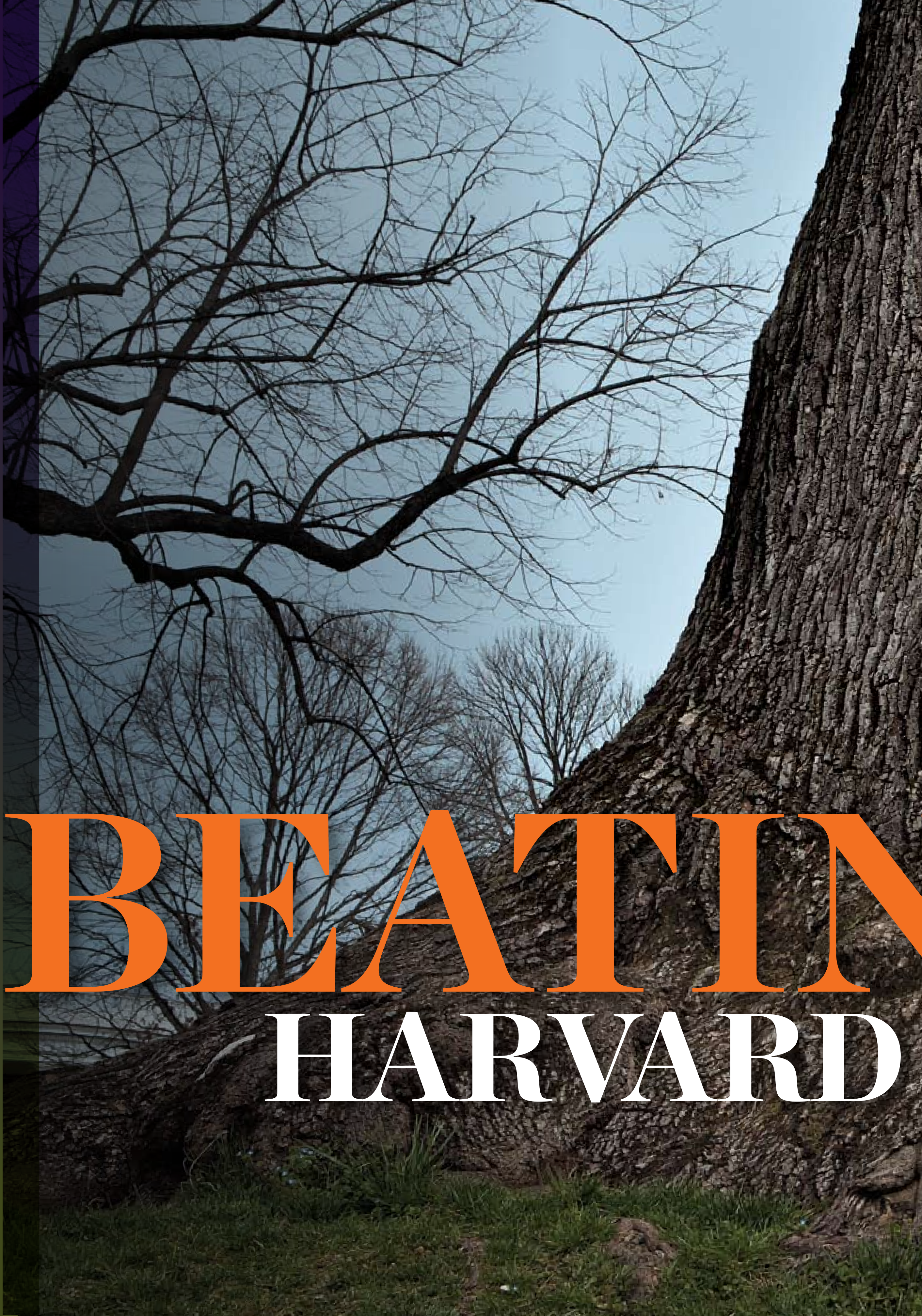


BEATIN
HARVARD

NG AND YALE

COLLEGE ENDOWMENT MANAGER ALICE HANDY STAYS AHEAD OF THE IVY LEAGUERS WITH BETS ON DERIVATIVES, DISTRESSED DEBT—AND A SKI RESORT.

By ANTHONY EFFINGER *and* GILLIAN WEE
Photograph by KATHERINE LAMBERT

Prescient bets against the stock market have helped endowment manager Alice Handy regularly beat the Standard & Poor's 500 Index. Handy, who manages money for Smith, Barnard and Middlebury colleges at a firm she founded called Investure LLC, has also done something more satisfying: vanquish Harvard and Yale.¶ Smith College, Handy's first client and a proxy for 10 others, earned 16.3 percent on its $1.2 billion in the year ended on June 30, 2010, the most recent fiscal year for which data are available. That compared with 11 percent for Harvard University on its $27.6 billion and 8.9 percent for Yale University, which had $16.7 billion. Investure manages $8 billion.

The drubbing wasn't a fluke. Smith beat Harvard over five years, too—7.3 percent to 4.7 percent—partly because Handy had the guts to bet against U.S. stocks early in 2007 when it looked like the bull market might never end.

Handy, 63, the granddaughter of a Cape Cod cranberry farmer, is modest about her track record. "All ships need to float in this market," Handy says. "It's a very humbling experience to run money."

Handy started Investure in 2004, catering to schools that wanted to outsource their endowment to get better returns. Small schools have a tougher time attracting talent than Harvard or Yale. "If you're not in New York City or Boston, it's harder to recruit and retain the investment professionals you need," says Ruth Constantine, vice president for finance and administration at Smith in Northampton, Massachusetts. Harvard, for its part, employed Mohamed El-Erian, now chief executive officer of Pacific Investment Management Co., which oversees $1.28 trillion.

Off-campus money management is a growth industry. U.S. endowments and foundations will outsource about $215 billion by 2015, more than double today's $100 billion, says Kevin Quirk, a founding partner at Casey Quirk & Associates LLC, a management consulting firm in Darien, Connecticut.

"We wanted someone who worried about the endowment every day—who got up worrying about it," says Investure client Robert Taylor, senior vice president for finance and administration at the Colonial Williamsburg Foundation, the private institution that runs the restored Virginia town.

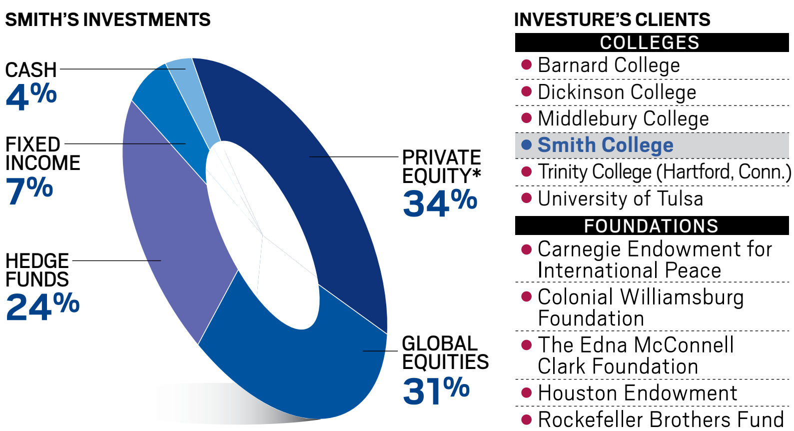
During most of its seven-year existence, Charlottesville, Virginia–based Investure has been more exclusive than Yale's Skull and Bones society. Handy closed the firm to new investors in 2007 on concern, she says, that she couldn't deliver the same level of service to a bigger group. Each of her 11 clients has three investment meetings a year, and that's just the beginning of the Investure staff's visits. "A high-touch model is hard to scale," she says.

Now, Investure is open again. Handy wants to add one client a year for the next five, she says. Investure just signed its 11th this year: the Houston Endowment, a $1.5 billion foundation that supports education, the arts, health and the environment in the Houston area. The foundation joins Smith; Barnard College; Dickinson College; Middlebury College; Trinity College in Hartford, Connecticut; the University of Tulsa; the Carnegie Endowment for International Peace; the Colonial Williamsburg Foundation; the Edna McConnell Clark Foundation; and the Rockefeller Brothers Fund. Once on board, a client has Investure manage all of its money.

The company's base is in leafy Charlottesville, 116 miles (187 kilometers) southwest of Washington, D.C., because Handy ran the University of Virginia (U.Va.) endowment there for 29 years starting in 1974. A trim woman who wears her hair short, she hits the road in sensible shoes and understated jewelry.

In person, Handy is politely blunt. After a March trip to

Heavy in Hedge Funds



*As of June 30, 2010. *Also includes real assets. Sources: Smith annual report, Investure*

Smith's **CONSTANTINE** says Handy touted the put option that Investure bought to bet against the stock market as endowment insurance.

DAMIAN STROHMEYER

India to meet with a money manager, she said, "By the time you pay bribes and everything, it's hard to make a return." On hedge funds, she says, "Hedge funds are just a fee structure; they aren't an asset class."

And she likes hedge funds. During her tenure at U.Va., she pushed the endowment into them and into venture capital long before most schools dared. "If you're looking for value, you have to look where other people aren't looking," Handy says.

That sort of thinking prompted her bet against the U.S. stock market in early 2007. Many investors were still piling into stocks and real estate investments, the latter borne aloft by low interest rates and lax lending standards. The team at Investure couldn't find anything to buy. "Nothing looked attractive, so we said, What is the reverse?" Handy says. The reverse was a put option—a derivatives contract that gave Investure clients the right to sell the S&P 500 at a certain price for two years.

Investure wouldn't make money until the index fell 5 percent or more. That made the put less expensive. The firm bought several puts on the same terms starting in February 2007, spreading its bets among Bank of New York Mellon Corp., Goldman Sachs Group Inc. and JPMorgan Chase & Co.

The purchases began to look smart in October 2007, when the S&P 500 started falling from its peak of 1,565. It plummeted the next year, turning the put contracts into gold. Smith invested $31.7 million in its puts and sold the position for $97.5 million, Constantine says. Colonial Williamsburg made $100 million on its puts, the foundation's Taylor says.

WHEN HANDY TOOK OVER SMITH'S ENDOWMENT IN 2004, SHE RAISED ITS STAKE IN HEDGE FUNDS AND RELATED INVESTMENTS TO 36 PERCENT.

Investure's puts generated returns that offset losses on other assets. Smith lost 16.7 percent in the fiscal year ended on June 30, 2009. Harvard's endowment, by comparison, tumbled a record 27 percent, and Yale's was down 25 percent, also a school record. "The put protected us," Constantine says. "Alice called it buying endowment insurance."

'NOTHING LOOKED ATTRACTIVE, SO WE SAID, WHAT IS THE REVERSE?' HANDY RECALLS. IN 2007, SHE BET MILLIONS AGAINST THE S&P 500.

Handy was born and raised in Wilmington, Delaware, after her Massachusetts–born father, a chemist, went to work at a DuPont Co. facility there. After high school, she returned to her family roots and enrolled at Connecticut College in New London, where she studied economics, and graduated in 1970.

Her husband-to-be got a job at a Hartford, Connecticut, bank. Handy went to work at Travelers Cos. "I said I wanted to work with people, and because I had an economics degree, they put me in the investment office," Handy says. She ended up in the bond department, which was great, she says, because there were only three managers, including her.

Handy helped manage the fixed-income portfolio for four years and then followed her husband to Charlottesville when he enrolled in graduate school there. While they later divorced, she found a working home at U.Va., which hired her in 1974 as the first full-time investment officer of its then–$50 million endowment. She got a quick lesson in market volatility. The Dow Jones Industrial Average plunged to 577.6 in December 1974 from about 850 a year earlier. The slump didn't sway Handy or the U.Va. investment committee that controlled the endowment. They had about 75 percent of their money in equities and stuck with them, she says. In 1980, she added international shares to the portfolio, just as many non-U.S. markets took off.

Handy also plunged into hedge funds, investing U.Va. money with Paul Tudor Jones of Tudor Investment Corp., with Lee Ainslie's Maverick Capital Ltd. and with John Griffin's Blue Ridge Capital LLC. All three are U.Va. graduates. "It was very incestuous," Handy says. "There was a comfort in knowing these people."

After Handy took over Smith's endowment in 2004, she pushed its allocation to hedge funds and other private partnerships to 36 percent from 14.4 percent the first year. "That was the single most significant change for us," Constantine says.

Investure's main activity is picking firms to manage its clients' money. One of Handy's favorites is Appaloosa Management LP, the Short Hills, New Jersey–based hedge fund run by David Tepper. (See "Bullish at the Brink," February 2010.) Tepper is great, Handy says, as long as you're comfortable with big swings in performance. Appaloosa's flagship fund returned 28 percent in 2010 and 132 percent in 2009 after a 26.7 percent loss in 2008. "He has a pretty amazing long-term record," she says. "But you have to love his volatility."

One of Handy's most profitable moves at Virginia was investing in venture capital firms, including Crosspoint Venture Partners and Oak Investment Partners in the 1990s, just before technology boomed. By 1999, she had concluded that tech stocks were overvalued. Virginia state institutions, including U.Va., were precluded from investing in derivatives, so one of Handy's board members went to the legislature and the governor and succeeded in getting the law changed. Handy bet against $100 million in technology stocks. In March 2000, the tech-heavy Nasdaq Composite Index peaked and then plunged 60 percent in 12 months.

"We had all these new IPOs that had huge gains," says Don Lindsey, who worked with Handy at U.Va. for 13 years. "We locked in all those gains before the tech meltdown." Lindsey is now chief investment officer at George Washington University in Washington, D.C.

The Virginia endowment rose an average of 13.8 percent a year during the last two decades of Handy's tenure, she says, compared with 10 percent

Smith investment committee member **ANITA VOLZ WIEN** says Handy had a steady hand during the crisis.

EVAN KAFKA

annually for the S&P 500. By the time she left the school, the endowment had grown to $2 billion.

Handy got the idea for Investure in 2003 after administrators at both Georgetown and Randolph-Macon College in Ashland, Virginia, asked her if she could recommend an investment manager to handle their endowments. “I did a little work on outsourced offices and found that there were very few,” Handy says.

A friend who was a venture capitalist encouraged her to write a business plan, which she shared with Nina Scherago, a former analyst at Lehman Brothers Holdings Inc. and a member of the Smith investment committee. She’s now its chairwoman.

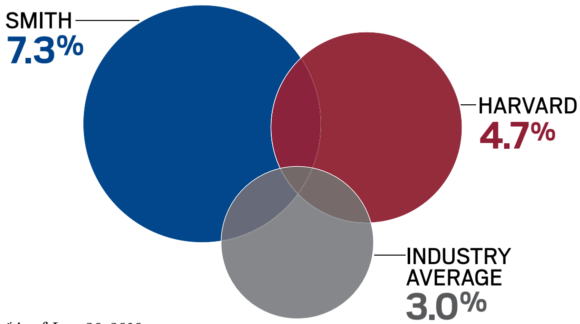
Smith had been trying to get other members of the Seven Sisters—a group of selective women’s liberal arts colleges, two of which have gone coed—to pool their money in a new investment office. Others balked, so Smith signed on with Handy. “She was able to have a steady hand on the portfolio and not panic and make rash decisions,” says Anita Volz Wien, another Lehman alumna who’s now an investment committee member at Smith. She’s also married to Byron Wien, vice chairman of Blackstone Advisory Partners, part of Blackstone Group LP in New York.

In the past two years, Handy has been bottom-fishing, buying beaten-down mortgage securities, bank assets and stock in companies that drill and dig for commodities. She’s also holding cash because of unsettling world events. “There is so much that is still wrong out there,” Handy says. “You can’t sit back and say, ‘Woo hoo! We’re out of the woods.’ We’re trying to find the most opportunistic investments we can make, things that are distressed and have a chance to make money even if the economy doesn’t.”

Five-Year Winner

Smith and other Investure clients outperformed their peers.

ENDOWMENT INVESTMENT 5-YEAR RETURN*



*As of June 30, 2010.
Sources: Colleges, Nacubo

One distressed asset she likes is the Yellowstone Club, a private ski resort in the Montana Rockies that went bankrupt in 2008. (See “The Wild World of Edra Blixseth,” October 2008, and “Trouble on Millionaire Mountain,” December 2006.) CrossHarbor Capital Partners LLC, a Boston-based private-equity firm, bought the club out of bankruptcy and is selling both its luxury ski chalets and the land to build new ones. Investure clients have money in a CrossHarbor fund, which, in turn, is an investor in the club. Investure clients also took a direct stake in the alpine hideaway. Private-equity funds like CrossHarbor sometimes solicit such coinvestments from clients looking for more-direct exposure to an asset. Fees on coinvestments are often lower, too.

The investment is an unusual one compared with the stocks and bonds that most endowments buy. Handy is counting on such value plays to keep her clients’ money growing in a tricky world. If she keeps doing well, investment managers at Harvard and Yale risk losing bragging rights to the modest, blunt Virginian yet again.

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