



**NYU**

**ROBERT F. WAGNER GRADUATE  
SCHOOL OF PUBLIC SERVICE**

**PADM-GP 4139.001**

**Investment Management in the Public and Nonprofit Sectors**

**Spring 2023**

## **Instructor Information**

- Nick Smirensky
- Email: nicksmirensky@gmail.com
- Cell phone: 917.284.3624
- Zoom office hours: March 29 at 6:00 PM, April 5, 6:00 PM (I will wait until 6:15) and by appointment.

If you have questions between class meetings or on assignments, please feel free to send me an email.

## **Course Information**

- Class Meeting Times:
  - March 25, 10:00 AM to 6:00 PM
  - April 1, 10:00 AM to 6:00 PM
- Location: Bobst LL 141

## **Course Prerequisites**

- CORE-GP 1021, PADM-GP 4130 concurrently

## **Course Description**

This course is designed to provide students interested in careers in state and local government, not for profits, endowments, and foundations with a basic understanding of institutional investment management. With the key concepts covered in this class (portfolio construction, the risk and return characteristics of major asset classes, due diligence, investment decision making, and fiduciary responsibility), students will be equipped to understand the operations of an institution's investment pool as well as evaluate investment and governance policy issues.

## **Course and Learning Objectives**

The class will result in students having a broad understanding of:

1. Basic concepts of finance and economics related to investing, including methods for calculating and interpreting investment returns.
2. Financial markets history, focusing on volatility and its impact on portfolios.
3. Characteristics of investment asset classes.
4. The institutional investment environment: investment assets and their role; the regulatory environment, focusing on fiduciary obligation; impact of institutional size and governance resources on portfolio management; investment due diligence.
5. Asset allocation and portfolio construction.
6. Key issues in U.S. state and local government pension management.
7. Impact investing and divestment.

## Learning Assessment Table

Graded Assignment	Course Objective Covered
Final Exam	1, 2, 3, 4, 5, 7
In-class Presentation	4, 5, 7

## Text and Readings

### Required Text

David F. Swensen, *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, Free Press, 2009. Please use the 2009 edition of this book. The text is also available as an iBook and on Kindle. The book is dated, but it is the best text on investment management for a general audience. Please refer to the file “Reading David Swensen” on Brightspace. I suggest some sections that can be skipped.

*Investment Management Class Notes*. I have prepared a summary of a number of concepts covered in the class; it includes updates and corrections to Swensen’s book. It is on NYU Brightspace. Please read this before class starts; it should improve the class discussion.

### Readings

Electronic copies of the readings are available on NYU Brightspace.

### Optional Readings

These suggestions are designed for students who wish to pursue more detail in certain subjects. You are not expected to review any of the optional material.

### Remote Learning Lecture Videos

Videos of lectures used when the class was remote will be available.

## Grading

**80%:** One 8-10 page, double-spaced memos. The memo is due at 11:00 PM on Sunday, April 9, 2023 and should be submitted via email. Work submitted late will be penalized.

**20%:** Class participation. Helpful questions and discussion during the lectures will be evaluated as part of the grade. Students will also participate in a mock investment committee meeting at the end of day two discussing issues related to a divestment scenario. This may be prepared as a group exercise with two students.

## Class Schedule and Readings

### Lecture 1 (March 25)

#### Topics

- Overview of investing
- Key financial concepts: present value, future value, compound interest, measuring rates of return
- Characteristics of assets (Historical returns, volatility, correlation)
  - Public equities (geography of issuance, market capitalization, growth versus value, emerging versus developed markets)
  - Fixed income (Treasuries, TIPS, corporate, mortgages, asset backed securities); understanding and measuring credit risk and interest rate risk
  - Cash equivalents
  - Real estate, real assets, commodities
  - Private equity
  - Hedge funds

#### Reading

- David F. Swensen, *Pioneering Portfolio Management: an Unconventional Approach to Institutional Investment*, Free Press, 2009.
- Mark Brunnermeier and Martin Oehmke, “Bubbles, Financial Crises, and Systemic Risk,” Section 2: A Brief Historical Overview of Bubbles and Crises, pages 7-11.
- Blackrock Investment Institute, *Risk and Resilience: Patterns in Equity Returns*, September 2013. This is a good, basic discussion of what drives equity returns and how to construct an investment portfolio.
- U.S. Securities and Exchange Commission, *Interest Rate Risk: When Interest Rates Go Up, Prices of Fixed-Rate Bonds Fall*, SEC Pub. No. 15, June 2013.

## Optional Reading

- J.P. Morgan, *Guide to the Markets*. This slide deck is prepared quarterly by J.P. Morgan; it contains a summary of key economic and market indicators. It's worth paging through this document. I use a number of the slides in the lectures.
- John Kelleher and Justin MacCormack, "Internal Rate of Return: a Cautionary Tale," *McKinsey Quarterly*, 2005.
- Vanguard, *Private Equity: Assessing its role in a nonprofit portfolio*, November 2019.
- TIFF (The Investment Fund for Foundations), *Private Equity Primer*, 2021.

## Lecture 2 (March 25)

### Topics

- Fiduciary obligation: the prudent person and prudent investor standards
- Overview of the institutional investing environment
  - Investors: sovereign wealth funds, public and corporate pension plans, endowments, foundations, family offices
  - Consultants: general and specialized asset classes
  - Investment managers: banks, specialized firms, partnerships
  - Internal investment staff
  - Custodian banks
- The role of investment assets in the operation of endowments and foundations; spending levels
- Models for managing assets
  - Investment committee
  - Internal staff management
  - Outsourced
- Documenting investment policy: elements of an investment policy statement, defining investment objectives (required return, risk tolerance, liquidity, investment horizon).
- Alignment of interest: managing conflicts of interest and agency risk
- Regulatory environment: state not-for-profit corporation laws; financial market regulators; SEC, IRS, ERISA
- Taxation

### Class Discussion

Read Corporate Purpose Discussion Notes, the article by John Bogle and the statement from the Business Roundtable; be prepared to discuss its implications for institutional investors.

### Reading

- David F. Swensen, *Pioneering Portfolio Management: an Unconventional Approach to Institutional Investment*, Free Press, 2009.

- National Conference of Commissioner on Uniform State Laws, *Uniform Prudent Management of Institutional Funds Act*, November 2007. The commentary provides a discussion of the fiduciary requirements for not-for-profit corporations (endowments and foundations); the same principles apply to pension funds.
- The Commonwealth Fund, *Rethinking the Management of Endowments and Foundations*, 2009 Annual Report. This document contains a good discussion of the different models for managing endowments and foundations.
- John C. Bogle, "The Modern Corporation and the Public Interest," *Financial Analysts Journal*, Third Quarter 2018.
- Larry Fink, *Larry Fink's Annual Letter to CEOs: A Sense of Purpose*.
- Business Roundtable, *Statement on the Purpose of a Corporation*, September 6, 2019.
- Russell Research, *Elements of a clearly defined investment policy statement for nonprofits*, April 2016. Also see sample Investment Policy Statement on NYU Brightspace.

### Optional Reading Materials

- Vanguard, *A Guide to Best Practices for Nonprofit Fiduciaries*, 2019. This is a handy compilation of issues and resources on investing for not-for-profit organizations.
- Wallace Foundation, *Investment Policy*, January 1, 2019. This is a good sample of an actual investment policy statement. The Foundation's website ([www.wallacefoundation.org](http://www.wallacefoundation.org)) has a good collection of basic governance documents.

## Lecture 3 (April 1)

### Topics

- The investment horizon: spend down, perpetuity, funding specific liabilities
- Risk management: credit, operational, interest rate, counterparty, liquidity, reputational, financial market; rebalancing as a risk management tool.
- Asset allocation and portfolio construction
- Active versus passive management
- Investment vehicles
  - Direct ownership of securities
  - Mutual funds, collective trust funds
  - Limited partnerships
  - Separately managed accounts

## Class Discussion

Read the document on Investment Performance at the Human Foundation. Be prepared to discuss the issues raised in the document.

## Reading

- David F. Swensen, *Pioneering Portfolio Management: an Unconventional Approach to Institutional Investment*, Free Press, 2009.

## Optional Reading

- Tellus Institute, Center for Social Philanthropy, *Educational Endowments and the Financial Crisis: Social Costs and Systemic Risks of the Shadow Banking System*, [2010]. Read pages 8-31 of this report, which is a relatively balanced discussion of endowment investing.

## Lecture 4 (April 1)

### Topics

- Overseeing performance: comparing risk and returns to benchmarks
- Overview of public pension plans
- The investment decision-making process
  - Due diligence
  - Negotiating terms
  - The role of staff, consultants, the investment committee and governing body
- Public policy and investing
  - Divestment
  - Economically targeted investment
  - Program-related investments

### Reading

- David F. Swensen, *Pioneering Portfolio Management: an Unconventional Approach to Institutional Investment*, Free Press, 2009, pages 130-150, 245-296 (Chapters 6, skim chapter 9) pages 297-347 (Chapter 10).
- Alicia H. Munnell, *Should Public Plans Engage in Social Investing*, Center for Retirement Research at Boston College, August 2007. Discussion of public pension plan efforts to divest investments for social policy.
- Alicia Munnell and Jean-Pierre Aubry, *The Funding of State and Local Pensions: 2015-2020*, Center for Retirement Research at Boston College, June 2016.
- *Expanding Philanthropy: Mission-Related Investing at the F.B. Heron Foundation*, Southern New Hampshire University School of Community Economic Development.
- Morgan Stanley, *Investing with Impact and Fiduciary Duty*, November 2015.
- Callan Institute, *An Investor Framework for Addressing the Impact of Climate Change*, Summer 2018.

## Optional Reading Materials

- Rockefeller Philanthropy Advisors, *Impact Investing Handbook: An Implementation Guide for Practitioners*. This is a good reference for impact investing.
- Susan N. Gary, *Value and Value: University Endowments, Fiduciary Duties, and ESG Investing*, February 2016. The legal discussion is very useful, and it is much shorter than the 31 pages in the table of contents suggests, given the length of the footnotes. The material in Section IV on investment performance is not as well done; there is much more uncertainty about whether ESG investing has a negative impact on performance.

## Mock Investment Committee Meeting

Students will select from several roles (Available on NYU Brightspace, along with more instructions) where divestment is being discussed at a public retirement system. You may work alone or in groups of up to three.

## NYU Brightspace

All announcements, resources, and assignments will be delivered through the NYU Brightspace site. I may modify assignments, due dates, and other aspects of the course as we go through the term with advance notice provided as soon as possible through the course website.

## Academic Integrity

Academic integrity is a vital component of Wagner and NYU. All students enrolled in this class are required to read and abide by [Wagner's Academic Code](#). All Wagner students have already read and signed the [Wagner Academic Oath](#). Plagiarism of any form will not be tolerated and students in this class are expected to report violations to me. If any student in this class is unsure about what is expected of you and how to abide by the academic code, you should consult with me.

## Henry and Lucy Moses Center for Students with Disabilities at NYU

Academic accommodations are available for students with disabilities. Please visit the [Moses Center for Students with Disabilities \(CSD\) website](#) and click on the Reasonable Accommodations and How to Register tab or call or email CSD at (212-998-4980 or [mosescsd@nyu.edu](mailto:mosescsd@nyu.edu)) for information. Students who are requesting academic accommodations are strongly advised to reach out to the Moses Center as early as possible in the semester for assistance.

## NYU's Calendar Policy on Religious Holidays

[NYU's Calendar Policy on Religious Holidays](#) states that members of any religious group may, without penalty, absent themselves from classes when required in compliance with their

religious obligations. Please notify me in advance of religious holidays that might coincide with exams to schedule mutually acceptable alternatives.