

Making the Grade

Mount Holyoke takes an Ivy League approach to investing its endowment, relying heavily on hedge funds. **By Marsha Zapson**

Mount Holyoke College may not have the cachet of its Ivy League brethren, but the Seven Sisters school, nestled in South Hadley, Massachusetts, has been just as aggressive in its approach to investing its endowment. Like some of its famed graduates, including poet Emily Dickinson, Mount Holyoke's investment committee has been progressive. The school first invested in hedge funds in 1989, and today its endowment has \$160 million in the asset class — nearly one third of its \$500 million portfolio.

Mount Holyoke stands out among its peers. College and university endowments with \$100 million to \$500 million allocate 11.4 percent of their assets to hedge funds on average, according to the National Association of College and University Business Officers' most recent study, which looked at the 12 months ended June 30, 2005. Schools with endowments of at least \$1 billion typically allocated 20 percent to hedge funds in that period.

"Given our size, we can take some risk. But we have to be very thoughtful about it," says Audrey McNiff, 48, a

Mount Holyoke trustee and chairwoman of the school's investment committee. "We do well in up markets, but we do a lot better in down markets," she notes, adding that downside protection was the reason for moving into hedge funds.

In keeping with the college's all-female student body and strong school spirit, McNiff heads an investment committee composed primarily of women — seven members of the eight-person group are alumnae; the lone male is married to a graduate. Mount Holyoke, which doesn't have a full-time portfolio management staff, hired Boston-based Cambridge Associates as consultants in the mid-1980s. Cambridge's role has grown to include portfolio allocation, manager selection and management of Mount Holyoke's endowment.

McNiff says not a week goes by that she isn't in contact with James Mnookin, a Cambridge managing director who has been involved with the endowment for the past six years. With a focus on mitigating risk, Mnookin says he and McNiff constantly check to ensure that managers don't stray from their stated investment strategies. Their approach seems to be working. Mount Holyoke's endowment was up 15 percent for the 12 months ended June 30, 2006. That compares with the school's Cambridge, Massachusetts brother, Harvard University — a titan in the endowment world — whose endowment returned just over 16 percent for the same period. Mount Holyoke's endowment is up 49.9 percent over the past three years, and 45.8 percent over five years.

"Maintaining portfolio diversification is vital," says McNiff, who was recruited by Mount Holyoke's investment committee through its old girl network. "We don't want too big an allocation to any one manager." McNiff is a managing director at Goldman, Sachs & Co., where she heads the derivative prime brokerage business.

Mount Holyoke's initial foray into hedge funds was made 17 years ago with New York-based Odyssey Partners, which was founded and run by legendary investors Leon Levy and Jack Nash and was one of the most successful funds until its 1998 liquidation. One of the members of Mount Holyoke's investment committee had ties to Levy, who died in 2003, and the school became Odyssey's first institutional investor.

Today, Mount Holyoke's endowment is invested in eight hedge funds at six firms, including Highfields Capital Management in Boston and New York-based Och-Ziff Capital Management Group and Davidson Kempner Capital Management. The rest is in fixed income and private equity.

In January the school will rebalance, taking \$7 million

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from its biggest hedge fund investment and another \$13 million from investment gains and cash to put \$10 million with each of two new hedge fund managers.

Mount Holyoke's endowment may be smaller than the Ivies', but its ambitions aren't. When its latest capital cam-

paign reaches its \$300 million target, the endowment will receive \$175 million — of which 20 to 30 percent will be allocated to new hedge fund investments. "We would have no reason to stray from that asset allocation model," McNiff says. It's an approach that has served Mount Holyoke well.
