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## For Yale's Money Man, a Higher Calling

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New Haven

NEWS of windfalls on Wall Street have become as common and unsurprising as rain: traders collect \$50 million bonuses, top hedge fund managers haul in more than \$100 million in a single year. In such gilded company, annual compensation of \$1.3 million looks paltry. Yet that was how much David F. Swensen took home in 2005 for supervising [Yale University's](#) endowment, now worth \$20 billion.

Mr. Swensen, one of the most well-regarded investors in the country, never appears on lists of the most highly paid money managers. Nor has he made headlines by buying expensive homes in New York or Palm Beach or by frequenting cocktail and charity circuits. But in the competitive, performance-driven world of money managers, Mr. Swensen can boast of an extraordinary record.

During his 21 years as steward of the Yale endowment, Mr. Swensen has generated an annual compound growth rate of 16.3 percent, beating the performance of [Harvard's](#) endowment and that of every other major school in the country over the same period, according to data compiled by Yale. Over the years, he has also routinely rebuffed lucrative offers to leave Yale and to cash in on his expertise in a much grander fashion.

"People think working for something other than the most money you could get is an odd concept, but it seems a perfectly natural concept to me," says Mr. Swensen, a slender, soft-spoken man who looks and dresses like a high school teacher. "When I see colleagues of mine leave universities to do essentially the same thing they were doing but to get paid more, I am disappointed because there is a sense of mission," in endowment work.

Amid outsize and often unimaginable paydays for financiers and corporate chieftains, Mr. Swensen's philosophy may be more than simply anachronistic; in an era when many people commonly equate "successful" with the size of one's salary, Mr. Swensen runs the risk of being dismissed as a dinosaur. Even so, he is an example of someone who has found a vibrant *métier* that seems to suit him perfectly, for which he is comfortably — even

handsomely — paid, and from which he has absolutely no desire to leave.

“People like David who run endowments are already managing a business where their skills could be immediately transferred to the for-profit sphere at multiples of what they earn,” says Bruce Greenwald, a finance professor at the [Columbia University](#) Graduate School of Business.

Multiples, indeed. Mr. Swensen's preference for his work at Yale means that he has given up at least tens of millions — if not hundreds of millions — of dollars in personal compensation over the last decade alone. But the 53-year-old economist, who has spent most of his adult career at Yale, said in an interview in the endowment's nondescript campus office that he plans to stay at the university “as long as they are willing to have me.”

Yale has every reason to want him to stay. After joining the university's investment office when he was just 31, Mr. Swensen moved Yale's portfolio away from a strict menu of stocks and bonds, favoring instead more diverse instruments like hedge funds, commodities like oil and timber, and private company investments.

That strategy revolutionized endowment investing, and other schools have followed suit. Mr. Swensen's track record and his growing cachet have helped Yale attract donors who believe that their gifts to the university will be well deployed. Although his two books, “Pioneering Portfolio Management” and the more recent “Unconventional Success,” have helped raise his profile as an investment guru, he remains ambivalent about promoting himself. He notes that there are thousands of university professors who have also forgone more lucrative careers to put their skills to work in the academic world.

Two years ago, Yale's president, Richard C. Levin, brandished a chart at a party celebrating Mr. Swensen's 20th anniversary at Yale; during those two decades, the university's endowment had grown to \$14 billion from \$1.3 billion. The chart showed a list of those who had made the most significant financial contributions to Yale, and included names like Harkness, Beinecke and Mellon. The name at the top of the list, however, was Swensen, with a \$7.8 billion contribution — Yale's calculation of the amount by which Mr. Swensen had outperformed average university endowments during his tenure.

“Yale is the bellwether and the benchmark against which every endowment measures itself,” said J. Ezra Merkin, who runs the investment committees for [Yeshiva University](#) and the [UJA-Federation of New York](#).

A number of high-profile endowment chiefs have recently bolted academia for the more lush pay packages offered by private funds in the for-profit sector. When Jack R. Meyer, who racked up stellar returns as the head of the Harvard endowment, gave up his post in 2005, for example, he and his team easily raised \$6 billion for their new hedge fund. But

Mr. Swensen says he has no desire to do something similar.

"I just had an e-mail from a friend who manages money for a wealthy family," he said in an interview in the endowment's plain campus office. "He was troubled by it: making wealthy people wealthier. I feel privileged to be in a place where the resources that we generate are applied to the world's problems."

He adds: "On one level you could always imagine some greater creature comfort or having more toys or more houses. That would be nice. But it certainly does not drive me."

While Mr. Swensen has no say about how Yale spends the proceeds from its endowment, he is eager to note the beneficiaries. "One of the things that 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," he says.

But some people think that he exaggerates the virtues of managing money for a nonprofit versus investing on behalf of private interests.

"If you are making money for the parents and in turn for their kids, why is that any less admirable than making it for Yale University?" asks Alan Reynolds, senior fellow at the Cato Institute, a libertarian research group. "For all you know the guy you are running money for is giving it all away. The presumption that it is all going into a lavish lifestyle is just a presumption."

Mr. Swensen bristles at that observation. "I think it is extraordinarily different," he says. "There is a clear link between the resources we generate here and doing research and providing financial assistance.

"Public service was something that always interested me when I was growing up," he adds. "I thought that nothing would be better than to be a United States senator from Wisconsin. I could not imagine a higher calling."

Mr. Swensen grew up in River Falls, Wis., where his father was a chemistry professor at the [University of Wisconsin-River Falls](#). His mother, Grace, became a Lutheran minister after raising six children. His brother Stephen is a doctor at the [Mayo Clinic](#), and one of his three sisters is also a minister.

His family's pursuit of callings found its way into Mr. Swensen's own thinking as well. "When I see colleagues of mine leave universities to do essentially the same thing they were doing but to get paid more, I am disappointed because there is a sense of mission," he says.

That sense of mission has rubbed off on his apprentices at Yale, with the result that some

major nonprofit organizations in the United States are now run by men and women who once worked for him: Seth Alexander at [M.I.T.](#), Andrew K. Golden at Princeton, D. Ellen Shuman at the Carnegie Corporation, Donna Dean at the Rockefeller Foundation and Paula Volent at Bowdoin College.

“He has this love of investments that is contagious,” says Ms. Volent, who spent four years at Yale’s investment office and now runs the investment committee at Bowdoin. “He taught us that we were in the business of making money for financial aid for students. If there was a dip in grants and you had a good endowment, you could continue on.”

After earning an undergraduate degree in economics at the River Falls campus, Mr. Swensen headed to Yale, where he received a doctorate in economics. His decision to head east surprised his family. To the Swensens, “it was as if there was something out there beyond Lake Wobegon, and David was conquering that frontier for us,” his brother Steven recalled.

At Yale, he also became close to James Tobin, a [Nobel laureate](#) in economics who believed that investment volatility was best reduced by diversifying across a far wider range of asset choices than only stocks and bonds.

Mr. Swensen then worked briefly on Wall Street, at [Lehman Brothers](#) and Salomon Brothers, an experience he describes as “intellectually fabulous but ultimately unsatisfying.”

“In the finance world it is very easy to measure winning and losing in dollars and cents,” he says. “That has always seemed to be an inadequate measure. The quality of life is a better way to measure winning and losing. Money is only one element of that.”

In 1985, Yale recruited Mr. Swensen to manage its endowment. “I took an 80 percent pay cut,” he recalls. “I was married, without kids. I was worried that I would miss the money, but then I didn’t. So I worried over nothing.”

Today, Mr. Swensen, now a divorced father of three, rides herd on about 100 money managers whom he entrusts with Yale’s money. Some of them say he is unyielding in seeking the best deals for Yale. One manager described him fondly as a real “stiff-backed Midwesterner.”

But within the clubby money management world, a Yale investment is akin to a seal of approval, and managers avidly court Mr. Swensen. They describe him as a thorough researcher who, with his team, scrutinizes his choices intensely before committing money.

One of his early investments was with Chieftain Capital Management, a firm run by Glenn Greenberg, a Yale graduate who met Mr. Swensen at a Yale fund-raiser.

“After he came to see us, he called up the chief executives at some of our largest holdings and asked them. ‘Who really knows your company well?’ ” Mr. Greenberg recalls of his first encounter with Mr. Swensen. “He wanted to know who did the best research. No other investors did research like that.”

When it comes to hedge funds, with their hefty fee structures, Mr. Swensen can be particularly tough. Tom Steyer, a Yale undergraduate, approached Mr. Swensen in 1987 to raise money for Farallon, his diversified hedge fund. “They turned us down flat,” Mr. Steyer recalled.

Like many hedge funds, Farallon charged a 1 percent management fee and took 20 percent of the profits. “David told us: ‘I don’t see why we would give you any money. You might shut down after a bad year,’ ” Mr. Steyer recalled.

It was only after Mr. Steyer swore that he wouldn’t shut down — and that he wouldn’t immediately charge Mr. Swensen 20 percent of his profits and other fees — that Mr. Swensen gave Mr. Steyer some of Yale’s money.

“If you make money personally by gathering a huge pile of assets, it is great for the management company because they make bigger fees,” Mr. Swensen says. “But if the fund goes from \$2 billion or \$3 billion to \$20 billion, they are inevitably going to reduce their ability to generate investment returns. Size is the enemy of performance. What we need is people who define success by generating great investment returns, not by making as much money as they possibly can.”

Years ago, when Yale considered investing with ESL Partners, the hedge fund run by Edward S. Lampert, Mr. Swensen says Mr. Lampert refused to tell him what stocks ESL owned. An ESL spokesman declined to comment.

Mr. Swensen says: “If you are sitting in my position, how can you responsibly give money to a fund that won’t tell you what they are invested in? If I went to my investment committee and told them we are invested in this fund but we don’t know what the positions are, they should fire me.”

Yale did not even consider giving money to Steven Cohen, the money manager who takes 50 percent of his hedge fund’s profits. Mr. Cohen’s \$12 billion fund has had a 43 percent average annualized return since 1992, but “the fees alone are enough to say I don’t want a meeting and there are enough people who put together fair deals,” Mr. Swensen says. A spokesman for Mr. Cohen declined to comment.

But once he likes an investor, Mr. Swensen tends to hang in, even in tough times. Yale weathered a 13 percent loss one year on funds invested with Water Street Capital, a hedge

fund run by Gilchrist Berg. "I was a little bit shaky but David said to me, 'We really value the relationship and we want to put more money with you,'" Mr. Berg recalls.

Other investors describe Mr. Swensen as an "extremely rational" contrarian. "He tries to think through what is the best opportunity," Mr. Greenberg says. "He doesn't care about being popular. And he is not afraid to go where other people don't."

Mr. Swensen considers trying to time the market a "fool's errand." Other managers say that his primary expertise involves spotting growth sectors in the economy and finding the best people to manage Yale's investment in those sectors.

It is work that he loves. "You get to choose those investments that are the right fit," he says. "I think [Warren Buffett](#) said it: It is like playing baseball when they don't call the balls and strikes. You can wait and wait until it is a pitch you want to hit."

Like Mr. Buffett, Mr. Swensen has developed a following. "In the endowment world, going to see David for advice is like going to the pope," says a board member of an [Ivy League](#) university who insisted on anonymity because his board does not want him to comment on such matters publicly.

MR. SWENSEN clearly relishes how tenaciously some money managers court him. "We get lots and lots of unsolicited please and p-l-e-a-s," he says, smiling. He also relishes the quality of people he has been able to recruit to work with him at the Yale endowment.

Mr. Swensen says he trolls for apprentices among Yale graduates because they care about the university's mission, and he sometimes finds them in the economics course he teaches.

"I love the idea that undergraduates have this opportunity to study whatever they want," he says. "Students will say to me, 'What do I need to take to be attractive to an investment bank?' I say: 'Don't do that. Take great classes that you like.'"

Those who have worked with Mr. Swensen say he has successfully blended the notion of pursuing a calling with the raw mechanical discipline needed to be a winning steward of an endowment.

"I think that the success of many of the people who worked there related to this participating in seeing how good decisions were made and what constitutes good due diligence," says Ms. Volent at Bowdoin.

In the end, Mr. Swensen says, successful investing — in fact, success in any profession — comes down to doing your job well and loving what you do.

What he demands of himself is exactly what he demands of the custodians of Yale's capital:

**“People who define success by generating great returns, not by making as much money as they possibly can,” he says.**