THE POLITICAL ECONOMY OF ELITE ENDOWMENTS

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INTRODUCTION

The assault on higher education by the Trump Administration, along with the sustained financial harm that Administration has inflicted on colleges and universities, has generated new interest in and debate over institutional endowments. Commentators as well as administrators are examining endowments, particularly at elite institutions, and wondering how these funds might be used to sustain educational institutions in the wake of the federal government withholding or cancelling funding.[1] Tightly interwoven with this larger dilemma about university funding is an additional question that critics have asked repeatedly over the years:[2] Why do elite institutions accumulate so much wealth without spending more of it on the needs of their constituents?

This brief Essay is an exercise in thinking through how endowments are managed, paying particular attention to the different parties who are involved, from investment office employees to governing board members. Approaching the question from this direction gives us, hopefully, a better sense of the political economy at work and at stake. The Essay begins with an overview of higher education endowments. It then describes how endowments are managed and who the major players are in terms of governance and control. With these basics in place, the Essay widens the scope of inquiry in order to situate endowment management at elite institutions within a larger social and financial context and to explore the connections between elite endowment managers and finance industry executives. The Essay concludes with thoughts on the tight interweave between these various institutions and corporations and some of the detrimental downstream effects of this financial intimacy.

I. SETTING THE STAGE

Before diving into the question of how endowment management fits into a larger political economy picture, it is useful to have a working idea of what endowments are, how they operate, and why the problems identified in this Essay relate primarily to a particular set of endowments at elite institutions.

An endowment, to begin with, is nothing more than the totality of gift funds at any given tax-exempt organization that have been restricted such that only the income generated from the funds can be spent. The endowment, accordingly, is a protected body of assets composed of numerous donor-created funds whose principal remains intact (and grows) over the years. Within this group of endowed funds, some may be further restricted. Donors may restrict endowed

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[1] Charlie Eaton, Opinion, *$15 Billion Is Enough to Fight a President*, N.Y. TIMES (Mar. 25, 2025), https://www.nytimes.com/2025/03/25/opinion/trump-university-endowment-spending.html ("The wealthiest universities, in particular, must pledge to use all available endowment funds as a backstop for any federal funding cuts to research, educational programs or student financial aid at their schools, barring any donor restrictions.").

[2] *See generally* Henry Hansmann, *Why Do Universities Have Endowments?*, 19 J. LEGAL STUD. 3 (1990) (surveying theories of why universities accumulate endowments).

funds such that the money can only be spent for a particular use, whether it is supporting faculty, student scholarships, athletics, or library acquisitions.[3]

Endowed funds may also be unrestricted in terms of where the income may be spent. In the case of these unrestricted endowed gifts, university leadership has the discretion to direct the revenue to the place of highest need in the university. Not surprisingly, university leaders tend to prefer these unrestricted endowment funds because they provide the most latitude in spending and can be easily and quickly directed to cover the institution's most pressing needs, whatever they may be.[4] Unrestricted funds do not, however, form the bulk of most endowments. Yale University reported in 2025 that only 25% of its endowment income was unrestricted;[5] Harvard University reported approximately 20%,[6] and Stanford University, approximately 25%.[7]

There is also a category of gifts labeled "quasi endowment." If a donor does not specify whether a gift is to become a part of the endowment or spent down in its entirety, the university can choose to treat it as an endowed gift, at least for a certain span of time, and invest it with the endowment. Dartmouth College, for example, states in its policy that "[a]lthough quasi endowments allow for the withdrawal of principal, [it] generally views them as long term investments with principal remaining intact for a minimum of seven years."[8] Donors can also specify that their gift be used as a quasi-endowed gift, but quasi endowments are often established by the institution itself.[9]

Commonly, the development office negotiates the details (at least for major gifts) and records the donor's wishes in a gift agreement, which is a legally binding document. A violation of the terms set forth in a gift agreement could constitute a breach of fiduciary duty by the institution's trustees or directors, and

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[3] *See, e.g.*, *Overview of Yale's Endowment*, YALE UNIV., https://www.yale.edu/funding-yale-home/overview-yales-endowment [https://perma.cc/LN77-TPKW] (last visited May 4, 2026); *Harvard's Endowment*, HARV. UNIV., https://finance.harvard.edu/endowment [https://perma.cc/EQQ9-RMQA] (last visited May 4, 2026).

[4] *See* HARV. UNIV., *supra* note 3 ("[T]here is a common misconception that endowments . . . can be . . . used for anything at any time as long as funds are available. In reality, Harvard's . . . spending from the endowment . . . is largely restricted.").

[5] *See* YALE UNIV., *supra* note 3.

[6] *See* HARV. UNIV., *supra* note 3.

[7] *Stanford University Reports Return on Investment Portfolio, Value of Endowment*, STAN. UNIV. (Oct. 7, 2025), https://news.stanford.edu/ stories/ 2025/10/report-investment-portfolio-value-endowment.

[8] *Quasi Endowment Policies*, DARTMOUTH COLL. (May 31, 2024), https://policies.dartmouth.edu/ policy/ quasi-endowment-policies#field-policy-statement [https://perma.cc/ENP9-A822].

[9] *See* Megan Lencoski, *4 Reasons Your Nonprofit Should Consider a Board-Designated Endowment*, CARNEGIE INV. COUNS. (July 28, 2025, at 13:37 ET), https://blog.carnegieinvest.com/nonprofit-investment-services-blog/consider-a-quasi-endowment [https:// perma.cc/868M-EG8C] (noting nonprofits may establish quasi-endowments using funds they already control through board designation).

such violations could wind up in court, based on claims of trust (fiduciary duty)[10] and contract law (gift agreement).[11] It is also important to point out that donor restrictions last in perpetuity because charitable gifts and trusts are exempt from the Rule Against Perpetuities on policy grounds.[12] Donor restrictions can be changed, but not without the university petitioning a court, showing that the original terms of the gift are impossible, impracticable, wasteful, or illegal, and then proposing a modification that aligns with the donor's original intent. These petitions are called *cy pres* petitions, and they usually involve gifts that can no longer be used because of "impossible" conditions (the money is for a center that has closed, for example) or gifts that are difficult to use because of "impracticable" conditions (the money is for a prize that is rarely given).[13]

One area of interest and inquiry for both university constituents and politicians is how much money the endowment pays out every year—an amount that is determined by the university's spending rate. The most common way that universities and colleges set this amount is by using the "rolling average" spending rate. According to a 2021 study, almost 75% of educational institutions with endowments use this method.[14] This means that these institutions spend a set amount, on average around 5.5% of the rolling three-year or twelve-quarter average of the endowment's fair market value.[15] Politicians, at least in the past, have shown interest in having universities increase their spending rate.[16]

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[10] *See, e.g.*, Corrective Order Denying Plaintiff's Motion for Partial Summary Judgment Regarding "Fiduciary Duties" & "Bus. Judgment Rule" at 63-69, Robertson v. Princeton Univ., No. C-99-02, 2007 WL 7687562 (N.J. Super. Ct. Ch. Div. Oct. 25, 2007) (describing claims university-designated trustees failed to advance foundation's donor-defined mission).

[11] *See, e.g.*, Tenn. Div. of the United Daughters of the Confederacy v. Vanderbilt Univ., 174 S.W.3d 98, 114-19 (Tenn. Ct. App. 2005) (enforcing naming condition attached to charitable gift after university renamed building contrary to gift agreement).

[12] 15 AM. JUR. 2D *Charities* § 17, Westlaw (database updated Feb. 2026) ("A gift for charitable purposes of permanent interest and benefit to the public may be perpetual in its duration and is not within the rule against perpetuities."); RESTATEMENT (SECOND) OF TR. § 365 (A.L.I. 1959) ("A charitable trust is not invalid although by the terms of the trust it is to continue for an indefinite or an unlimited period.").

[13] *In re* Elizabeth J.K.L. Lucas Charitable Gift, 261 P.3d 800, 806 (Haw. Ct. App. 2011) ("Under the [*cy pres*] doctrine's traditional formulation, three elements are required: (1) there must be property given in trust for a charitable purpose; (2) it must be *impossible, impracticable*, or illegal to carry out the specified charitable purpose; and (3) the settlor must have manifested a general intent to devote the property to charitable purposes." (emphasis added)).

[14] NAT'L ASS'N OF COLL. & UNIV. BUS. OFFICERS & TCHRS. INS. & ANNUITY ASS'N, NACUBO-TIAA STUDY OF ENDOWMENTS 36 (2022), https://www.calstatela.edu/sites/default/files/nacubo_2021_study_of_endowments.pdf [https://perma.cc/Y7A5-QG6H] ("The vast majority (74%) of endowments used a moving average of the endowment's market value to determine their spending policy for FY2021.").

[15] *Id.*

[16] Libby A. Nelson, *'Hoarding Assets'?*, INSIDE HIGHER ED (Dec. 8, 2011), https://www.insidehighered.com/news/2011/12/09/grassley-renews-focus-endowments [https://perma.cc/

Universities have resisted, stating their desire to be cautious and retain their ability to "weather [the] storm."[17]

Rounding out this overview, it is important to mention that this barrage of comments, critique, and calls to action does not land the same way with all colleges and universities. For the most part, the critique assumes or is pointedly addressed to elite universities, those with "super" endowments of a billion dollars or more.[18] In the past several years, studies have shown that the wealthiest 1% of the nation's 3,285 four-year colleges and universities hold 54% of all of the wealth held in endowments by these educational institutions.[19] The top 3% hold 80% of the endowment value.[20] Thus, 1% privilege defines wealth inequality not just between families and individuals, but also between educational institutions. The endowments discussed in the following sections all form part of the 1%, a small number that casts a large shadow.

II. REVEALING THE CAST

Knowing how endowments are managed is one piece of the puzzle. Another piece is knowing who controls their management. In this respect, there are two important groups: the endowment managers, who are university employees, and the board of trustees or directors, particularly those members of the board who serve on the investment subcommittee. This Part investigates the formal distinctions between the two groups and their responsibilities, while the next Part looks at the ties that bind them together and the porous borders between these institutional bodies and the finance industry.

On a day-to-day basis, endowments are usually managed by dedicated internal investment offices staffed by a set of university employees. At Yale, for example, the investment office is a part of the larger university, although it comprises a distinct set of offices.[21] This is the same set up that many schools use, including New York University, Northwestern University, and Cornell University.[22] Another model is for universities to create affiliated endowment

EA54-7GFC] (noting Iowa senator "had built some Congressional support for a minimum endowment payout rate despite fierce pushback from higher education groups").

[17] Burton A. Weisbrod & Evelyn D. Asch, *Endowment for a Rainy Day*, STAN. SOC. INNOVATION REV., Winter 2010, at 42, 45.

[18] *See* Eaton, *supra* note 1.

[19] Steven Mintz, Opinion, *How Gross Inequalities in Institutional Wealth Distort the Higher Education Ecosystem and Shortchange the Vast Majority of Middle- and Lower-Income Undergraduates*, INSIDE HIGHER ED (Mar. 19, 2023), https://www.insidehighered.com/opinion/columns/higher-ed-gamma/2023/03/19/how-gross-inequalities-institutional-wealth-distort [https://perma.cc/2TCZ-UEA5].

[20] *Id.*

[21] *See* YALE UNIV., *supra* note 3 (describing Yale Investments Office's long-term, diversified strategy as generating substantial returns for Yale).

[22] *See Investment Office*, NYU, https://www.nyu.edu/about/leadership-university-administration/organization-directory/investment-office [https://perma.cc/3W6A-LK2T] (last visited May 4, 2026); *About the Office*, NW.: INV. OFF., https:// www.northwestern.edu /investment/

management companies that are also nonprofit 501(c)(3) organizations operating under the control of the university. Harvard has the Harvard Management Company; at Stanford, there is the Stanford Management Company.[23] Institutions including Duke University, Columbia University, and the Universities of Texas and Virginia have also adopted this model.[24]

The offices range in size and complexity, but whether large or small, these offices house the people who are responsible for the daily work of investing. These employees monitor the performance of the university's investment portfolio, manage asset allocation, conduct research on investment opportunities, and prepare analyses. They oversee cash flow and work with the development office to make sure that donor funds are spent correctly.

In many cases, the investment office is headed by a Chief Investment Officer ("CIO") or similarly titled officer, some of whom have become legends in the field.[25] One of the most famous endowment managers was David Swensen, who worked at Yale from 1985 until his death in 2021.[26] Swensen, along with his colleague Dean Takahashi,[27] pioneered what is now called the "Yale Model" or the "Endowment Model," which has been widely embraced by other schools

about [https://perma.cc/NWQ9-J8JS] (last visited May 4, 2026); *Office of University Investments*, CORN. UNIV., https://www.investmentoffice.cornell.edu [https://perma.cc/MWC4-LL7K] (last visited May 4, 2026).

[23] *See* HARV. UNIV., *supra* note 3 ("Harvard Management Company . . . [is] a nonprofit, wholly owned subsidiary of Harvard University [that] has managed the University's endowment portfolio since 1974."); *Our Mission*, STAN. MGMT. CO., https://smc.stanford.edu/our-mission [https://perma.cc/6Z3T-E8A5] (last visited May 4, 2026).

[24] *See* DUKE: DUMAC, https://dumac.duke.edu/ [https://perma.cc/YU8J-4RJ4] (last visited May 4, 2026); *Columbia Investment Management Company*, COLUM. FIN., https://www.finance.columbia.edu/ content/ columbia- investment- management- company (last visited May 4, 2026); *About UTIMCO*, UNIV. OF TEX./TEX. A&M INV. MGMT. CO., https://www.utimco.org/about [https://perma.cc/RP2B-PSHC] (last visited May 4, 2026); *About Us*, UNIV. OF VA. INV. MGMT. CO., https:// uvimco.org/ about-us [https:// perma.cc/ WWJ4-3RM6] (last visited May 4, 2026).

[25] *See* Matteo Binfarè, Gregory Brown, Robert Harris & Christian Lundblad, *How Does Human Capital Affect Investing? Evidence from University Endowments*, 27 REV. FIN. 143, 152 (2023) ("[L]arge [university] endowments . . . are much more likely to have a full-time CIO. . . . [D]ollar-weighted figures show that almost two-thirds of all endowment assets are managed using a full-time CIO.").

[26] *See* Geraldine Fabrikant, *The Money Management Gospel of Yale's Endowment Guru*, N.Y. TIMES (Nov. 5, 2016), https://www.nytimes.com/2016/11/06/business/the-money-management-gospel-of-yales-endowment-guru.html (discussing David Swensen's investment strategy and its impact on university endowments in general); *David Swensen's Coda*, YALENEWS (Oct. 22, 2021), https://news.yale.edu/2021/10/22/david-swensens-coda [https://perma.cc/NEW9-AQYW] (detailing Swensen's investment success and contribution to Yale).

[27] Leanna Orr, *Legendary Yale Investor Dean Takahashi to Leave Role at Endowment*, INSTITUTIONAL INV. (Aug. 23, 2019), https://www.institutionalinvestor.com/article/2bsw81s5w966v0xkkyha8/corner-office/legendary-yale-investor-dean-takahashi-to-leave-role-at-endowment [https://perma.cc/4L3C-YPYF].

over the years.[28] This model essentially took endowment funds from ultra-low-risk investing to higher-risk and higher-return strategies (and is discussed more in the next Part).[29]

Because of Swensen and others like him, endowment managers have generally become invaluable and increasingly well-compensated employees, often the most highly compensated employees within the university.[30] One report has noted the phenomenon sparked by Swensen, stating: "The complexity of investments under the Endowment Model has spawned a new class of highly compensated investment officers on campus. . . . CIOs and investment officers from investment banks and consulting firms are now wooed by colleges with some of the highest compensation packages in the nonprofit sector."[31] Swensen turned the position of CIO into a necessity for institutions managing endowments over a certain value and made the CIOs "top guns of the institutional investment world."[32] These investment managers "have an infinite investment horizon, a global playing field, and can invest in anything anywhere."[33]

There are some restraints, however. Those restraints are set in place by the people who represent the other half of the endowment management equation: the governing board's investment committee. Ultimately, any investment office or affiliated organization operates subject to the oversight of the university's governing board, and members of the board who are carefully selected to be on investment committees. Yale, for example, has the Committee on Investments,

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[28] Mike O'Sullivan, *Is the Endowment Investing Model Still Working?*, FORBES (June 1, 2024, at 01:34 ET), https://www.forbes.com/sites/mikeosullivan/2024/06/01/is-the-endowment-investing-model-still-working ("Swensen pioneered the move by large US university endowments towards private assets (notably private equity, but also infrastructure and venture), a strategy that has proven remarkably profitable.").

[29] Katie O'Leary, *The Evolution of the Yale Model for Institutional Investing*, CHRONOGRAPH (Feb. 6, 2024), https://www.chronograph.pe/the-evolution-of-the-yale-model-for-institutional-investing [https://perma.cc/AZ89-HLRP].

[30] *See, e.g.*, Adrian Rodrigues, *Yale's Top Earners Defended*, YALE DAILY NEWS (Feb. 5, 2014, at 21:22 ET), https://yaledailynews.com/articles/yales-top-earners-defended (reporting Swensen and Takahashi as two highest-paid Yale employees); Jonathan Shaw, *Harvard Discloses Top Administrator and Investment Manager Compensation*, HARV. MAG. (May 15, 2025), https://www.harvardmagazine.com/ 2025/ 05/ harvard- salaries- top- administrator-investment -manager -compensation [https:// perma.cc/ 3KUG-T4XU] (noting six Harvard Management Company managers earning more than university leadership).

[31] JOSHUA HUMPHREYS ET AL., CTR. FOR SOC. PHILANTHROPY & TELLUS INST., EDUCATIONAL ENDOWMENTS AND THE FINANCIAL CRISIS: SOCIAL COSTS AND SYSTEMIC RISKS IN THE SHADOW BANKING SYSTEM: A STUDY OF SIX NEW ENGLAND SCHOOLS 5 (2010), https://www.tellus.org/pub/Tellusendowmentcrisis.pdf [https://perma.cc/N7HW-GBVA].

[32] Charles Skorina, *Top Endowment Chief Investment Officers: Five Year Performance*, CHARLES SKORINA & CO. (July 5, 2017), https://charlesskorina.com/100-top-guns-institutional-investing [https://perma.cc/NJ2C-W9A2].

[33] *Id.*

which is a part of the Board of Trustees, as does Northwestern University.[34] At Northwestern, the Investment Committee is staffed by the CIO and the vice president of the board.[35] Harvard Management Company has a Board of Directors, which works with the company's chief executive and CIO.[36] The setup is relatively similar at all of the elite institutions.

Together, investment offices and committees are responsible for endowment management at elite institutions. They set the policies for both investing and spending rates; they determine the best investment strategies and pick the right investments for the institution's needs and priorities; and they work with external firms and funds to accomplish institutional goals. In theory, this system is one that fosters collaboration between university employees and governing board members and draws on various sets of expertise while still setting and maintaining boundaries.

III. Reading for the Plot

In practice, there is considerable overlap between those who staff investment offices, serve on governing boards, and manage private funds, as well as those who finance operations. If we take a close look at the patterns of circulation between and among these groups—between universities, their governing boards, and the finance industry—we can start to get a sense of how insular their world is and how self-reinforcing and self-referring this set of players is. This Part examines two phenomena related to elite endowment management: the intricate and intimate web of personal relationships that defines the world in which these endowment actors work and invest, and the tight financial relationships that have evolved over time between elite endowments and private markets. Examining these two trends, we can start to see how systems that are set in place to produce sizeable returns for elite institutions may have detrimental downstream effects. These detrimental effects, noted at the end of each section, include engaging in practices that may ultimately turn institutions away from their fiduciary duties to those parties who are supposed to be the beneficiaries of endowed gifts.

A. *Traffic Patterns in a Small Sandbox*

One phenomenon that stands out when looking at the players involved in endowment management is the pivotal role of finance and the significant back-and-forth between academia and Wall Street. Take David Swensen, for example. After he finished a doctorate in economics, Swensen worked on Wall Street as a trader for Salomon Brothers. There, he became well known for having

[34] *About Our Work*, YALE, https://www.yale.edu/ board-trustees/ about-our-work [https:// perma.cc/BU97-Y8XH] (last visited May 4, 2026); *Board of Trustees*, NW., https://www.northwestern.edu/ about/ board-of-trustees [https:// perma.cc/ BYD9-45YU] (last visited May 4, 2026).

[35] NW., *supra* note 34.

[36] *Board of Directors*, HARV. MGMT. CO., https:// www.hmc.harvard.edu/ about/ #board [https://perma.cc/T4F7-HG6F] (last visited May 4, 2026).

"orchestrated the first-ever derivatives swap," a deal between IBM and the World Bank that allowed IBM to hedge its exposure and the World Bank to make loans more efficiently.[37] Swensen went on to work at Lehman Brothers, where he presided over the firm's swap activities and worked on developing new financial products.[38] Swensen was not there long, however, as he "assumed management of Yale's endowment in the mid-1980s, when he was in his early 30s and the endowment stood at $1.3 billion."[39]

Investment offices across elite institutions are similarly filled with people who come from investment banks and, increasingly, private equity or hedge funds.[40] Moreover, not only are individuals from finance moving into endowment offices; endowment managers are also migrating into private for-profit finance. There are a number of "star" CIOs who have left jobs at elite institutions to work in private asset management.[41] Cornell's CIO, James Walsh, left after four years to start a hedge fund, as did Jack Meyer from Harvard, who "launched [his] own alternative investment fund[]."[42] Mark Yusko left his role at University of North Carolina's management company when the governing board "objected to the amount of time he was moonlighting with this [sic] own investment consulting work on the side."[43]

Looking at investment committees, it is similarly clear that the members are drawn from the same ranks of finance and banking leaders, with a growing emphasis on private equity. A majority of investment committee members come from a finance background and are working in finance.[44] A study of New

[37] Leanna Orr, *David Swensen Is Great for Yale. Is He Horrible for Investing?*, INSTITUTIONAL INV. (July 31, 2019), https://www.institutionalinvestor.com/article/2bswbzyl w79gg3hrt3q4g/ portfolio/ david-swensen- is- great- for- yale- is-he- horrible- for- investing [https://perma.cc/55CZ-FTC9].

[38] *George H.W. Bush Lifetime of Leadership Award: David Swensen*, YALE BULLDOGS, https://yalebulldogs.com/honors/george-h-w-bush-lifetime-of-leadership-award/david-swens en/50 (last visited May 4, 2026).

[39] *'Self-Confident Yet Selfless': Yale's David Swensen Dies at 67*, YALENEWS (May 6, 2021) [hereinafter *David Swensen Dies at 67*], https://news.yale.edu/2021/05/06/self-confi dent-yet-selfless-yales-david-swensen-dies-67 [https://perma.cc/UVA4-WUP6].

[40] *See* HUMPHREYS ET AL., *supra* note 31, at 5 (noting CIOs and investment officers from investment banks and consulting firms are increasingly wooed by colleges with high salaries).

[41] *Id.* at 46 ("Alice Handy, the former CIO of the University of Virginia, Mark Yusko, the ex-CIO of the University of North Carolina, Michael McCaffery and Eric Upin from Stanford Management Co., Michael Smith at the University of Florida, and Bob Boldt of the University of Texas are [examples] . . . .").

[42] *Id.*

[43] *Id.*

[44] JEFFREY R. BROWN, STEPHEN DIMMOCK, JUNK-KOO KANG, DAVID RICHARDSON & SCOTT WEISBENNER, ISSUE NO. 102, THE GOVERNANCE OF UNIVERSITY ENDOWMENTS: INSIGHTS FROM A TIAA-CREF INSTITUTE SURVEY 4 (2011), https://www.tiaa.org/content/dam /tiaa/ institute/ pdf/ full-report/ 2017-02/ 102b.pdf ("[O]ver half of investment committee members hold an MBA, another degree in business or economics, or have a formal designation such as a CPA, CFA, CIMA or CAIA. In addition, two out of every three investment committee members serves on other boards and/or are executives." (footnote

England colleges and universities has confirmed predominance. The authors of the report found that, in 2010, 46% of Boston College's board was employed in finance and "a full 70 percent of Dartmouth's trustees [held] MBAs."[45] In the same year, the MIT Corporation, the governing board for the Massachusetts Institute of Technology ("MIT"), drew 74% of its members from the financial industry.[46]

Studies have also tracked the increasing presence of private equity leaders on these boards, and their number has grown steadily over the last thirty years. In 1989, for example, "private-equity and hedge-fund managers held 3 percentage of board seats at the top thirty private universities."[47] About thirty years later, in 2017, this same category of people held 17% of trustee positions.[48]

What these numbers and trends make clear is that, when it comes to endowment management, the sandbox is incredibly small, and the same players circulate in repeating patterns through the various offices, funds, and companies. It could be said, with fairness, that these tight connections and porous boundaries between investment offices, investment committees, and the financial industry are not only predictable but also beneficial.[49] After all, universities are looking to select the most capable and experienced people who have substantial and proven experience managing other people's money. Hiring or selecting someone with experience in the given domain is sensible.

While this may be true, it is also true that the slippage between offices may raise concerns. First, we might be concerned about possible conflicts of interest and, at the very least, the networking effects occurring in such a small pool of players. The merry-go-round between industry, board service, and investment office staffing merits close inspection if only to ensure that there are no conflicts of interest. Conflicts of interest would constitute breaches of fiduciary duty and are, therefore, serious matters. MIT, in one filing, disclosed "that the institute's endowment had invested in six companies related to five different members of the MIT Corporation."[50] What was not disclosed were the amounts invested, how the conflict was addressed (if at all), and what procedures were in place to address any future conflicts.[51] Similarly, "Dartmouth's board has included more

omitted)); Binfarè et al., *supra* note 25, at 151-52 ("31% of [investment committee] members have experience in alternatives. . . . [O]n a dollar-weighted basis, 47% . . . have experience in alternatives.").

[45] HUMPHREYS ET AL., s*upra* note 31, at 42.

[46] *Id.* at 44.

[47] Francie Diep, *Do University Boards Need Fewer People from Wall Street?*, CHRON. HIGHER EDUC. (June 2, 2025), https://www.chronicle.com/ article/ private- equity- wealth- is-growing-on-the-most-prestigious-university-boards-study-finds.

[48] *Id.*

[49] *See* Binfarè et al., *supra* note 25, at 145-46 (concluding human capital and professional networks empirically improve endowment access, manager selection, and investment performance).

[50] HUMPHREYS ET AL., *supra* note 31, at 44.

[51] *Id.*

than half a dozen trustees whose firms have managed a total of well over $100 million in investments for the endowment."[52] MIT and Dartmouth are surely not alone in having these kinds of conflicts, and boards should be more transparent about their processes for managing such conflicts.

There may be other forms of information disclosure and deal-making, in addition, that do not rise to the level of fiduciary breach but that still provide cause for concern. Charlie Eaton, in his book *Bankers in the Ivory Tower*, gives a useful example of the nexus of ties and transactions.[53] In 2014, Seth Klarman, the chief executive officer and portfolio manager of the Baupost Group hedge fund, became the honorary chair of the Harvard Business School's billion-dollar fundraising campaign and gave a major gift that precipitated the school naming its new conference center after him.[54] One of Klarman's colleagues, a managing director at the hedge fund, served at the same time on the governing board's Committee on Finance.[55] Within a few years, Harvard had invested almost $2 billion of endowment money with the Baupost Group.[56] As Eaton points out, "[u]nder a typical hedge fund contract, Baupost would earn tens or hundreds of millions of dollars for managing this investment."[57]

This confluence of events sharply exemplifies how these relationships operate and the profitable outcomes they yield. Private equity leaders are overwhelmingly graduates from elite institutions, and they are eager to seek business opportunities through service to their alma maters. These financiers "seek elite social ties . . . because they have a core business model that tries to use private information to outsmart public markets."[58] And elite institutions are happy to welcome these financiers onto their boards because their endowments profit from the very same set of opportunities.

This constellation of relationships is mutually beneficial for the parties involved, making substantial amounts of investment profit for the institutions, corporate profit for the finance groups, and personal profit for the financiers. We might, nevertheless, suggest that "[c]ollege governing boards have failed to guarantee strong oversight of the Endowment Model by relying heavily upon trustees and committee members drawn from business and financial services, many from the alternative investment industry."[59] This assemblage of interests may not only provide fertile ground for conflicted transactions, but it may also

[52] *Id.* at 4.

[53] *See* CHARLIE EATON, BANKERS IN THE IVORY TOWER: THE TROUBLING RISE OF FINANCIERS IN U.S. HIGHER EDUCATION 65-83 (2022).

[54] *Id.* at 65.

[55] *Id.*

[56] *Id.*

[57] *Id.*

[58] Charlie Eaton & Albina Gibadullina, *Elite Embeddedness: The Rise of Financiers on University Boards as Parallel Social Organizations*, 23 SOCIO-ECON. REV. 1057, 1062 (2025).

[59] HUMPHREYS ET AL., *supra* note 31, at 4.

feed a circuit of investment that works to maintain elite status and perpetuate wealth inequality, both among institutions and individuals.

B. *Moving Money into Private Markets*

Another notable and characteristic effect of the concentration of financiers in elite endowment management is the decided drift of elite institutions and their endowment assets into private markets. This trend is not new, but it is accelerating. The trend began in the 1960s when, after severe financial struggles, many elite institutions began to rethink their investment strategies.[60] McGeorge Bundy, a former Harvard dean and president of the Ford Foundation, commissioned a report that suggested these institutions shift from a focus on maintaining endowment value to maximizing return.[61] Bundy's report stressed endowment diversification and the reinvestment of capital gains.[62] Elite institutions, in response to these suggestions, turned to private markets, private equity, and hedge funds in order to create higher returns. In so doing, they "provided essential early capital" for these funds.[63]

David Swensen, who learned to swim in these waters, was ready to pioneer a new model based on these principles when he assumed leadership of the Yale Investments Office. When Swensen arrived at Yale in 1985, "nearly three quarters of the $1 billion portfolio was invested in U.S. stocks, bonds, and cash."[64] At the time, Yale and peer institutions followed "a conventional '60/40 portfolio' model (60% domestic equities and 40% bonds)."[65] Seeking to obtain higher returns, Swensen, alongside long-time collaborator Dean Takahashi, took modern portfolio theory's principle of diversification and pioneered an approach to endowment investing that transformed the institutional investment landscape. Largely known as the "Yale Model," this approach emphasizes diversification and a risk-seeking orientation to capitalize on long-term investing horizons.[66] Swensen and Takahashi's model, which placed increased emphasis on private markets and went after new investment opportunities, was highly successful. Thirty years after Swensen took charge, the Yale endowment was valued at $30 billion and traditional domestic assets constituted "less than one tenth of the portfolio."[67]

This same model was adopted by other institutions and, over time, Swensen and Takahashi trained a new generation of endowment managers in the Yale Investments Office.[68] Their protégés went on to lead investment offices at

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[60] EATON, *supra* note 53, at 67.
[61] *Id.* at 68.
[62] *Id.*
[63] *Id.* at 69.
[64] Orr, *supra* note 37.
[65] O'Leary, *supra* note 29.
[66] *Id.*
[67] Orr, *supra* note 37.
[68] *David Swensen Dies at 67*, *supra* note 39.

Princeton University, MIT, Stanford University, the University of Pennsylvania, the Rockefeller Foundation, Wesleyan University, Smith College, and Bowdoin College.[69] When Swensen died in 2021, six of the fifteen highest-ranked endowments, based on ten-year performance, were managed by Yale Investments Office alumni.[70]

True to their training, CIOs who learned the Swensen model have increasingly moved their endowments into private markets and private equity. Under Scott Wilson, Washington University's endowment grew to a robust $15 billion, and its private-market investment increased "significantly," comprising almost half of the endowment in 2020.[71] At Vanderbilt University, 35% of the school's endowment was allocated to private capital in 2021, up almost ten percentage points from the prior year.[72] Examined from a broader angle, "[p]rivate equity, hedge funds, venture capital, real estate, and the like accounted for 27.7 percent of endowments' and foundations' invested assets in 2003. As of June 30, 2018, alternatives made up more than half (52 percent)."[73] At the end of the 2024 fiscal year, Harvard had the largest allocation to private equity measured by dollar amount ($24 billion, representing 39% of its total investment portfolio).[74] Yale, however, had the largest allocation measured in percentages, with $21 billion or 47% of its investments allocated to private equity.[75]

Institutions celebrate the high returns, but there are nevertheless drawbacks and dangers associated with this deep entwinement between academic institutions and private markets. Significant allocation of endowment to private equity can cause high illiquidity, potential overvaluation, and increased exposure to risk.[76] As one CIO at a university with a different strategy has observed: "You're going to end up locking up capital for a really long time, [and] paying exorbitant fees to managers that may ultimately prove to be disappointing."[77] At risk is reliable funding for faculty, students, and staff—and potentially a university's ability to fulfill its duty to these constituents.

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[69] *Id.*

[70] *Id.*

[71] *See* Pitchbook, *Meet the Managers and Holdings Behind Top University Endowments*, YAHOO! FIN. (Nov. 4, 2021), https://finance.yahoo.com/news/meet-managers-holdings-behind-top-050000361.html.

[72] *See id.*

[73] Orr, *supra* note 37.

[74] *Elite U.S. Endowments: Government Funding and Liquidity Pressure*, MARKOV PROCESSES (Apr. 3, 2025), https://www.markovprocesses.com/blog/elite-u-s-endowments-government-funding-and-liquidity-pressure [https://perma.cc/9C5G-FNT3].

[75] *Id.*

[76] Thomas Pudner & Jason Doyle, *A Better Way for Higher Education Endowments and Foundations to Access Private Equity?*, AGB (Oct. 17, 2023), https://agb.org/blog-post/a-better-way-for-higher-education-endowments-and-foundations-to-access-private-equity [https://perma.cc/3YCE-ME8P].

[77] Orr, *supra* note 37 (quoting University of Nebraska head of investments who does not subscribe to Yale Model).

Another potential detriment of the concentration of financiers in elite endowment offices and board rooms is that both measures of success and incentives may be skewed. That is to say, a focus on growth and competition may displace mission. In his foundational article from 1990, *Why Do Universities Have Endowments?*, Henry Hansmann directly addressed the question of why elite universities accumulate enormous endowments, yet set such low spending rates.[78] Hansmann's goal was to set out the arguments rather than to settle the question because he noted there was, at the time, "surprisingly little literature on this subject."[79]

In so doing, Hansmann edged toward uncovering the political economy of elite endowments but stopped short of in-depth exploration. One of the reasons that elite universities tended to accumulate wealth through their endowments and prioritize preservation rather than spending, according to Hansmann, was the preference of the university trustees and endowment managers. The trustees, Hansmann observed, "generally come from the business world rather than the academic world . . . . and make [endowment] preservation or growth a special priority."[80] Hansmann suggested that, "in the business world, dollar figures are used as a measure of the success of an institution" with the result that trustees, investment officers, and board members shared a propensity "to focus on the size of the university's retained earnings (that is, its endowment) as a measure of the success of the management of the institution."[81] Endowment growth, as opposed to mission growth, was something that these investment officers and committee members would understand—"a tangible and easily measured thing."[82]

Other commentators have since reiterated this rationale and phenomenon. Typical is this sentiment: "For many CIOs and boards, their performance rank versus peers matters more than matching their institutions' particular needs . . . . Competitive people flock to investing, and nonprofit institutions attract the country's highest tier."[83] Competitive people, the implication is, cannot help but compete. Similarly, at least one study has found a "herding" mentality, with investors and financiers all circling in the same space.[84] This mentality prompts certain kinds of decision-making, according to the study: "[W]hen one school makes an investment decision—such as the decision to switch to another school's investment model—its peers tend to follow suit for fear of losing their position in the hierarchy."[85]

78 *See* Hansmann, *supra* note 2, at 4-6.

79 *Id.* at 9.

80 *Id.* at 37.

81 *Id.*

82 *Id.*

83 Orr, *supra* note 37.

84 *See* Sophie Gould, *Endowment Alternatives Promote 'Arms Race,'* YALE DAILY NEWS (Nov. 29, 2012, at 00:21 ET), https://yaledailynews.com/articles/endowment-alternatives-promote-arms-race.

85 *Id.*

In this way, investment strategies might be more expressive of competitive drive than institution-specific needs and values. These strategies also reveal that the "increasingly intertwined worlds of higher education and high finance" combined with "a Wall Street culture focused on profitable investment returns" have undermined more traditional institutional values of "stewardship."[86] This entwinement may also be eroding the strong support that these academic institutions are ethically and legally obliged to provide to the faculty, staff, and students as the beneficiaries of endowed gifts. That is to say, fiduciary duty requires seeing to the needs of these constituents and ensuring that they are at the center of decision-making. Investment practices may be obscuring that component of institutional duty.

CONCLUSION

The political economy of elite endowments is one of the entanglements between elite institutions of higher education and the finance offices of Wall Street. There are ties between not only the institutions and their alumni in the financial industry but also the industry and those investors who populate the investment offices and committees at the universities. This concentration of financiers in the domain of elite endowment management can be viewed as representing expertise, but such a concentration also sets the stage for both corporate and personal enrichment as well as the perpetuation of elite privilege. Furthermore, this concentration creates conditions that risk enabling conflicts of interest and rewarding a focus on returns rather than mission, thereby creating possible breaches of fiduciary duty.

[86] HUMPHREYS ET AL., *supra* note 31, at 5.