SUPERBOSSES

How Exceptional Leaders Master the Flow of Talent

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SUPERBOSSES: How Exceptional Leaders Master the Flow of Talent
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Introduction

For the past twenty-three years, David Swensen has continuously proven himself to be an innovator and leader in the world of endowment investing as Chief Investment Officer (CIO) at Yale University. Generating astronomical annual returns of 28% in 2007,² as compared to the average 21.3% average rate of return in the same year for other endowments valued at over $1 billion³, Swensen’s management has enabled Yale to claim title of one of the best performing university endowments in the country. He first arrived at Yale as a graduate student of economics in 1975, teaming up with influential mentors such as Nobel Prize winner James Tobin and then Provost Bill Brainard. Upon Brainard’s recommendation and his return to Yale as CIO in 1985, Swensen first established himself as revolutionary by diversifying Yale’s stock/bond/cash-heavy endowment.⁴ Over the following two decades, Swensen further established himself as a pioneer not only by way of his fundamental investment knowledge and extensive manager research, but also by his ability to produce other leaders. Some of the nation’s top experts in endowment management originated under Swensen’s tutelage and went on to manage some of the country’s most thriving university and non-profit endowments.

The Rise of Yale

More than three-quarters of Yale’s money was invested in U.S. stocks, bonds, and cash when Swensen took hold of the endowment in the mid 1980’s. With such a high level of correlation to the stock market and U.S. equities, Swensen believed that there

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was not enough cushion against inevitable down cycle losses, and thus too much risk. Instead, he set about diversifying the portfolio by investing in what at the time were considered to be unconventional asset classes, such as foreign stocks, real assets (real estate, oil and gas, timber, etc.), private equity, and hedge funds. Although a seemingly logical methodology today, it was actually unorthodox at the time—“‘No institutions were managing money in accordance with what finance theory would tell us,’ he says. ‘It just wasn’t done.’”

Since the beginning of his tenure at Yale, Swensen had assistance in the form of longtime friend and colleague Dean Takahashi. Takahashi and Swensen met back when Swensen was a graduate student and freshman counselor and Takahasi was a freshman undergraduate. This began not only a lifelong friendship, but a decades-long business alliance as well. Swensen opens the Acknowledgements section of his first book, Pioneering Portfolio Management: “The ideas and influence of Dean Takahashi, my friend for twenty-three years and my colleague for twelve years, touch every page of this book. In fact, the approach to investing I describe here really represents joint intellectual property…” To this day, Takahasi remains Senior Director of the Investments Office and Swensen’s right-hand man. According to Andrew Golden, former Swensen colleague and now President of Princeton Investment Company, although Takahashi’s wealth of investment knowledge and level of intelligence rival those of his partner’s, Swensen’s communication and leadership skills remain far superior. Nonetheless, the two have formed a strong bond personally and professionally, successfully leading the Yale Investments Office for decades.

Although Swensen’s success in asset allocation is partially due to his gift of quantitative analysis, he also has intrinsic talent for choosing the right asset managers - both necessary skills for a successful endowment manager. In the sphere of a college or

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9 Interview with Andrew Golden, President Princeton University Investment Company, September 18, 2008.
university, the manager of the endowment is normally known as the Chief Investment Officer, responsible for general management of the institution’s endowment and decision-making regarding investment strategy and policy, usually along with outside investment advisors. As CIO, Swensen has preferred managers who run concentrated portfolios and has garnered a reputation for conducting exhaustive due diligence with his team.\textsuperscript{10} Swensen and his team meet regularly with the approximately 100 outsourced portfolio managers and will often time accompany them on company visits. They also carry out extensive due diligence on prospective managers and run endless simulations reproducing a broad spectrum of market risk scenarios.\textsuperscript{11} Early on in his career, Swensen established himself as a pioneer of such thorough company research, as no one else delved quite as deep as him.\textsuperscript{12}

Furthermore, Swensen is known for his unwillingness to compromise when it concerns the integrity of the portfolio, particularly in dealing with issues of internal manager structure.\textsuperscript{13} Former colleague D. Ellen Shuman, now Vice President and CIO of the Carnegie Corporation of New York, exemplifies, “In real estate, David always requires a preferred return, a hard preferred return, which means you get your money back plus a return on your money before the general partner receives a carried interest. Today that is definitely not market. David really has insisted on that. He has passed up on a couple of opportunities because of that but I appreciate the fact that he is willing to stick to his criteria and just be tough on those points. In most cases he prevails.”\textsuperscript{14}

\textit{Production of Protégés}

In addition to his obvious aptitude for endowment management, Swensen’s success during his tenure at Yale can be measured by the number of protégés he has spawned, many of whom have continued on to manage some of the most high-achieving

\textsuperscript{13} Interview with D. Ellen Shuman, Chief Investment Officer Carnegie Corporation of New York, September 24, 2008.
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non-profit and university endowments in the country. One contributing factor to Swensen’s success in developing leaders is his ingrained sense of mission. This passion was cast, in part, by Swensen’s modest upbringing in River Falls, Wisconsin, where his father and grandfather were local professors and his mother a Lutheran minister. The oldest of six children, Swensen grew up in a household where giving back was ubiquitous and ingrained was the notion that there are many more important things in life not measured by the almighty dollar.\(^\text{15}\) He went on to propagate this attitude at Yale by reinforcing to colleagues that their work would ultimately enable less fortunate students to reap the benefits. “One of the things I care most deeply about is that notion that anyone who qualifies for admission can afford to go to Yale, and financial aid is a huge part of what the endowment does.”\(^\text{16}\) Swensen has further authenticated his claims of mission by rejecting multiple, more lucrative offers to leave Yale. Had he left Yale for Wall Street, he could have essentially multiplied his roughly $1 million salary by hundreds. Instead, Swensen asserts that his personal satisfaction stems from his early roots in public service and in turn, his ability to help generate more resources for one of the greatest institutions of higher learning in the world. “I feel privileged to be in a place where the resources that we generate are applied to the world’s problems.”\(^\text{17}\) In an interview with Swensen, he spoke about how he also looks for this altruistic attitude when recruiting new hires: “…It’s not enough to be a high-powered, finance type—we want high-powered finance types that really want to contribute to the world.”\(^\text{18}\)

In addition to his personal sense of mission, part of Swensen’s faculty for spawning comes from his ability to choose high-quality team members. On one hand, this can be attributed to the fact that he has a large talent pool at his fingertips—as a professor of one graduate-level course and a former undergraduate instructor, Swensen is


\(^{18}\) Interview with David Swensen, October 9, 2008.
known to look right in his backyard for qualified Yale alumni.\textsuperscript{19} Most of Yale Investments Office employees, and in turn, protégés, tote Yale alumni status in some form. Due to the fact that this major talent pool happens to originate within the walls of Yale, they are particularly invested in the mission of the university that he so strives to promote.\textsuperscript{20}

On the other hand, Golden explains another facet of Swensen’s talent-picking ability. At Yale, he says, “the idea of getting to satisfy competitive juices in terms of being able to compete to win a game that’s based upon smarts and yet do it for a good cause makes it easier to attract a certain type of talent. How do you recognize talent is a case of him being very, very smart…talking to Dave is a real intellectual challenge in a positive way.”\textsuperscript{21} He explains that the subset of individuals suited for the long haul in endowment management is a very small number due to the much discounted pay rates, as compared to their Wall Street counterparts. Golden thinks that Swensen is extremely successful at discerning who is there for the right reasons and has a unique knack for finding these individuals by way of his intellectual prodding. Swensen explains how when selecting potential Investments Office employees, “We look for people that have superior academic qualifications, high level of integrity, lots of achievement orientation…”\textsuperscript{22} But despite this concrete search for qualified candidates, Swensen seems to possess more of an intangible ability—for him, “it’s pretty easy to discriminate between people that care about things other than making as much money as they can in the financial world…”\textsuperscript{23}

Swensen is able to use to his advantage the resources and benefits attributed with working in the greater Yale community. When asked why Yale is known for being the best and virtually, only, producer of so many protégés, Swensen attributes longevity and stability as the major factors. “If you look at the longevity we have at Yale—I think

\textsuperscript{21} Interview with Andrew Golden, President Princeton University Investment Company, September 18, 2008.
\textsuperscript{22} Interview with David Swensen, October 9, 2008.
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that’s given us a stability in the organization and a corporate culture that has allowed people to come and spend time and then go and take a piece of that culture and transplant it elsewhere…and I think the organizational structure might have something to do with it—if you look at a Harvard or a Stanford or a Duke, they’ve set up separate management companies that are physically separate…the focus is much more investment management oriented as opposed to being part of the fabric of the university.”

Finally, Golden explains that the majority of Swensen hires are entry-level positions, as opposed to riskier “lateral hires.” This also works to his advantage, as retention levels are extremely high with a younger work force of recent graduates and there is less of an issue of hierarchical struggle with more experienced employees. As of the end of 2007, the Yale Investments Office had nineteen employees including Swensen, almost one-third of who were recent Yale and SOM graduates.

When interviewed, both Shuman and Golden touched upon the air of collaboration that was prevalent in the Investments Office. According to Shuman, “[Swensen] works really hard to give people accountability and allow them to be the point person on things, so he’s very good at mentoring people and allowing them to grow.” Additionally, both interviewees describe a very hands-on mentor in Swensen, a trait that they believe lends well to spawning other successful leaders. But despite the high retention rate, the advantages of employing younger talent, and a collaborative, learning environment, turnover is inevitable. Golden describes, “You’re going to hire people with ambitions. A large number of them are going to want to run something and it kind of creates a natural vibrancy to have turnover for that reason, it’s a great recruiting tool. ‘Come here and someday have my job, or a job just like mine.’ It’s a practice that the children of Dave have tried to create in the grandchildren of Dave. I had one of my colleagues here go on to be the head of University of Chicago as well. Dave now has grandchildren.”

24 Interview with David Swensen, October 9, 2008.
28 Interview with Andrew Golden, President Princeton University Investment Company, September 18, 2008.
Princeton, and was also responsible in aiding Shuman in her transition to Carnegie Corporation. According to Swensen, “I think that we’re really pleased when people leave the Investments Office and go on for other not-for-profits, which doesn’t mean we’re not happy when people leave to go to business school or the private sector. One of the things we’ve consistently done is when people decide that they want to work at a different geography or move on to a different organization, we’ve always helped them make that transition.” When asked if this gives him a sense of pride, Swensen didn’t hesitate to respond, “Oh, absolutely. I think it’s great, I think it’s wonderful.”

Paula Volent at Bowdoin College, Seth Alexander at MIT, and Andrew Golden at Princeton University are all former Yale colleagues who are products of Swensen’s mentorship, now leading endowments of their own. Others in the non-profit sector include D. Ellen Shuman at the Carnegie Corporation, Donna Dean at the Rockefeller Foundation, Casey Whalen at the New York Public Library, and Lauren Meserve at the Metropolitan Museum of Art.

Unparalleled Success

Swensen’s superior status as innovator and leader in the field of endowment investing naturally lends to his great talent for producing other great money managers, probably more than any other. When asked if he thought Swensen was the best at producing endowment managers in his field, Golden replied in an outburst, “Endowment managers? Where else is even competition…He’s had a huge impact, not just on endowment management, but on the world’s economy, for crying out loud!” This skillful teacher’s sense of mission combines with his stellar ability and deep wealth of knowledge, enabling him to produce successful endowment heads, some of whom have even surpassed his impressive figures at times. For example, in 2006, Seth Alexander led

30 Interview with David Swensen, October 9, 2008.
33 Interview with Andrew Golden, President Princeton University Investment Company, September 18, 2008.
MIT’s endowment to a 23% annual rate of return, just surpassing that of Yale’s at 22.9%. Nevertheless, as a Trustee of the Carnegie Institution of Washington and TIAA; Treasurer of the Hopkins Committee of Trustees and recipient of the Hopkins Medal; advisor to the Carnegie Corporation, the New York Stock Exchange, the Howard Hughes Medical Institute, the Courtauld Institute of Art, the Yale New Haven Hospital, the Investment Fund for Foundations, the Edna McConnell Clark Foundation, the states of Connecticut and Massachusetts; and an honorary degree holder from alma mater University of Wisconsin-River Falls and PhD holder from Yale, Swensen’s figure-head status is unparalleled. Perhaps we will soon see the reverberations of Swensen’s leadership and mentorship to an even higher degree, as his protégés continue to generate headlines of their own and in turn, continue the spawning cycle.


In light of worldwide attention given to the global financial crisis that started in September 2008, Swensen has certainly not escaped media interest for his thoughts on the crisis and the future of endowments. Despite reporting a loss of roughly 25% of the overall portfolio value as of year end 2008, Swensen claims he will not stray from investment strategies he has used in the past. In a January 2009 interview with The Wall Street Journal, when asked if he felt the need to alter the endowment’s portfolio based on recent poor performance, Swensen replied, “I don’t think it makes sense for an institutional investor with as long an investment horizon as Yale’s to structure a portfolio to perform well in a period of financial crisis. That would require moving away from equity-oriented investments that have served institutions with long time horizons well.”

In a televised interview with Charlie Rose, also in January of 2009, Swensen mentioned that one of the largest impacts of the financial crisis for institutions like Yale will be the need to moderate growth in an organization (particularly in Yale’s case) grown accustomed to high return rates and recent periods of tremendous growth. Despite

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growth moderation and the current market environment, Swensen tells that Yale does not plan on declining distributions, but rather a flat distribution in which they can maintain endowment contributions to the operating budget.37

On February 6, 2009, President Barack Obama announced the establishment of the Economic Recovery Advisory Board, created to provide independent economic advice to the President in conjunction with his strides to improve the economic climate. Swensen was among the prestigious group of Board members chosen on the basis of their “achievement, experience, independence, and integrity.”38 Other members include Jeff Immelt, CEO of General Electric; William Donaldson, Chairman of the SEC; Roger Ferguson, President and CEO TIAA-CREF; and Martin Feldstein, Harvard University Professor of Economics and former advisor to President Reagan.

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