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YourQ&A: Can All Endowments Invest Like Harvard?

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Question

All endowments want to invest the way Harvard and Yale do, is that really possible?

Executive, Asset Management Firm, Southeast

Answer



Ian Kennedy is the global director of research at Cambridge Associates.

Not all endowments are Harvard or Yale wannabes. Moreover, in many key ways, Harvard and Yale have pursued quite different approaches to endowment investing. For example, Harvard has managed a significant percentage of its assets internally, in some respects looking more like a long-short hedge fund than a traditional endowment. Meanwhile, Yale has relied almost entirely on external managers.

Leaving this aside, however, if the question is, "Should all endowments attempt to invest the way Harvard and Yale do?" then the answer is a resounding "Yes."

All endowments should develop a coherent and disciplined investment plan that maximizes the probability of their realizing their financial objectives. All endowments should diversify and rebalance. All endowments should allocate sufficient resources to implement their investment strategy effectively. All endowments should focus on prospective return opportunities and should avoid the classic behavioral risks of chasing yesterday's great performers in asset classes or managers, chopping and changing course as the investment winds blow. All endowments should monitor and manage risk as well as return. All endowments should seek to understand their own competitive advantages and disadvantages and invest accordingly.

These simple – but difficult – characteristics are the main "secrets" to Harvard and