

The *Ambachtsheer* Letter

Research and Commentary on Pension Governance, Finance and Investments

Letter # 219

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SHOULD (COULD) YOU MANAGE YOUR FUND

LIKE *HARVARD* OR *ONTARIO TEACHERS*?

“Harvard’s investment process looks and feels less like a conventional money management firm, and more like a longer-term version of the proprietary trading operations of the major Wall Street broker/dealers.”

Harvard Management Co. (2001)
A Harvard Business School Case Study

“We had one of our best return years ever in 2003, yet our risk was lower than it had been during the prior four years. This reflects the fact that we use a disciplined risk management process. We believe that this process sets us apart... “

Bob Bertram, Chief Investment Officer
Ontario Teachers’ Pension Plan Board

Four Things In Common

Last year March, our friends at **commonfund** asked us to engage Jeremy Siegel in a debate on the equity risk premium. This March, they asked us back to participate in a debate titled “Should (Could) You Look Like Harvard?” Our position was “yes” on both counts, and the goal of this *Letter* was to explain why. Then the 2003 Annual Report of *Ontario Teachers Pension Plan Board (OTPPB)* arrived. As the *Teachers’ Report* illustrates many of the ‘should (could)’ points we intended to make about the *Harvard Management Company (HMC)* model, the title of this *Letter* expanded accordingly.

Some of you are thinking: “Wait a minute, *Harvard* manages endowment assets, *Teachers’* pension assets. Will that not be like comparing apples and oranges?” An important message of this *Letter* is that this is not the case. Indeed, we assert that institutional investors creating the kind of measurable value for stakeholders that *Harvard* and *Teachers’* have, have four things in common:

1. A legal foundation that clarifies stakeholder interests and minimizes the potential for agency conflicts.
2. A governance process that crystallizes organization mission and understands the critical elements needed to achieve it.
3. Investment beliefs that can stand the tests of reason, informed debate, and occasional revision when new evidence comes to light.
4. Investment processes that integrate stakeholder risk tolerances and investment beliefs using combinations of seasoned judgement and state-of-the-art financial engineering techniques.

This *Letter* will show how *Harvard* and *Teachers’* pass the stakeholder value-creation test both in principle and in practice. It will also offer reasons why many other institutional investors, whether pension funds, endowment funds, or other, fail on both counts.