-draft in public equity valuations could allow PE firms to take under-managed and/or under-appreciated companies private.

FEMM: How is the crisis in Greece affecting European PE? What effect is Italy having?



Frank Angella

Angella: Fortunately, the Greek economy is relatively small and exposure of private equity funds to Greece itself is minimal. However, the impact that a likely Greek debt restructuring (or perhaps worse, continued delays in a needed restructuring) could have on the broader Euro zone is making LPs more cautious about committing to funds in Europe. This caution is quite varied depending on the sub-region. Italy, for example, had its share of macro challenges before the Greek crisis, although some Italian private equity managers performed reasonably in spite of these issues. At this stage, however, the risks in an anemic and highly indebted economy like Italy do make it challenging for an LP to make a new commitment to a blind pool, particularly when viewed relative to more stable and healthy economies like Germany and the Nordics.

Jaeger: Competition will remain high and managers will continue to price deals aggressively while a capital overhang persists, which is especially the case in the large- and upper-middle-market segments. Private equity has also learned to deal with more restricted credit over the last couple of years. We also expect to continue to see a large number of sponsor-to-sponsor buyouts.

Malick: The private equity market in Greece is essentially dead. Recent investments made in Greece, with the rare exception, have been failures. Italian companies are generally in far better shape than their counterparts in Greece. With regard to the effect on the overall European PE market, deal flow remains robust as credit,

while expensive (and generally increasing in price for all but the highest quality businesses), is available. The availability exists almost solely in the bank debt market as investor appetite for high yield has dried up.

Steenberg: In the near-term, volatility in the broader capital markets and greater investor uncertainty may impact the pace of investment and the pace of realizations in the European private equity markets. Sellers and buyers alike may delay finalizing transactions until they have more clarity on the medium-term growth prospects. In addition, securing attractive financing for a buyout transaction may become more challenging as lenders become more selective. If we take a longer-term view, the current economic turmoil across Europe is also a catalyst for accelerating asset-disposal programs.

Maxwell: The main concern is how the European authorities and the ECB deal with the Euro crisis. It is in everyone's interest to see a stable Euro. In any event, until recent days, the Euro has been performing well against the U.S. dollar. From a private equity standpoint, most investments are either national or regional and the machinations in Greece and Italy do not have a direct bearing on investments located further North.

FEMM: *Where do you see European PE going in the next three years?*

Maxwell: European private equity, similar to private equity in the U.S., was a child of cheap credit. It is possible that there may be a period of consolidation where the quality teams, with the skill sets capable of dealing with the new realities, will rise to the top, and those that were purely momentum players will wither over time. Private equity is not likely to disappear and will still have a role to play in identifying companies that can capture market share in difficult periods.



Joseph Malick

Malick: We expect that some managers will not be able to raise new funds. Many sponsors are exiting pre-crisis investments, but exits do not imply attractive returns. As we have already seen through some high-profile firm implosions, lackluster crisis period returns will be the driver of natural selection over the 2012 fundraising period, which in terms of manager ambitions will be one of the largest fundraising drives in European PE history. As a result, we expect that the remaining sponsors will exhibit increased discipline.

Steenberg: Over the next few years, a number of successful, high-quality private equity managers are expected to return to the market to raise capital. While investors in European private equity funds may be spoiled for choice, the key to success will be selecting the winners. Many firms coming back to market will have significantly unrealized portfolios. It will be critical for investors to dissect underlying portfolios to understand the operating progress

and balance sheet health of underlying portfolio companies, to understand how GPs have created value and how they have protected companies through the downturn.



Sam Tyfield

Tyfield: With the world economy likely to remain in a similar position for a while to come, the most likely scenario is that there will be more extensions of existing funds to give the GPs time to fully invest outstanding commitments which means a relatively low number of new launches. However, there have been, especially since 2008, some funds withdrawing from the market or winding-up (those who did not obtain consent to extend, for example).

Schmitter: Competition will remain high and managers will continue to price deals aggressively while a capital overhang persists, which is especially the case in the large and upper-middle-market segments. Private equity has also learned to deal with more restricted credit over the last couple of years.

FEMM: *Should investors allocate to European PE independently of other private equity? How much should be allocated to it?*

Steenberg: As part of a global, well-diversified private equity portfolio, it is important to maintain an active allocation to Europe to take advantage of local investment opportunities. As the second-largest private equity market, Europe has represented approximately 33% of invested private equity capital in recent years. Using the global capital flows as a proxy for the opportunity set, many investors will allocate roughly 30-40% of their global private equity portfolios to Europe.

Maxwell: European private equity should not be seen as a special case, and an allocation to European private equity should be considered as a part of the process of diversifying risk. However, any allocation should be significant enough to generate some incremental performance.



Ralph Jaeger

Jaeger: Investors should be thinking less about allocating a specific part of their private equity portfolio to Europe and more about finding the best managers who can spot good investment opportunities and outperform peers and listed securities. A specific allocation makes more sense for investments in frontier markets to restrict the potentially higher macro risk in these markets.

Angella: Europe is a well-developed private equity market and investors with a global private equity program should include Europe in their allocation. Something in the range of 30% to Europe is probably about the market average.

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@iineews.com. The below is a snapshot of activity; for more information, including access to RFPs and contacts, please visit iisearches.com.

For further information on iisearches' daily search leads and searchable database of mandates awarded and lost since 1995, please visit iisearches.com or contact **Keith Arends** at (212) 224-3533 or karends@iineews.com

iISEARCHES

Potential Searches

Fund & City	Total Amount	Assignment	Account Size	Consultant	Comments/Firm Hired
Abilene Christian University , Abilene, TX	USD295	Europe / Active Fixed Income / Debt	N/A	LCG Associates, Dallas	The fund plans to take a look at European distressed debt over the next six to 12 months. It invests around 3-5% in distressed debt, but that exposure is mostly in the U.S. A potential allocation size has not been determined.
Northwest Area Foundation , St. Paul, MN	USD400	Global / Active Equity	N/A	Jeffrey Slocum & Associates, Minneapolis	The foundation is examining its 35% equity allocation, which consists of both domestic and international strategies. Part of the review, which does not have a timeframe, is to consider emerging and frontier markets strategies.
Northwest Area Foundation , St. Paul, MN	USD400	U.S. / Alternative / Real Assets	N/A	Jeffrey Slocum & Associates, Minneapolis	The foundation has carved out a 10% allocation to real assets, and is looking to fill the remaining 5% outstanding with strategies such as infrastructure and energy. It is keen on adding the exposure as an inflation hedge and growth opportunity.
University of Central Florida Foundation Inc. , Orlando	USD126	U.S. / Alternative	N/A	LAMCO Advisory Services, Lake Mary, Florida	The foundation is planning to add private equity to its portfolio and increase its overall alternatives allocation. The moves are being considered for further diversification and to lessen equity risks. A timeframe for both moves has not been set.
University of Central Florida Foundation Inc. , Orlando	USD126	U.S. / Real Estate	N/A	LAMCO Advisory Services, Lake Mary, Florida	The foundation is considering the addition of a real estate bucket to further diversify its portfolio and lessen equity risks. A timeframe for the move has not been set.
University of Chicago , Chicago	USD6,200	U.S. / Multi Asset	N/A	Cambridge Associates, Boston	The endowment is reducing its private investments exposure by 5-10% over the next three-four years, in an effort to be more liquid. It currently has around 40-45% in the space. Most of the money will be transitioned to global public equity investments.
University of Connecticut Foundation , Storrs, CT	USD300	U.S. / Distressed Debt	N/A	Wilshire Associates, Santa Monica, California	The endowment will be considering looking at distressed investments. It is keen on distressed opportunities in a number of asset classes. No timeframe for a decision to make a commitment.
Nobel Foundation	SEK3,100	Global / Active Fixed Income	USD10	Unknown	The Nobel Foundation plans to start searching for a replacement fixed income manager during the fourth quarter. The mandate size is worth \$10 million.
Vita Sammelstiftung	CHF8,300	Global / Alternative	N/A	ORTEC Finance	The fund plans to increase its allocation to private equity and broaden its investment strategy by investing in infrastructure.

New Searches

Arizona State Treasury , Phoenix	USD10,300	U.S. / Consultant	USD3,150	None	The treasury has issued a request for proposals for firms wishing to provide asset allocation consulting services, for the Arizona Permanent State Land Fund. The RFP responses are due Oct. 3.
---	-----------	-------------------	----------	------	---

Updated Searches

The Chinese University of Hong Kong	HKD4,100	Emerging Markets / Active Equity	HKD300	Graystone Consulting	The Chinese University of Hong Kong's endowment fund has shelved plans to hire an emerging market equities manager due to unfavourable market conditions. The scheme will reopen discussions at the next investment committee meeting in October.
University of Reading Employees Retirement Pension Fund	GBP80	U.K. / Asset Study	N/A	Jewson Associates	The scheme's valuation started on July 31 and should conclude early next year, when trustees will meet to discuss possible changes going forward.

Completed Searches

Brazosport College , Lake Jackson, TX	USD2.58	U.S. / Multi Asset	USD2.58	None	Bernstein Global Wealth Management
Northwest Area Foundation , St. Paul, MN	USD400	U.S. / Commodities	USD10	Jeffrey Slocum & Associates, Minneapolis	Blackstone

Mizzou Overhauls (Continued from page 1)

The Tigers dropped **AllianceBernstein** and **American Century**, which had been managing domestic equity assignments. Mizzou also axed three international equity mandates: AllianceBernstein, **Capital Guardian** and **JPMorgan Asset Management**. **Mellon Capital Markets** was also let go from a **Russell 1000** index brief. Spokesmen for the terminated managers either declined to comment or did not respond to inquiries by press time.

The school has hired **Baillie Gifford**, **Wellington Management Company**, **MFS Investment Management**, **BlackRock** and **Walter Scott & Partners** for global equity mandates instead.

The Tigers are also in the midst of a consultant search because the contract of its incumbent, **Rocaton Investment Advisors**, has expired (*FEI*, 8/17). "Once that contract has been awarded, we'll likely move right into asset/liability studies for our endowment and retirement plans, and then take action, if any, based on analysis of those results," said Richards. —**M.F.**

Hartford HealthCare (Continued from page 1)

year to combine the management of the hospitals' pensions and endowments and determine a new investment structure for the funds, said **David Holmgren**, investment director.

Once the structure is in place, incumbent managers that fit into the structure will be reviewed and new managers will be scouted. There is an investment committee meeting in November to further discuss the issue, and managers are slated to be brought before the committee for approval in February, said Holmgren.

The first part of the review will determine what the structure should be for the equity portfolio. Among the considerations are active/passive management choices, what percentage should be opportunistic bets and what styles should be included, said Holmgren. The system invests in 30 different equity funds that were put together by different committees and consultants, and there is overlap, he added. An example is **Capital Guardian**, where Hartford has four different equity investments with the firm. There are also components that are missing completely, such as active small-cap assignments, said Holmgren. A Capital Guardian spokesman declined to comment.

Following the completion of the process, Hartford will move onto other asset classes, starting with fixed income. There, the issue will likely be defining core versus core plus mandates, said Holmgren. International equity would likely follow, where emerging market equity will be reviewed.

Hartford recently wrapped up a search for a fund of hedge funds. It hired **Corbin Capital Partners** for an initial mandate of \$9 million. Also in its stable are **Evanston Capital Management** and **Forester Capital**. These investments won't be under review.

Mercer's St. Louis office, which was formerly **Hammond Associates**, advises the system.

—**Mark Faro**

Quote Of The Month

"We're due to have another cataclysmic event or a series of them."—**John Pomeroy**, cio at **Pennsylvania State University**, on his cyclical crisis theory that he shared with attendees at the *Foundations & Endowments Summit* in Miami Beach (see conference coverage, page 8).

FINAL WORD

Suggestions On Defending the Investment Office

You may have noticed over the past week or so the rag-tag bunch protesting against Wall Street. While it may be easy to dismiss the "Occupy Wall Street" crowd as distant whackos far away from your Midwestern on-campus investment office, we have some sobering news for you: the loons could be heading your way. What's the biggest symbol of capitalism on campus? You might be thinking the football stadium, but it could very well be the investment office.

So what does a chief investment officer do if an angry mob starts surrounding the building and won't be scared away by threats of double-secret probation, like in *National Lampoon's Animal House*? *FEI* has some suggestions:

- **Water Balloons.** What better way to chase away a bunch of immature, laptop-toting, smart-phone-using anti-capitalists than by pelting them with water from the window? You'll ruin their electronic gadgets (all of which are ironically made by the corporations they detest), disrupt their social networking coordination (which would not have been possible without venture capitalists) and cause them to squirm at the all the water you'll be wasting. Throw down some soap and we'll call it a public service.

- **Whack A Tree.** Send one of your staffers stealthily out the back door with a chainsaw (you know that gas powered thing your timberland managers use) to one of the older trees on campus. Tell the tree-hugging crowd that if they don't disperse, your next strategic investment is in firewood.

- **Porterhouse Party.** Get your tailgating gear to the office, especially that charcoal grill. Be sure to keep some nice steaks in the freezer, and when the protesters gather, light up the grill. Cook about a dozen steaks (medium rare of course) and cut them up into bite size pieces. Send an intern out with the beef and see how the mostly vegan crowd reacts. Filling the water balloons with Worcestershire sauce at this point makes for a nice touch.

So start dusting off those 1960s anti-hippie protest plans and stock up on supplies. You may also want to distribute photos of **Michael Moore** and **Susan Sarandon** to campus security.