COVER STORY

The Americanization of Oxford and Cambridge

Photos by Steve Forrest/Panos Pictures

Britain's elite universities adopt Ivy League strategies to boost their endowments.

By Loch Adamson

For centuries the universities of Oxford and Cambridge have been at the forefront of academia, attracting and training some of the best minds in the world. Their alumni — naturalist Charles Darwin, mathematician Sir Isaac Newton, astronomer Edmund Halley, philosopher John Locke and economist John Maynard Keynes, to name but a few — have transformed the way people see themselves and the world around them. But when it comes to managing their money, the two great British schools have badly lagged this era's great innovators, their wealthy American rivals like Harvard University and Yale University, which have been at the cutting edge of investment management for the past 20 years.

Now, plagued by chronic budget woes, lackluster investment performance and contentious U.K. politics, Oxford and Cambridge are looking to radically overhaul their endowment management, reduce their dependence on subsidies from the British government and replenish their depleted coffers by raising hundreds of millions from "old members," as their alumni are known. The two schools' vice chancellors — who essentially manage the universities — are taking markedly different approaches. At Oxford, New Zealand businessman John Hood, who has rankled some academics with his proposed governance reforms, has set out to reconfigure the university's investment committee with an eye to recruiting new members with firsthand asset management experience. At Cambridge, British anthropologist Alison Richard, a former Yale provost, has convened an all-star investment board and charged it with the task of hiring the university's first-ever chief investment officer, who will be expected to build an in-house team of financial experts in the months ahead.

Both leaders feel a sense of urgency. "While we're nowhere near a state of crisis, I didn't come back to Cambridge to preside over a slow slide into something less than a world-class university," says Richard, 58, who graduated with a first in anthropology from Cambridge's Newnham College in 1969 and has a Ph.D. from the University of London. "I truly believe that if we get this right now, we will be able to make a huge difference to the university for decades to come."

Says Hood, "We have a very special mode of educating our students with small-group, tutorial-based teaching, and it is a high-cost mode of education."

But financial endeavors of any kind — not least international recruiting drives for top-notch investment talent — are fraught with politics, especially in academia. Although Cambridge and Oxford are self-governing charitable entities, each comprises a consortium of affiliated but highly autonomous colleges: Cambridge has 31, Oxford 39. To say that the colleges are politically independent would be putting it mildly; they are their own righteous fiefdoms. Each has its own development officer, its own high-powered alumni, its own endowment, its own investment committee and its own bursar to oversee its finances — basically, everything it would need should it wish to secede.

Although this decentralized system has its strengths — it handsomely supports the one-on-one tutorials that lie at the core of an Oxbridge education — it poses the single greatest hurdle to transforming the universities' investment cultures. Unlike U.S. institutions, where funds from different schools and university foundations are typically pooled and centrally managed, the Oxbridge colleges' endowments have never been commingled with the universities'. Practically speaking, the system translates into 70 different pots of money managed 70 ways by 70 different investment committees and bursars, none of whom want to forfeit a smidgen of independence.

By the multibillion-dollar standards of many U.S. endowments, very few of the Oxbridge colleges are wealthy. Most have between £10 million ($19 million) and £100 million in assets under management. The universities themselves are somewhat richer. As of July 31, 2006, Cambridge's central endowment totaled £860 million (or £1.1 billion, including the Gates Cambridge Trust, a fund for outstanding scholars that was established by Bill and Melinda Gates in October 2001); Oxford's is closer to £717 million. Only when all of the colleges' and universities' funds are viewed in aggregate do they begin to reach the kind of critical mass — £3.46 billion for Cambridge and £2.85 billion for Oxford — that gives the U.S. university endowments greater freedom to make direct investments as they diversify their portfolios.

Autonomous as Oxford and Cambridge's colleges like to be, they remain dependent on their universities' central administrations. Profits from the central endowments help support universitywide activities and operations, including funding for academic departments, group lectures, scholarships, professors' salaries and capital reinvestment, such as construction of expensive research labs. The Oxbridge colleges use their own endowments to cover specific local costs, such as housing, facilities maintenance, scholarships and undergraduate tutorials.

In recent years Cambridge and Oxford have been hard-pressed to keep pace with their growing costs. In the fiscal year ending July 31, 2004, Cambridge faced an operational shortfall of £8.3 million; in fiscal 2005, Richard managed to pare that deficit to £500,000 by reducing expenses across the university. Oxford would have lost £17.6 million in fiscal 2005, if not for the £22.1 million it received from lucrative Oxford University Press.

The universities' economic challenges are all the more pronounced in light of the historical limitations imposed on their investing practices. Until 2001, when British trust laws regulating charitable investing changed, all registered charities were limited to income-yielding investments; they could not spend capital gains. Total-return investing was virtually impossible. Oxford's central endowment delivered an annualized return of 6.7 percent over the decade through July 31, 2006, trailing the benchmark average of 7.6 percent for charitable institutions in the U.K. over the same period, according to Edinburgh-based market research firm WM Co. Cambridge did better, achieving an annualized return for the same period of 8.6 percent.

By comparison, Ivy League universities in the U.S have prospered wildly. Under the leadership of David Swensen and his investment team, Yale's endowment delivered an annualized return of 17.2 percent over the ten years ended June 30, 2006, and now totals $18 billion. Harvard's endowment, under the direction of Jack Meyer (president and CEO of Harvard Management Co. until he left on October 1, 2005 to start a hedge fund, Convexity Capital), achieved an annualized return of 16.7 percent for the same period and now totals $29.2 billion, the biggest in the U.S. In the fiscal year ending June 30, 2006, nearly one third of Harvard's operating budget, or $930 million, came from the endowment.

To remain globally competitive, Cambridge and Oxford must seek more-professional endowment management. In summer 2005, Oxford vice chancellor Hood asked Sir Alan Budd, provost of the Queen's College and chairman of the university's investment committee, to draft an internal report examining the university's endowment management practices. After studying the most successful U.S. endowments, Budd suggested reconfiguring Oxford's investment committee. The key, he believes, is to recruit committee members who have active asset management experience.

Vice Chancellor Alison Richard, an anthropologist by training, aims to bring Cambridge's fund management into the modern world

"Once the new committee is in place, it will be up to them to decide how they want to move forward," says the 69-year-old economist. "Whether that means hiring a CIO and an investment team or putting all the money into hedge funds or betting it all on the 2:30 at Lingfield Park, I cannot begin to guess."

For her part, Richard has never doubted that Cambridge needed a CIO. She called on Swensen, her former right-hand man at Yale, to help her jump-start the process. This January, Cambridge's finance and investment committee created a new investment board and charged it with hiring a CIO. Led by chairman Michael Dobson, CEO of global asset management company Schroders, the all-star investment board now includes John Armitage, co-founder of hedge fund Egerton Capital; Damon Buffini, a partner of private equity firm Permira; Charles Larkum, bursar of Sidney Sussex College; Douglas McDougall, a former senior partner of Scottish asset management firm Baillie Gifford & Co.; Stewart Newton, founder of Newton Investment Management; and Swensen.

The path Richard has chosen may be unapologetically American, but she knows the profound effect a strong CIO can have. Looking back on her nine years as provost of Yale, where she was second in command to president Richard Levin, she credits Swensen with routinely "saving her skin" because the revenue that flowed from the endowment enriched the activities and academic excellence of the institution. Now she is determined to find someone of Swensen's caliber. Cambridge is expected to name its new CIO this month.

"We have got to strengthen our investment management and diversify our sources of revenue, because we do what our peers do now in the U.S., only with a fraction of the resources," Richard says. "While I'm proud of being frugal, I'm also well aware that ultimately the university will become uncompetitive over time."

CAMBRIDGE AND OXFORD ARE THE two oldest universities in the English-speaking world. Oxford was founded in the 11th century. The student population grew sharply in the 12th century after King Henry II banned English students from attending the University of Paris. Conflicts between town and gown in the 13th century hastened the establishment of halls of residence, which later evolved into the various colleges. Some Oxford students sought refuge from resentful townspeople elsewhere: A band of scholars migrated to Cambridge, laying the foundation for Oxford's rival school in 1209.

The enduring appeal of these institutions owes much to their imperviousness to change. Along the cobblestone lanes that connect Cambridge's Gothic college buildings along the River Cam, the centuries appear to fall away. Undergraduates, their laughter bouncing off soaring granite walls, stride in tight clusters along stone passageways worn smooth by generations of rising scholars. Occasionally, a university don rushes past, his black robes fanning out behind him.

Unlike private universities and colleges in the U.S., which educate the children of the American upper class and charge whatever the market will bear, Cambridge and Oxford are elite institutions that receive major government subsidies and charge relatively modest fees. Each British student costs the Oxbridge system more than £15,000 per year. In 2005 a British undergraduate paid just £1,150 in tuition for his Oxbridge education; the two universities estimate that a student spends an additional £5,700 per year for accommodation, food and books.

This academic year, which began in October, the schools, in a controversial move backed by the Labour government, more than doubled undergraduate tuition to £3,000. Opposition to this “top-up” fee united a broad spectrum of politicians and political activists, from Tory members of Parliament opposed to all things Labour to Liberal Democrats fearing a return to the bad old days of social elitism at Oxbridge. The politicians were joined by the banner-waving, protest-mustering National Union of Students. Gemma McNulty, the national president of the NUS, declined to be interviewed for this story, but the organization released a statement on September 1 in which she stated: “Education should not be a privilege based on finance. We believe it should be offered to all those who achieve and aspire. The bottom line is that widening participation is reliant on free education.”

Yet Oxford and Cambridge remain among the most affordable universities in the world. By contrast, the University of California, Berkeley, a leading public college in the U.S., will charge in-state residents $7,800 for tuition this academic year; with living expenses that total grows to $24,272. Tuition at the top-ranked Ivy League colleges is much higher: Harvard charges $31,665 a year for undergraduate tuition; room, board and books raise the total to $43,655. Yale costs $33,030 in tuition; room and board and books and other personal expenses bring the estimated total to $46,600 for the 2006–’07 school year.

An Oxbridge education remains comparatively affordable thanks to British government subsidies. In the fiscal year ending July 31, 2005, Oxford received £158.6 million in teaching and research grants from the Higher Education Funding Council for England — 30 percent of its £526 million in expenditures; Cambridge received £162.3 million — 31 percent of its £522.9 million in expenditures.

“I believe that a university’s independence is best served by not being too beholden to any single source of revenue,” Richard says. “And Cambridge, while it is a self-governing, charitable institution, is currently too beholden to the government.”

Her opinion resonates with many of Oxbridge’s powerful bursars, who would prefer to be less vulnerable to political lever-

Former students school Oxbridge’s colleges on asset diversification

Some alumni write checks to their alma maters. Karl Sternberg wrote a business plan instead. This spring Oxford University grad Sternberg (Christ Church, 1991) joined with fellow alumnus Paul Berriman (St. Catherine’s, 1988) and Paul Martin (Loughborough University, 1996) to launch Oxford Investment Partners, a firm designed to provide a multistrategy fund of funds for the colleges at the Universities of Oxford and Cambridge seeking to diversify their portfolios.

Sternberg, Berriman and Dinshaw (from left): Veteran endowment experts focus on providing investment answers for Oxbridge colleges

The idea evolved from Sternberg’s long collaboration with St. Catherine’s while he was at Deutsche Asset Management. In 1995, Sternberg began helping St. Catherine’s finance bursar Fram Dinshaw invest the college’s £16 million ($26 million) endowment. Unlike some of his Oxbridge peers, Dinshaw was more concerned with absolute returns — specifically, achieving an annual 5 percent real rate of return over inflation — than he was with simply beating the FTSE all share index, his benchmark. St. Catherine’s spends about 4 percent of its endowment each year, and Sternberg adapted his style of investing to match the college’s objective.

“Gradually, as the trust between us grew, I started to diversify significantly away from the index and we began to use more market-neutral products,” Sternberg says. “Although it looked like we were taking more risk against the FTSE all share, we were actually taking less risk relative to the college’s underlying needs.”

After leaving DeAM in 2004, Sternberg spent 18 months in discussions with the Oxbridge colleges, working out the business model for a firm focused on providing diversified funds of hedge funds for them and for other charitable organizations and family offices. As a member of the investment committees of St. Catherine’s (which he had joined upon leaving DeAM) and Christ Church, Sternberg had firsthand knowledge of the challenge of researching and vetting managers. He was convinced he could help engineer a solution.

Sternberg co-founded OXIP in August 2005 with Berriman, a friend and former CEO of DeAM in the U.K., and Martin, a business manager at DWS Investments U.K., the retail arm of DeAM. They modeled OXIP’s inaugural investment fund on the diversified portfolio strategy that Sternberg had designed for St. Catherine’s endowment. The investment goal is the same: to deliver real annual returns of 5 percent (nominal returns of 6 to 7 percent) over rolling five-year periods, with less than half age. Political pressure influences the admissions policy, research funding and development of graduate school programs. All universities, for example, set admissions benchmarks: goals for the proportion of state school students, working-class students and students whose home areas have a low proportion of 18- and 19-year-olds pursuing higher education. The results are tracked by the Higher Education Statistics Agency, and the universities' ability to meet their benchmarks may affect whether they win approval for future top-up fee increases from Parliament.

"All British universities are legally autonomous, so we technically ought to have the same status as any private American university," says David Palfreyman, who, as bursar of Oxford's New College, oversees a £130 million endowment. "But we behave much more feebly because we're British and too dependent on the queen's shilling, which is unfortunate. We could, in theory, assert our autonomy, but then the question becomes, Would a vengeful government find ways to punish us? I dare-say it would, but we don't know how."

As the debate goes on, the schools are searching for new sources of revenue. Apart from raising tuition — or pulling in more foreign students, who pay more — the best recourse for the universities is to build their endowments. Richard has launched the biggest fundraising campaign in Cambridge's history. Last fall, in anticipation of the university's 800th anniversary in 2009, she announced a four-year, £1 billion drive. By calling upon Cambridge's far-flung alumni, of which there are about 185,000 worldwide, Richard hopes to dramatically boost the share of old members who donate from the current 10 percent.

"My hope is to establish a habit of asking, on the part of the university and its colleges, and a habit of giving, on the part of our alumni and friends," Richard says. "Those habits are not in place in the U.K., whereas they are in the U.S., which makes a huge difference."

Oxford, which is also campaigning for funds, has been contacting its old members too. "The majority of our colleges have been part of a benchmarking club for the past year or two," says Hood, "and the best college among them is now getting about 25 percent of its alumni giving back each year. Our challenge is to help all of the colleges to come up to that level."

Harvard, by contrast, boasts a donation rate of 39 percent for last year; Princeton University does even better: 59 percent.

Before Richard took up her job in fall 2003, Cambridge's colleges typically conducted their fundraising apart from the larger university. Almost as soon as she arrived, however, she began to lay the groundwork for a more aggressive, American-style fundraising campaign by drafting a memorandum of understanding with the colleges so that they wouldn't double-team prospective donors. The colleges rallied to support her efforts, and now, as they commence their annual fundraising drives, are also sending out materials on the university's behalf. With regard to higher-level donors, the colleges are working closely with Cambridge's central development office so as not to overwhelm potential benefactors. The coordinated effort seems to be yielding results: Since the campaign began last fall, Richard says, pledges totaling more than £400 million have been received by the university and its colleges.

"People told me that it would never be possible to have a Cambridge campaign because it would simply devolve into a contest between the university and its colleges," she says. "But Cambridge sometimes prides itself on being distinctively different. We just needed to work together."

Gathering fresh millions will only make sense, however, if Cambridge can manage

the volatility of the public equities markets.

Sternberg and Berriman, as executive directors (Martin is COO), share research responsibilities, looking for investment opportunities that meet one or all of three basic criteria: First, they have to provide returns that potentially exceed the 5 percent target. Second, they need to provide an inflation hedge. Third, they have to improve the risk profile and diversification of the portfolio.

Within those parameters, Sternberg and Berriman survey all possible asset classes and fund types, using the global database of managers maintained by U.K.-based investment adviser Watson Wyatt Worldwide. They use "risk budgeting" to make portfolio allocations based on the risk characteristics of a given type of security or investment.

Currently, 45 percent of the portfolio's assets have an equitylike risk premium. These include allocations to long-short equity hedge fund managers; long-term, highly specialized long-only managers; emerging-markets and small-cap managers; and even enhanced-index investments. About 10 percent of the portfolio's investments, including those in private equity, property (such as industrial and commercial holdings in emerging European countries), commodities and timber, have an illiquidity risk premium. The 15 percent of the portfolio made up of stakes in corporate and high-yield bonds, secured loans, infrastructure and emerging-markets debt carries a credit risk premium. Finally, Sternberg and Berriman make a 30 percent allocation based on what they call "a pure-skill premium" — that is, to those managers whose market-neutral strategies carry no beta exposure.

Currently, hedge funds account for 35 percent of the portfolio's assets under management of about £120 million invested across various risk sectors. Nonetheless, OXIP's inaugural fund is not meant to act as a fund of hedge funds.

"We don't see hedge funds as an asset class but more as a series of individual strategies that all require rigorous and individual analysis," says Berriman. "We won't invest in any strategy we don't fully understand, and we demand complete transparency from all our managers."

Sternberg and Berriman have reason to be cautious: OXIP's founding clients are their partners as well as passive investors. St. Catherine's, Balliol, Christ Church, New College and St. John's own 60 percent of the equity of Oxford Investment Partners; the management team owns the remainder. As co-owners the colleges stand to profit as new investors come into the fund.

Management stands to profit too. Although OXIP charges a 0.3 percent management fee and a 15 percent incentive fee (of any profits over a 5 percent real-return hurdle), the three founders haven't been paying themselves. They decided to forgo salaries until they were able to attract third-party investors to the fund.

"When we set this up, I couldn't imagine taking money from the colleges," Sternberg says. "By rights, I ought to be writing them checks — not the other way around." **— L.A.**

its assets more effectively. One of Richard's top priorities, therefore, is hiring a chief investment officer and creating an American-style investment office. The vice chancellor is well aware that the college bursars, just like prospective donors, must be assiduously wooed if they are going to consider pooling their assets with those of the central fund. If Cambridge chooses well when it names its new CIO, many of its richest colleges (and their richest alumni) may be more willing to write big checks, in anticipation that their donations will be managed by a high-powered investment team.

At Oxford, bursar Palfreyman is skeptical about the possibility that his institution will take a similar approach in wooing wealthy donors. "If at some point we're able to convince our alumni that their donations will be managed in a wicked, exciting, American-style way — not by doddery, geriatric bursars who couldn't manage their way out of a paper bag — maybe that model will be more appealing as the model of the future," he says. "But I have yet to be convinced that it's the way to go."

One potential problem: Hotshot investment managers tend to demand high salaries, which generates controversy. Harvard withstood bad publicity every year — called "the annual compensation thorn" by former endowment chief Meyer — because of the tens of millions of dollars Harvard Management Co.'s top investment managers were earning. Still, Meyer, who paid managers based on their investment performance, left a powerful legacy: When he started at HMC in 1990, the endowment had \$4.7 billion in assets; it more than quintupled in size during his tenure, thanks to outstanding investment performance and new donations. But he wearied of the sniping, which came most consistently from members of the class of 1969; they argued that the managers' salaries were simply too high, regardless of Harvard's returns. Richard says she would "look forward" to such skirmishes if she had such a successful investing team.

Yale never suffered the backlash over salaries that Harvard did, but its investment portfolio has been ruthlessly scrutinized over the years for any stake that might be deemed socially or environmentally suspect. In 2004 a coalition of student and labor activists — who were already fighting a long-running battle with the university over their desire to unionize, with the backing of the Graduate Employees and Students Organization — turned their ire on what they considered politically inappropriate investments. Chief among them was Farallon Capital Management, a San Francisco hedge fund founded by Thomas Steyer (Yale 1979) that was investing hundreds of millions for the university — and posting consistently high, market-beating returns. Steyer, a dyed-in-the-wool Democrat, saw himself as having more in common with the protesters than with the capitalist oppressors, and he staunchly defended his investment record to the students. Though the protests had no discernible effect on Yale's investment portfolio, they succeeded in giving the administration a headache.

Despite the controversies sparked by high-powered managers in the U.S., Richard is undaunted. "If you want potential donors to imagine giving gifts to the university or the endowment," she says, "you want to be able to look them in the eye and assure them that the stewardship of those gifts is going to be up to the highest standard — not just quite a high standard, but the very highest."

VICE CHANCELLOR HOOD IS GRAPPLING WITH many of the same issues at Oxford, but without the popular support that Richard enjoys. Unlike Richard, who navigates Cambridge's halls of academia with an ease honed by three decades at Yale, Hood brings a businesslike approach that rubs against the grain at Oxford. Since he joined the university two years ago, the 54-year-old New Zealander has managed to rile the resident powers with his brusque style.

Hood, who has a BE and a Ph.D. in civil engineering from the University of Auckland, spent 18 years at New Zealand commodities company Fletcher Challenge, where he ran the paper, building and construction businesses at various times. He returned to his alma mater as vice chancellor in 1998, before moving to Oxford in October 2004. The following March he introduced a preliminary proposal to reform Oxford's governance structure by creating a board of trustees largely drawn from outside the university to replace most of the academic members of Council, the 25-person body (including four outsiders) responsible for the university's academic policy and strategic direction. Council, in turn, is accountable to Congregation, a parliament of nearly 4,000 academic dons that is the sovereign decision-making body at Oxford. Hood simultaneously proposed the creation of a large, separate, 150-strong Academic Council to take up the purely intellectual and administrative concerns of the university.

Many of the dons were aghast at the suggestion that Council should include a preponderance of lay members or outsiders — such as their vice chancellor. Hood, who has the distinction of being the first vice chancellor in the institution's 900-year history to hail from outside the university, further offended academics when he suggested implementing performance reviews. This evidence of a corporate mind-set infuriated the dons and led to mutiny; the reviews were resoundingly defeated in a Congregation vote this spring.

"I don't think it's ever a good thing to try and brazen it out against the heart of your labor force, especially at a university, because you're just going to make all of those academics grumpy — or to be precise, grumpier than usual," says New College's Palfreyman. "Look at what happened to Larry Summers at Harvard: All those long-haired beardies of academe got rid of him in the end because he never bothered building consensus."

"In the wake of the outcry, Hood has had to take the opposition's point of view into consideration. This summer he released a white paper on a corporate plan that revised his earlier suggestion: Now he wants Council to be split more evenly between academics and outsiders — seven and seven, with a lay member serving as chairman. He would also like to create a separate academic board of 35 members, chaired by the vice chancellor, to oversee university affairs. The white paper will be put to a vote on November 14. The outcome will likely determine Hood's future at Oxford.

Hood's detractors have begun to raise their voices. In May a group of dons opposed to his proposals released a paper titled "Governance Reform: A Democratic Approach to Oxford's Future." This September, at the start of the opposition campaign, they published a fly sheet, "Why Congregation should not ac-

Former businessman John Hood has run into fierce opposition in trying to reconfigure Oxford's power structure

cept the White Paper," signed by 23 members of Congregation, which asserted that Hood's reforms "would change the constitution of the university in radical and probably irreversible ways." They advised adjusting the existing structures of governance rather than creating new ones.

"This would require the hard work of really thinking about how committees operate and how to improve them," says Susan Cooper, an elected member of Council, professor of physics (at St. Catherine's) and one of the leaders of the opposition. "Oxford used to have a split Council but modernized it in 2000 to create our current, more streamlined system. Being new, it needs some fine tuning — but not total replacement."

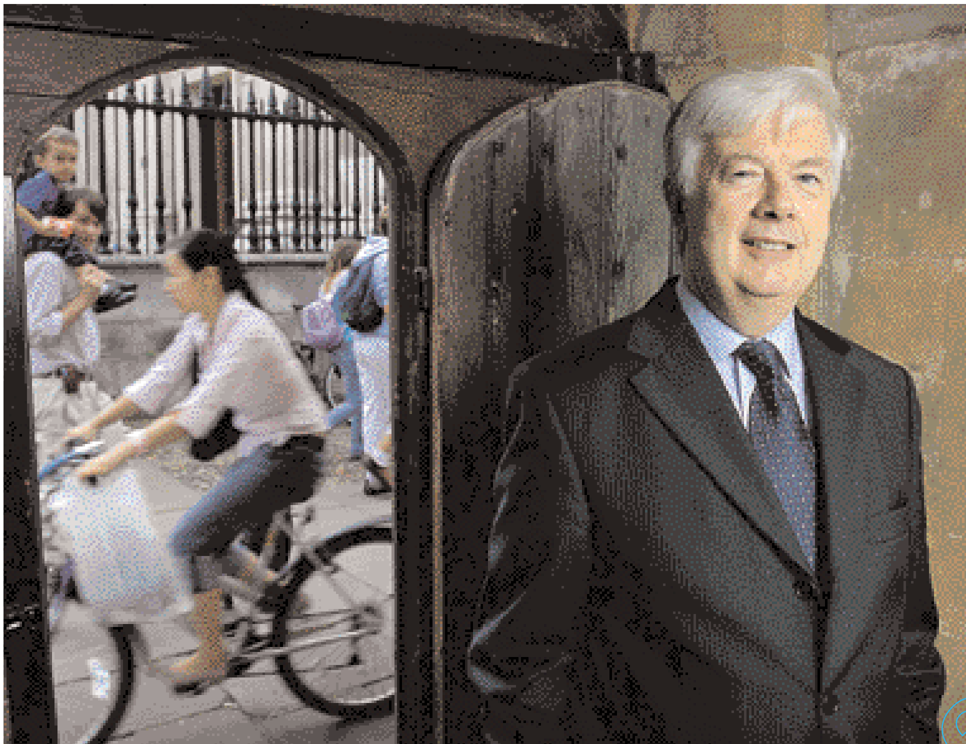
"We'll just have to see where this governance thing takes us," Palfreyman adds, "but I'm still skeptical, because Hood's proposal seems to convey yet again that academics can't manage anything, and therefore Oxford needs to be overseen by the great and the good, i.e. geriatric businessmen."

Hood's other initiatives — leading Oxford's fundraising drive, renovating the campus's outdated infrastructure and reforming investment management — may ultimately prove more palatable to Oxford's academic community than his governance reforms. Ironically, Hood could have solicited Yale's Swensen to help overhaul Oxford's investment management, had the recent controversies not consumed his attention. Several years ago Hood's predecessor, Sir Colin Lucas, sought Swensen's advice on restructuring Oxford's investment management processes. They had a series of discussions, and Swensen even shared his thoughts with a group of Oxford bursars, but nothing came of the meetings. (Richard, meanwhile, wasted no time in calling upon her friend and former colleague and has subsequently monopolized his time.)

Instead, last summer Hood asked Sir Alan Budd, chairman of the investment committee, and representatives of three colleges, to prepare a report on improving the university's investment management structure. The slight, gray-bearded Budd — who has a Ph.D. in economics from Cambridge and was chief economic adviser to the British Treasury under former prime minister Margaret Thatcher — was glad to do it. Although his report was never publicly released, he is happy to discuss his findings and recommendations, which were adopted by Council in February. He highlights three of them.

First, after taking a close look at the way the most successful U.S. universities — that is, Harvard and Yale — manage their endowments, he noted the importance of continuous active management. The biggest U.S. institutions, he says, often hire their own CIOs and professional-grade, full-time investment teams. Beyond the top-ranked Ivy League universities, that model has also been aggressively adopted in the U.S. by an increasing number of public universities, including the University of North Carolina at Chapel Hill and the University of Washington.

Second, Budd says, the top U.S. endowment portfolios look quite different from Oxford's, particularly in their allocations to private equity and hedge funds. Oxford invests about 30 percent of its portfolio in U.K. equities, 34 percent in foreign



Barry Hedley, the senior bursar of Cambridge's Gonville and Caius College, has become a champion of total-return investing

equities, 14 percent in fixed income and cash, 13 percent in real estate, 6 percent in private equity and 3 percent in hedge funds. By contrast, Yale invests 12 percent in U.S. equities, 15 percent in foreign equities, 27 percent in real assets (everything from oil and gas to timberland and luxury resorts), 25 percent in absolute-return strategies, 17 percent in private equity and 4 percent in fixed income.

Third, U.S. endowments benefit from their investment teams' collective ability to perform due diligence, choose outstanding managers and negotiate favorable fees. Budd says he was struck by the Americans' willingness to scour the globe for those managers and then change their funds' allocations to be able to invest with them. He believes that Oxford ought to follow Cambridge's lead and recruit a new investment committee capable of doing similar research.

"Our report concluded that we cannot be sure whether a change in investment style will achieve higher returns, but — if we want to give ourselves the opportunity to do so — we need to restructure our investment committee so that its members are more experienced in active fund management," Budd says. "We also need to assemble a group that can devote more time to investment activities, starting with a new chairman." He adds with a smile, "In fact, I'm already helping to search for my replacement."

Hood plans to implement Budd's suggestions in the coming academic year. "Oxford is in an extraordinary position because we have a very large number of old members who have distinguished track records in the investment arena," he says. "Many are keen to help us, so we're fortunate in that regard."

The unspoken hope is that reconfiguring the investment committee may tempt some of Oxford's colleges to invest alongside the university's central endowment fund. Were Oxford to win their cooperation and pool resources, it would have several billion pounds under its purview and gain advantages of scale. But given the rancorous debate still swirling around Hood's governance proposals, the current investment system is unlikely to change anytime soon, despite its costly inefficiencies.

"Of course, if you're a control freak, as most people are these days, or a McKinsey consultant, you have a touch of the vapors when you see this diversity of styles," says New College bursar Palfreyman. "Your instant reaction is that you want to centralize it because it must be better if it's centralized and managed from the top down. But why isn't diversity okay? I'd much rather have my eggs spread around in different baskets than rely on the top basket always getting it right."

RICHER COLLEGES, LIKE PALFREYman's, can afford to go their own way and diversify as they choose; the poorer ones have greater difficulty — not only because they have fewer financial resources, but also because minimum investments are rising. Paying a $5 million minimum to get into Farallon Capital, for example, might completely unbalance a small college's endowment as a percentage of its total assets under management. Still, college bursars' interest in diversification is growing, and some asset managers are offering innovative solutions.

Last year, for example, Oxford alumnus Karl Sternberg launched a unique experiment for his alma mater (see box). The Deutsche Asset Management veteran formed Oxford Investment Partners, an asset management firm specializing in diversified endowment management for charitable institutions, with DeAM colleagues Paul Berriman and Paul Martin.

The firm has since won multimillion-dollar mandates from five Oxford colleges — Balliol, Christ Church, New College, St. Catherine's and St. John's — and now has £120 million under management. In addition to investing with OXIP, the colleges are equity partners in the new venture and stand to profit from the business's management fees as well as from its performance. But Sternberg's enterprise doesn't solve the problem for the larger group of Oxford colleges, many of which are still struggling to selectively diversify their portfolios.

The new approach to investment management at Oxford and Cambridge dates to 2001, when British trust regulations governing charitable investing changed. Until then all registered charities were limited to income-yielding investments; they could not spend capital gains. Thus investment portfolios were heavily allocated to equities with high dividends and fixed-income securities. Most alternatives, including private equity and hedge funds, were off-limits.

Once the charitable-trust regulation changed, the universities and their colleges began to amend their investing statutes, but the process took several years; any changes first had to be ratified by the universities' governing powers — and then by the queen's Privy Council. The legacy of the trust law is one reason the Oxbridge endowments' portfolio allocations look so different from those of their U.S. peers. In addition, some investment committees were reluctant to adopt total-return investing because they weren't sufficiently familiar with it and because it would have placed a strain on their bursars and staff, who would have had to research investments and assess risks.

"It's something that I almost couldn't fathom when I arrived here in 2003," Richard recalls. "I didn't understand why Cambridge hadn't shifted to investing on a total-return basis much earlier, because that is really what powered the amazing performance of the largest U.S. endowments. Yale moved quite early, and Harvard did too. Cambridge didn't, and the reason was simply that the law wouldn't allow it."

Overcoming this legacy will be both a challenge and an opportunity for Cambridge's new CIO. The endowment, which has never been comprehensively addressed from a total-return perspective, still reflects an income-oriented mind-set. Currently, Cambridge has 70 percent of its funds in public equities (45 percent in the U.K., 25 percent overseas), 15 percent in real estate and 15 percent in bonds and cash. The university has no private equity or hedge fund investments. Although its performance has been rather lackluster over the longer haul, the endowment has done smartly for the past two years, thanks to its huge U.K. and European equity exposure. For the fiscal year ended July 31, Cambridge's central endowment portfolio was up 15.0 percent, driven by public equities and rising property values. Yale's endowment, by comparison, was up 22.9 percent for its 2006 fiscal year, which ended June 30. Cambridge's returns reflected the strong performance of European equities: The MSCI Europe index rose 19.0 percent in the 12 months ended July 31, 2006. Oxford's endowment, however, trailed that of its chief rival, posting a return of 11.6 percent for the same period.

Detailing the idiosyncrasies of Oxbridge endowment management has been a consuming project for two London Business School academics, Elroy Dimson, a professor of finance, and Shanta Acharya, an associate director of the Initiative on Foundation and Endowment Asset Management, who have been conducting research for the past three years. Their book, *Endowment Asset Management: Investment Strategies in Oxford and Cambridge*, will be published by Oxford University Press in April. Dimson and Acharya found that the universities are rich in one alternative asset: real estate. Thanks to land grants, some of which date to the 14th century, many Oxbridge colleges hold extremely valuable development rights. New College's Palfreyman recently sold for £67.5 million a 50-acre parcel in Oxford that the college's founder, William of Wykeham, donated to it on Michaelmas Day, October 1, 1386.

"We held on to it for 620 years, so I think we qualify as long-term investors," he quips.

Across the spectrum of Oxbridge colleges, most endowments are concentrated in public equities and real estate, but they are gradually being diversified. Acharya and Dimson note that as of fiscal 2004, Oxford's colleges had, in aggregate, 55 percent invested in public equities, 22 percent in real assets (mainly property), 12 percent in fixed income, 9 percent in cash and 2 percent in alternatives. At Cambridge the colleges had, in aggregate, 52 percent invested in public equities, 30 percent in real assets (again, mostly property), 12 percent in fixed income, 5 percent in cash and 1 percent in alternatives. Bond allocations typically are low, Acharya notes, because most colleges view their property holdings, many of which have long-term leases, as a form of fixed-income investment. But the oldest colleges are not necessarily the wealthiest: 460-year-old Trinity, the richest college at Oxbridge, with a £770 million endowment, is in fact making alternative investments, in its own way. "Trinity has actually been involved in a number of alternative investments, like the Felixstowe docks and the Cambridge Science Park — we even own a small forest — but we didn't know that they were called alternatives," says senior bursar Jeremy Fairbrother. "It was a bit of a surprise to us."

"If we're able to convince our alumni that their donations will be managed in a wicked, exciting, American-style way, maybe that model will be more appealing as the model of the future."

Generalizing about the colleges' investments is difficult because the endowments vary so widely. Acharya and Dimson were struck by the differences in investing styles and strategies from one college to the next, although many of the bursars didn't want to discuss their asset allocations at all.

"Unlike the pension fund sector, where everyone follows one another, there is no herding behavior evident among the Oxbridge bursars," Acharya says. "It's really quite extraordinary. Bursars talk to each other regularly, but they simply don't herd. It's remarkable how different they all are, how strongly they believe in their difference, and how articulate they are when explaining their individual approaches."

The reluctance of the Oxbridge colleges to adopt a total-return approach to investing frustrates some of the more progressive bursars. "What I think few of us really understood, even as we were working hard for years to change our investment statutes, is that many of the bursars have been deeply suspicious about the move to total return," says Barry Hedley, senior bursar at Cambridge's Gonville and Caius College, which has £114.7 million in assets under management. Hedley is also chairman of the Cambridge Bursars' Investment Forum, an informal, universitywide organization of bursars he founded in 2003. "They think that what it means is that you go off and invest in all sorts of highly risky securities and start spending capital gains, which has traditionally been viewed over the centuries as the road to perdition."

What total-return investing really means, Hedley explained to a committee of bursars at Cambridge in 2002 after a yearlong stint as chairman of a small subcommittee assigned to look into the strategy, is that bursars have to model diversified portfolios designed to produce better returns with lower risk — and be very precise and disciplined about their spending rules. Those techniques are not beyond them (a number of the younger bursars have considerable asset management experience in the City of London), but they require adopting a very different mind-set and doing more research. To relieve some of the burden, Hedley has used the investment forum he organized as a means of sharing investment research on prospective managers and introducing experts on portfolio diversification — including Yale's Swensen — to the community.

"It's one thing to read in the press about the mysteries of what the Harvards and Yales do with their portfolios, but when you actually get a guy like David in the room and he sits down and talks with 20 of us about the portfolio, none of those ideas seem quite so remote or strange," Hedley says. "A number of us have been focused on more broadly diversifying our portfolios by incorporating alternatives, and listening to him has strengthened our resolve."

Since July 2000, Gonville and Caius's portfolio has been reshaped. Public equities dropped from 31.4 percent of the portfolio to 28.2 percent by July 2006 (the most recent data available) and property holdings crept down from 40.2 percent to 39.1 percent. But cash and bond holdings were slashed from 28.1 percent to 10.7 percent, as the college made inaugural investments in hedge funds, now at 13.6 percent of the portfolio, and real assets (commodities like oil and gas), now at 4.8 percent, and boosted its private equity holdings from 0.3 percent to 3.6 percent.

Not all of the bursars who prefer more diversification can go it alone. Few have more than £200 million under management: Even if they could gain access to the best private equity and hedge funds, the colleges might be precluded from investing because meeting those funds' minimums would consume too big a piece of their endowments.

Thus the potentially groundbreaking opportunity for Cambridge's first chief investment officer to provide a solution to this dilemma. The new CIO will have the freedom to recruit and hire a team (probably four or five investment professionals) and will have a mandate to build a central fund that could serve as a resource for the entire university community — Cambridge and its 31 colleges — by offering them the choice of either investing alongside the university in the overall fund or supplementing their own portfolios by selecting from a menu of concentrated, specialized types of commingled funds.

The concept is largely Swensen's brainchild. Aware of the idiosyncrasies of the Oxbridge system, he suggested that, rather than force unwanted centralization on the colleges, Cambridge's new investment board could encourage the bursars to coinvest and commingle funds with those of the university. That way the colleges could gain the advantages of scale without surrendering their prized autonomy.

Swensen's idea is compelling: In addition to assembling a pool that would be controlled and managed by the new investment office, the team would also develop funds to invest in those asset classes that are most difficult for the bursars to tap into. So, for example, the team might create funds for absolute return, venture capital, leveraged buyouts, timber, oil and gas and offer units — or shares — in those funds to all the colleges. Hedley, who was a member of Cambridge's old investment committee, favors Swensen's idea.

"At Cambridge and Oxford we do what our peers do in the U.S., only with a fraction of the resources."

"Of course, it will be up to the new CIO and investment team to implement this," he says, "but we've strongly recommended that they structure the university's fund so that the individual colleges can continue to make their own decisions about asset allocation and come in for specific subclasses of investments."

"Some people have said, 'Oh, you're going to implement the Yale model at Cambridge,' but that is not the case," says Michael Dobson, chairman of the investment board and CEO of Schroders. "Yale has had a tremendous performance history, and as much as we would like to emulate that, we are not going to be a mini-Yale. The new investment team will come in with its own views about how the portfolio should be managed, and the CIO will drive that process."

If the plan works, Cambridge might forge a new model of endowment management that would be at once specific and scalable, with access for all. The concept has the potential to equalize investment opportunity across the community of colleges. Successfully implementing such a program, attracting co-investments from the colleges and strengthening Cambridge's financial standing would be a major coup for Richard and the new investment board — and might begin to ameliorate the university's reliance on government funding.

Whether Oxford will choose to follow suit remains to be seen, but if the U.K.'s fabled universities are to stay at the forefront of the world's educational institutions, they must find innovative ways to build on their financial resources and optimize investment management. After all, everything flows from the money: Successful performance translates into higher academic salaries, more department chairs, newer research labs, larger libraries — and, ultimately, the ability to attract the most-talented students in the world. Not to mention the most-capable investment officers. i