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How David Swensen Made Yale Fabulously Rich

He walked away from the stock market, built a network of elite private funds, and created a fortune with no end in sight.

By Drake Bennett, Janet Lorin, and Michael McDonald

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On a Tuesday in early April, David Swensen sat onstage in a gradually filling lecture hall. Sunlight slanted through a Tiffany stained-glass window of angels personifying various pursuits of the mind. Outside, tour groups moved along the paths of Yale's Old Campus, spilling onto topsoil ventilated with small holes to speed the growth of the grass upon which undergrads would picturesquely recline in warmer weather.

Swensen is a legend at Yale, and its highest-paid employee. But he's neither the university president nor the football coach. He's the money manager who for 34 years has been in charge of the endowment—the multibillion-dollar pool of money, seeded and fed by donations, that comprises Yale's fortune. It's largely thanks to Swensen that the university can woo star scholars, that its admissions can be need-blind, its libraries and cafeterias staffed, its sports teams fielded, its grad students stipended, its antique windows tended, and its lawns aerated.

The afternoon's event was a conversation on personal finance with NPR correspondent Chris Arnold. "This is my passion," Swensen told the audience. He warned about how money managers can take advantage of their clients. "All of the ads that you see steer you in the wrong direction, because it's ad money being spent by for-profit organizations." In khakis, a button-down, and a fleece vest with a Y over his chest, Swensen at 65 is square-jawed, with a teenager's gangly frame. Several years ago he began receiving treatment for cancer. Onstage, he moved with evident effort, and his speech was punctuated by pauses for breath.

Exactly halfway through the hourlong conversation, a member of the Yale Democratic Socialists named Lorna Chitty stood up in the second row. A few dozen other stone-faced students also rose. "David Swensen," she proclaimed, "while you stand here teaching us how to hoard wealth, there are 20 students occupying the investments office. When will you respond to the years of student activism calling for you to divest from holdings in Puerto Rican debt and the fossil fuel industry?" From the stage, Arnold proposed that the protesters hold off until the Q&A, when everyone could have "a civil exchange of questions."

"Instead," Chitty responded, "we will be leaving and joining our comrades who are sitting at the investments office." As the students filed out they shook their banners and chanted, "Hey, hey! Ho, ho! Fossil fuels have got to go!" The disruption wasn't a surprise—Yale police were on hand—and it lasted a mere two minutes. (A few blocks away, the investment-office occupiers got no farther than the building lobby.) Throughout, Swensen sat silently. With chants still echoing from the hallway, he picked up where he had left off: hammering on the unconscionably high fees of financial firms. To him, that was an injustice worth decrying. "The problem," the great money manager said, "is that when you're motivated by profit, oftentimes you stray."

Swensen is regularly mentioned in the same breath as Warren Buffett and other investing greats. "He's right up there with John Bogle, Peter Lynch, [Benjamin] Graham, and [David] Dodd as a major force in investment management," says Byron Wien, a longtime Wall Street strategist. The endowment was worth $1 billion in 1985 when Swensen started at Yale; today it's $29.4 billion. Other schools—including Bowdoin, MIT, Princeton, Stanford, and Penn, whose endowment heads all once worked for Swensen—have seen their wealth multiply. Harvard's stash is bigger, at $39 billion, but Swensen's reputation is more than a matter of returns and asset size. He's an intellectual leader whose once-radical ideas have become an orthodoxy. More than anyone, Swensen convinced the smart money that the best opportunities lie not in buying and holding ordinary stocks, but in esoteric hedge fund strategies and private equity—a template for long-term investing now widely known as "the Yale model." Swensen did all this not as the chief of a giant asset management firm, but as the financial steward of a nonprofit institution of higher learning.

Today, though, the massive size of the top universities' purses has become a flashpoint in a broader argument about elitism and inequality. Politicians have begun to question the tax-free status universities have long enjoyed: The 2017 tax law signed by President Trump included a new endowment tax, and Yale's home state of Connecticut a few years ago weighed something similar. Meanwhile, students discovering that they're stakeholders in these fortunes are proving increasingly aggressive in scrutinizing the sources of the returns. And away from campus, the investment world is grappling with the implications of the shift from public equity (i.e., the stock market) to private investment, where access and connections are the coin of the realm and the best opportunities tend to go to a relative handful of plugged-in investors, including top endowments. All this, too, is part of the world the Yale model helped create.

Swensen regularly teaches investing courses at Yale, and in the late 1990s some former students bought him a first edition of John Maynard Keynes's masterwork, *The General Theory of Employment, Interest, and Money*. As Swensen would recount in a talk at the 2018 Yale reunion, the graduate presenting him the book had told him, "David, you always read from Keynes as if you were reading from the Bible."

▲ Swensen PHOTOGRAPHER: PETER FOLEY/BLOOMBERG

Swensen likes to remind people that Keynes wasn't just a theorist, he was also an extraordinarily successful investor. For more than 20 years the great economist managed the endowment of King's College, Cambridge, expanding it steadily during the turbulent decades between the two world wars. He would discharge his fiduciary duties first thing in the morning, poring over company reports and phoning brokers while still in bed.

Endowment management is a less genteelly domestic affair today—Swensen leads a team of almost 30. But the career of Yale's chief investment officer is marked by a similar combination of theory and practice. He first came to Yale as a grad student in economics in 1975, after graduating from the University of Wisconsin in his hometown of River Falls. His father was a chemistry professor and dean at UWRF; his mother, after raising six children, would become a Lutheran minister. One of Swensen's dissertation advisers at Yale was James Tobin, who'd been a top economic adviser to the Kennedy administration and would soon win a Nobel Prize. According to Charles Ellis, founder of Greenwich Associates and former chair of Yale's investment committee, "When it snowed, David went to Jim's house to shovel the sidewalk."

Among the work that earned Tobin his Nobel was his contribution to Modern Portfolio Theory, formulated in the 1950s by his friend Harry Markowitz. The basic concept is simple enough: Asked by a reporter once to explain it, Tobin said, "You know, don't put your eggs in one basket." But by translating risk and return into mathematical concepts, the theory birthed a set of practical tools that are relied on every day by legions of 401(k) investors, who diversify their savings into thousands of underlying securities, most of which would be far too risky as a single investment. To Swensen it felt a little like getting away with something. “Diversification, as Harry Markowitz says, is a free lunch,” Swensen said in his 2018 reunion talk. “For a given level of return, if you diversify you can get that return at lower risk. For a given level of risk, if you diversify you can get a higher return. That’s pretty cool! Free lunch!”

As a grad student, Swensen looked and acted the part. He grew a beard and organized beer tastings at the residential college where he was a fellow. His academic interest, though, was against type: the valuation of corporate bonds. He got to know an investment banker at Salomon Brothers named Gene Dattel, a Yale alum who suggested that Swensen work there for a few years to get a firsthand feel for the topic. Dattel, deeply impressed by Swensen, had a feeling he’d thrive at the firm. But he did counsel the young academic, he recalls, to “look investment banker-ish” for his interview. “It was a way of saying to shave your beard,” he says, “and wear a suit.”

The early 1980s were famously fast times at Salomon, and a cleanshaven Swensen fit right in as the firm upended the once-staid bond business. In 1981 he helped structure the world’s first swap agreement, allowing IBM Corp. to hedge its exposure to Swiss francs and German marks in a deal with the World Bank. After three years, Swensen left to head the swaps desk at Lehman Brothers. His foray was beginning to look like a career.

Then he got a call from Yale’s provost, William Brainard, who’d been his other dissertation adviser. Brainard was looking for someone to run the endowment, and Tobin had suggested their former student. At first, Swensen begged off: All he knew about portfolio management was the Markowitz and Tobin he’d studied in grad school. But he agreed to go to New Haven and chat with Brainard. “He was the only candidate among many who thought and could talk intelligently about what was special about managing the large endowment of a tax-exempt university,” Brainard recalls. And that was that. Swensen took the job, and with it an 80% pay cut. He started on April 1, 1985.

If the hiring of a 31-year-old was a vote of confidence in Swensen, it also reflected the stature of the job. Ivy League endowments, like Ivy League football teams, tended to be unexceptional performers helmed by unfamous people. The conventional wisdom was that a portfolio was prudently diversified if it was divided between blue-chip stocks and bonds, with a few exotic investments as a garnish. But the 1970s had been a disaster for most universities' finances. The global recession that followed the 1973 oil embargo hammered stocks as inflation ate up bond returns. Stagflation revealed that the eggs had been in one basket, after all.

Steadily losing out to inflation is particularly bad for a college. Individuals investing for themselves can ballpark the minimum they need to earn by multiplying annual spending by the number of years they expect to live. Three-hundred-year-old universities, on the other hand, assume immortality and invest accordingly—they can't let their money be whittled down.

In 1986, a Yale College and School of Management graduate named Dean Takahashi joined the investment office, quickly becoming Swensen's sounding board and trusted deputy. They sought out investment categories that would at once allow for true diversification and beat the market. Such assets weren't easy to find—plenty of investors and economists argued they didn't exist. But Yale had certain advantages. Its nonprofit status sheltered it from taxes on income. It could access top outside fund managers. It had alumni in high places in business and finance who, like Swensen, bled Yale blue. Even in its relatively straitened circumstances, Yale came to the table with a bankroll of a billion dollars. What's more, as Swensen realized, its presumption of perpetuity didn't have to be a burden; it could be an edge. Allowed a longer time horizon, he could make bets that locked up money for years at a time.

Swensen had discovered working in finance that sophisticated investors had new options. There were the venture capital firms along Palo Alto's Sand Hill Road that were seeding semiconductor manufacturers and the newer tech companies. There were the nascent private equity firms leveraging up to take faltering companies private, then remake and resell them (or their parts) at a profit. And there were hedge funds, profiting by exploiting discrete, temporary opportunities—an artificially propped-up currency, say, or a stock whose price didn't fully reflect the odds of an impending merger.

And so, after Swensen took over, the garnish became the meal. He invested in San Francisco's Farallon Capital Management LLC, founded by Tom Steyer, Yale class of '79. Farallon started out in merger arbitrage, then moved into distressed debt, buying up, among other things, the largest bank in Indonesia. By the time Steyer left Farallon in 2012 to devote himself to liberal activism—he's now running for president—it was one of the largest hedge funds in the world.

Yale's biggest rival was doing something similar. In the early 1990s, under new head Jack Meyer, Harvard Management Co. began hiring private equity specialists and hedge-fund-style investors to run its money internally. Yale and Harvard also began investing heavily in natural resources such as oil, natural gas, and timberland. If you wanted to unload your forest quickly, good luck. But to Swensen and other endowment officers, that was a virtue. "The illiquid nature of real assets and the information-intensive aspects of the transaction processes favor skilled and experienced investors," a 2003 Yale endowment annual report read. In other words, the assets were going cheap because so few people could handle them.

Swensen's legend was made with the popping of the dot-com bubble. During Yale's fiscal year ended in June 2000, when the Nasdaq hit the era's peak, the endowment's portfolio returned 41%. Even more impressively, over the next 12 months as stocks collapsed, Yale's assiduously diversified portfolio returned a healthy 9.2%. Yale became an emblem of a new investing style. A few years later, at a party celebrating Swensen's 20th anniversary at Yale, then-President Richard Levin unveiled a chart showing the biggest donors in the school's history. An economist, Levin had calculated how much Swensen had outperformed the average university endowment over the course of his career—how much Swensen had thereby "contributed" to Yale. That figure was $7.8 billion. Today, Levin says Swensen's contribution is greater than the sum of all the money donated in the two decades Levin was in charge. "We've just done better," Levin says, because of Swensen's "uncanny ability" to pick the best outside money managers.

Supplementing Swensen's native abilities, however, is a money manager network built up over decades and bolstered by loyal Yalies. William Helman, a general partner at Greylock

Partners, says that when the top VC firm decided to open to a few new clients in the 1990s it sought out Yale in part because of an alumni connection at the firm. Yale's $2.7 million bet on Greylock-backed LinkedIn Corp. generated an $84.4 million gain when the company went public in 2011. Swensen seeded Yale alum and former investment-office staffer Lei Zhang with $20 million to start Hillhouse Capital Management in 2005, which has backed tech startups such as JD.com in China. Hillhouse earned $2 billion for the university.

There are clues in Yale tax documents about other winning bets, including Boston hedge fund Bracebridge Capital, which Swensen seeded decades ago, and a $274 million stake in New York-based health-care investor Baker Brothers Advisors that quadrupled over a decade. All in all, about 60% of Yale's portfolio is allocated to alternative investments such as private equity, hedge funds, and venture capital. And Swensen has been more willing than most CIOs to take the risk of riding his best bets even as they swell to a large share of the endowment.

Early on, few firms dealt in the sort of assets Swensen was interested in, so he had to help create them—becoming, in essence, a venture capitalist of venture capitalists. "Dave absolutely put us in business," says Joel Cutler, one of the founders of VC firm General Catalyst. Getting in early has other benefits: Swensen can exercise more influence over younger, unproven firms and negotiate down the management fees that he abhors.

Following Yale's example, universities and other endowments have piled into alternative investments. "He legitimized private equity as an asset class," says Wien, the strategist. According to *More Money Than God*, Sebastian Mallaby's 2010 history of hedge funds, "By 2009, roughly half the capital in hedge funds came not from individuals but from institutions." The deep pool of large institutions seeking opportunities has reshaped the corporate landscape, as companies looking to raise money rely less on public stock markets. Companies such as Uber Technologies Inc. can grow to valuations in the tens of billions before going public. If new bubbles are forming in tech—or in debt-fueled private equity deals—small investors aren't pumping them up. The smart money is.

Stringent as an investor, Swensen is unabashedly emotional about Yale. Ann Miura-Ko was a decade out of college in 2008 when he invested in Floodgate Fund LP, the VC firm she co-founded. She later served on the university's investment committee and is now a trustee. "I thought I loved Yale until I met David," she says. Swensen, she says, can rattle off the roster of the football team and is quick to blame the refs for its not-infrequent losses. When Miura-Ko returned to Yale for her reunion, he insisted on giving her family a personal campus tour, proudly wearing a blue-and-white reunion blazer with barbershop-quartet stripes. He's also passionate about the investment office's softball team. Andrew Golden, who worked for Swensen in the late 1980s and early 1990s and now runs Princeton's endowment, remembers watching his then-boss tear his ACL trying to stretch a base hit.

Even at immortal institutions, though, 34 years is a long career. And while Swensen doesn't like to talk about his legacy —he declined to be interviewed for this story—his treatment for cancer has led to questions about when he'll step down and what will happen when he does. The speculation intensified in August with the news that Takahashi, his longtime No. 2, is leaving his role at the investment office, though staying at Yale to work on solutions to climate change.

Swensen's instincts seem to be at least partly replicable. Three of the five best-performing endowments over the past decade are those of Bowdoin, MIT, and Princeton, all run by members of his investment office's diaspora. Yale itself just missed the top 10. Golden describes Swensen as a natural teacher: "He grew up in the academic family." Seth Alexander, who runs MIT's endowment, started working for Swensen right out of college (Yale, as it happens). "Instead of leaving junior people at their desks to do spreadsheet work, he invited them to join him at meetings, to travel to see potential investments, and to join in the discussions when decisions were made," Alexander wrote in an email. Hillhouse's Zhang says he uses daily what he learned from Swensen about judging character. Enough people want learn the Swensen way that he'll be teaching in a newly created Yale master's program in asset management.

As for Swensen's apprentices who went on to run their own endowments, it can be difficult to disentangle how much of their success comes from learning at the feet of the master and how much from the privileged access afforded members of a particularly exclusive alumni network. Regulatory filings show that Yale, Princeton, and MIT all hold shares in real estate investment trust JBG Smith Properties, and that Yale and MIT were both early backers of a fund launched in 2013 called Foxhaven Asset Management. Princeton, like Yale, amassed stakes in blue-chip managers the Baupost Group and Water Street Capital. Money managers outside this charmed circle often trade tips about Swensen and his acolytes' investments: The head of a wealth management office in the Bay Area says he once traveled to Singapore to meet with a fund on the strength of a rumor that Yale had backed it.

Swensen is adamant that most people and many institutions shouldn't try to do what he does. "Certainly, the game of active management entices players to enter, offering the often false hope of excess returns," he wrote in his book *Pioneering Portfolio Management*. The great mass of investors are better off in low-cost index funds. "It's like copying a champion figure skater," Swensen's friend Ellis says. "Who can reproduce 35 years of building the world's best scuttlebutt network?"

And even champion figure skaters don't land every jump. Yale's endowment, and the many others that copied it, were knocked sideways by the 2008 financial crisis. When real estate values crashed, stocks cratered, and markets all over the world froze, the highly illiquid assets on endowment balance sheets went from being ballast to millstones. Yale did better than most and was able to borrow money to get by. In general, though, its returns have dropped off in recent years: Over the past 20 years they've averaged 11.8%, over the past decade 7.4%.

Still, no one at Yale is complaining about Swensen's returns. What some have begun to criticize is how they're earned. Yale has prospered by forging partnerships between the educational and financial elite. It's not hard to see why that might invite the attention of activists. In 2004, after Farallon launched an ill-fated venture to sell water from a Colorado aquifer, campus protesters kicked off an "UnFarallon" campaign, demanding greater transparency about what endowment money was funding. More recent efforts have focused on getting Yale to divest from fossil fuels and from hedge funds that have bought up bonds issued by Puerto Rico. Protesters argue that the money the territory, still recovering from Hurricane Maria, will have to pay to bondholders can't go to social services and rebuilding. (Yale said in a statement on its website that Puerto Rico is in the process of restructuring its debt, and that if it does so successfully the cost will be sustainable.)

Members of Yale's graduate student union have for the past few years been digging through regulatory filings to follow the endowment's money. The union, Unite Here Local 33, has publicized what it characterized as unsustainable forestry practices in Yale-owned timberland. It also discovered that a mortgage-servicing company owned by one of Yale's money managers had threatened to foreclose on homes owned by university employees—homes, in some cases, the school helped them buy. "We have found that David Swensen's investment choices have repeatedly contradicted Yale's stated values," says Local 33's vice president for research, a Ph.D. candidate named Charles Decker. In 2016 the investment office announced that, after much consideration, it had directed its managers to divest $10 million, or 0.04% of the endowment, from fossil fuel companies. It's updated its ethical investment policy to raise the possibility of exiting investments it deems socially irresponsible.

Last year, Swensen published an op-ed in the *Yale Daily News* criticizing the student paper's coverage of the endowment. "In the more than three decades that I have managed Yale's endowment," he wrote, "the honesty of the activists and the reporting of the *News* have deteriorated." After it was published, he sent a series of emails to the paper's editors over what he argued was improper editing. In the exchange, which the *News* published, he called the editor-in-chief "a coward," and her decisions "disgusting." "Don't you understand simple English?" he asked.

The Yale model depends on putting money in funds for extended periods—the endowment doesn't pick and choose individual investments by the funds. Still, Yale isn't just any investor, and Swensen has a history of imposing his will on his money managers and taking stands on principle. It's just that his principles and those of student activists are different. MIT's Alexander remembers "a particularly uncomfortable investor meeting in Brazil" from his Yale days where Swensen confronted a private equity firm over a restructuring that he felt would disadvantage its investors. “David could not help himself but stand up,” he recalls.

Swensen likes to talk about how he looks for money managers who have “a screw loose.” In terms of self-interest, the rational thing to do if you run a hedge fund or private equity firm is concentrate on raising as much money as possible and grow rich off the fees. The managers Swensen wants are driven by a different ambition. They want to beat their competitors’ returns, whether or not that translates into maximum personal enrichment. The ideal Swensen manager looks a lot like Swensen, who passed up Wall Street lucre to ensure that the university he loves is rich beyond the dreams of avarice.

What Yale’s $29 billion fortune means for a democracy—at a time when many Americans struggle to pay off student debt or come up with tuition for an underfunded public college—is another question. Certainly Yale’s money can open doors to opportunity: The university provides generous funding to low- and middle-income students who win admission and supports a college-aid program for top students in New Haven public schools. Leon Botstein, the president of Bard College, thinks rich universities can do more. Rather than focusing on expanding their endowments to ever more mind-boggling sizes, he argues, they should be dipping into them to attack social problems. “The money is paralyzing,” he says. “The fear of being poor makes them risk-averse.”

As promised, there was a Q&A at Swensen’s personal finance talk. It was late afternoon by this point, and the lecture hall had grown dim. He began to discuss the sort of portfolio people should have as they approach retirement. He’s been exploring the idea of having Yale offer an annuity for employees that would begin to cover costs after age 80 or 85. “Then the retirement problem becomes a lot easier,” he says. It works because annuities don’t have to pay forever—for humans, there’s always an end in sight. That’s one luxury the stewards of Yale’s fortune have never had. *—With Amanda L. Gordon*

(Updates the 28th paragraph to add that Swensen will be teaching in a new Yale master’s program. A previous version of the story corrected the 23rd paragraph to remove a reference to the size of Yale's position in Bracebridge Capital. Yale did not specify the size of its stake.)