



## Elite U.S. Universities Feel Pain of Market Slump

by Germain Moyon /Agence France-Presse (AFP)

**NEW YORK, Sept 22, 2009 (AFP)** - Major US universities that jumped into financial markets during the boom years are now paying the price for taking on too much risk with their endowments ahead of the global financial crisis.

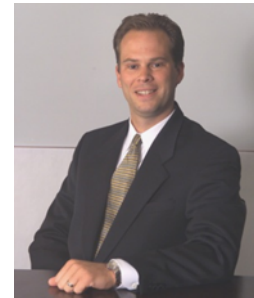
Some of the most prestigious US learning institutions have been hit hard after having shifted in recent years from a conservative strategy into riskier bets such as commodities, real estate and private equity ventures outside traditional markets.

Harvard University has acknowledged its endowment tumbled 27 percent in the 2008-2009 fiscal year to 26 billion dollars. Ivy League rival Yale University lost 30 percent over the same period, leaving its balance at 16 billion dollars.

The past year "marked the close of what was very likely the most challenging period in modern times for the financial markets as well as for the Harvard portfolio," said Jane Mendillo, who took over as president and chief executive of Harvard Management Company on July 1, 2008.

Some say that a growing number of universities, which either manage their own investments or hire outside firms, became too greedy during the heady days of the boom in stocks, real estate and other assets.

Schools like Harvard and Yale, the wealthiest universities, employed an aggressive strategy "which of course helped them in previous years and now are hurting them," said Eric Bailey, managing partner of the investment consulting firm CapTrust.



Eric W. Bailey, CFA

"They lost probably twice if not more than twice what the average college might have in the same time period... these are big numbers."

Bailey said wealthy, elite schools like Yale and Harvard "are going to be fine" and eventually recover their losses, but some others might be hurt more.

"There have been smaller schools that have followed the path of Harvard and Yale, and there have been schools with much smaller endowments that allocated heavily to alternative investments," he said. "So they may not recover."

Some universities stayed conservative despite the temptation to get higher returns. Thus, Columbia University, another Ivy League institution, limited its loss to 16 percent in the past year, a spokesman said.

According to research firm Wilshire Associates, the median loss for foundations and endowments in the 12 months to June 30 was 19.1 percent despite a first-quarter round of 10.6 percent.

Yale president Richard Levin said only a small fraction of the school endowment is invested in publicly traded securities, so the recent stock market rebound has not helped Yale.

"The bulk of our endowment remains invested in illiquid assets, which have not begun to recover their value."

The hefty losses, Levin said, deal a double-whammy to the endowment, which is used to help fund numerous programs and provide financial aid to students.

"When it becomes headline news that you have suffered such substantial losses, it actually inhibits donors," he said.

Burton Weisbrod, economics professor at Northwestern University, said school endowments are learning the lessons of other investment managers about risk and reward.

"I do not attribute (the losses) to either dishonesty or bad management; it's the inevitable price of taking on more risk," he said.

"The wealthy schools of the country have over a period of a decade a substantially higher average rate of return in their investment. The way they got these higher returns was to get into riskier investments that means more volatility. This is a terrible year for them, but they had a lot of very good years."