

## Institutional Investor News

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### Cooper Union Seeks Venture Capital, Commercial Credit



--Dawn Lim

**The Cooper Union for the Advancement of Science and Art** is eyeing commercial credit and early-stage venture capital as it seeks income investments and pockets of growth for its roughly \$130 million investment pool. There is no timeline for the searches, which will be done opportunistically.

The investment committee, which has historically shied away from venture capital because of difficulty gaining access to top-tier funds, is slated to discuss early-stage venture capital options in September. Cooper Union's illiquid commitments are usually sized at \$5 million. Investment consultant **Cambridge Associates** will assist with recommendations.

"Early-stage funds tend to be much smaller and therefore more willing to consider a smaller allocation," said **John Michaelson, Michaelson Capital Partners'** CEO and chairman and CIO of Cooper Union's investment committee. "The dislocations from the shift to a broader geographic area than **Silicon Valley** may have opened up opportunities that did not previously exist for new managers." He added emerging managers and **New York City** start-ups may also generate strong returns.

Michaelson is eyeing commercial credit for its income stream potential. "The paucity of bank lending to middle market companies has opened up opportunities for alternative credit providers to provide private senior secured debt directly to middle market companies at attractive yields," he noted, citing the instruments' reasonable liquidity and senior position in the capital structure as draws. Notably, more than 65% of Cooper Union's roughly \$65 million operating budget comes from its investment portfolio.

The school sent ripples through higher education circles in April after deciding to end its tuition-free policy in 2014. Michaelson anticipates that the decision will offer greater certainty on cash flows and give Cooper Union's investment committee more flexibility to pursue longer-term investments. More breathing room is expected to open up around 2018 when the school, which holds a \$550 million ground lease for the Chrysler Building, expects raised cash flow as lease payments rise to a fixed rate of \$33.5 million from the current \$8 million each year.

The portfolio's asset allocation is 5% in cash, 50% in fixed income as well as absolute return hedge funds, 25% in stocks, with the remainder split between private investments, high yield instruments and real assets.

The school came under criticism by the mainstream media for its allocation to hedge funds, but has no plans to overhaul the asset allocation.

According to data in the NACUBO Commonfund Study of Endowments (NCSE)®, **The Cooper Union endowment's annual return for all assets for the ten years fiscal years 2003 to 2013 was 15.5%**. This was confirmed by the College Administration.

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