

The Cayman Islands Curiosum

Eshragh Motahar, Professor of Economics

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Union has invested anywhere from 29% to 55% of its endowment on Cayman Islands (based on information from its annual IRS-990 tax returns). Union is a tax-exempt institution. Cayman is a tax haven. Therefore, on the face of it, there is a puzzle. However, in this paper we will provide an evidence-based explanation of this apparent puzzle.

Warren Buffet, and other experts/authors have argued for a 90/10 asset allocation strategy for endowments: 90% of assets in a very low-cost S&P 500 index fund, and 10% in short-term government bonds.¹ They have also emphasized that high fees associated with active management, hedge funds, and investment consultants significantly erode returns over time. As Jason Zweig of the *Wall Street Journal* says, fees are “the biggest drag on your returns.” [[Here.](#)] Scholarly studies, for example [here](#) (page 9), reach similar conclusions: **“Buffett’s advice seems to be a reasonable way to balance an endowment when the organization is trying to keep funds on pace with inflation, generate steady withdrawals and preserve the principal.”**² Note that we are *not* advocating a 90/10, or any particular investment strategy. Rather, we are providing various benchmarks against which Union’s endowment performance can be assessed.

Therefore, given the existence of almost fee-free, transparent, liquid options with high rates of return and relatively low volatility, why does Union pursue the Cayman option which is high-fee, nontransparent, illiquid, high-risk, and immune from scrutiny?

Background

The core explanation is the classic textbook principal-agent problem. This problem is a conflict in priorities that arises when one person or group, the principal, delegates authority to a representative, the agent, to act on their behalf, but the agent's interests do not align perfectly with those of the principal. This dilemma is common in situations where the principal cannot perfectly monitor the agent's actions and the agent has more information (known as information

¹ “I believe the trust’s long-term results from this policy [90/10] will be superior to those attained by most investors—*whether pension funds, institutions, or individuals*—who employ high-fee managers.” [Here.](#) [Emphasis added.]

² Evans, Crystal A., *et al.*, “Warren Buffett’s Advice ... Good for Nonprofit Endowments?” *Journal of Wealth Management*, January 2023, 25(4). [Here.](#) Richard Ennis also has published many peer-reviewed journal articles in this vein. For several *Wall Street Journal* articles on this matter, see Jason Zweig. For Ennis and Zweig articles, plus numerous other sources, check [here](#). See also, “Yale’s Famed Investing Model Falts at a Fraught Time for Colleges,” ([here](#)); and “Colleges could go tuition-free if their endowment funds just invested in this stock index,” ([here](#)).

asymmetry), leading the agent to potentially make decisions that benefit themselves at the principal's expense. The risk associated with this conflict is referred to as agency costs.

Union's faculty and staff have a clear interest in Union's sustainability, the strengthening of its core mission, and enhancement of its reputation. Whereas, on the other hand, the investment managers' objective is to maximize their fees.³ This is not to "blame" them or criticize them. In fact, they are experts in their fields doing what is, to them, perfectly rational. In a sense, for them Union is a residual claimant after fees have been deducted.

In the case of Union, and similar institutions, the principal-agent problem is exacerbated by several orders of magnitude. The principals (faculty and staff) are structurally prevented from monitoring the agents (investment managers). This is because the Board of Trustees (an unelected, self-perpetuating body) acts on their behalf. The Board then, in turn, hires a firm of consultants (in Union's case Commonfund, previously Gerber|Taylor) to act on *its* behalf. Commonfund then hires a group of investment managers to manage the endowment.

Our working assumption throughout this paper is that all the entities mentioned—faculty/staff, the Board of Trustees, Commonfund, and investment managers—are acting rationally.

Why Cayman Islands?

If one were to follow Warren Buffett's recommendation, almost all the proceeds of its investments would accrue to Union, which is optimal for Union, but investment managers' income would be minimal. So, what to do? Investments in alts [assets not traded on public markets; they can't easily be converted to cash⁴] tend to be associated with high fees. Moreover, "success" benchmarks are self-selected. So, managers could easily earn standard management fees (normally 2% of assets under management) plus bonus/incentive fees. However, based on federal law, investment in alts violates Union's tax-exempt status. It makes it subject to UBIT [unrelated business income tax]. To avoid that tax, "blocker companies" are created in Cayman Islands. The net result of this Byzantine scheme is maximized fees. Whatever is left over accrues to Union. That is one of the reasons why Union has performed consistently and substantially below the S&P500 since 2008. **Thus, this strategy leads to a direct, traceable, transfer of income (and benefits) from the faculty and staff to investment managers.**

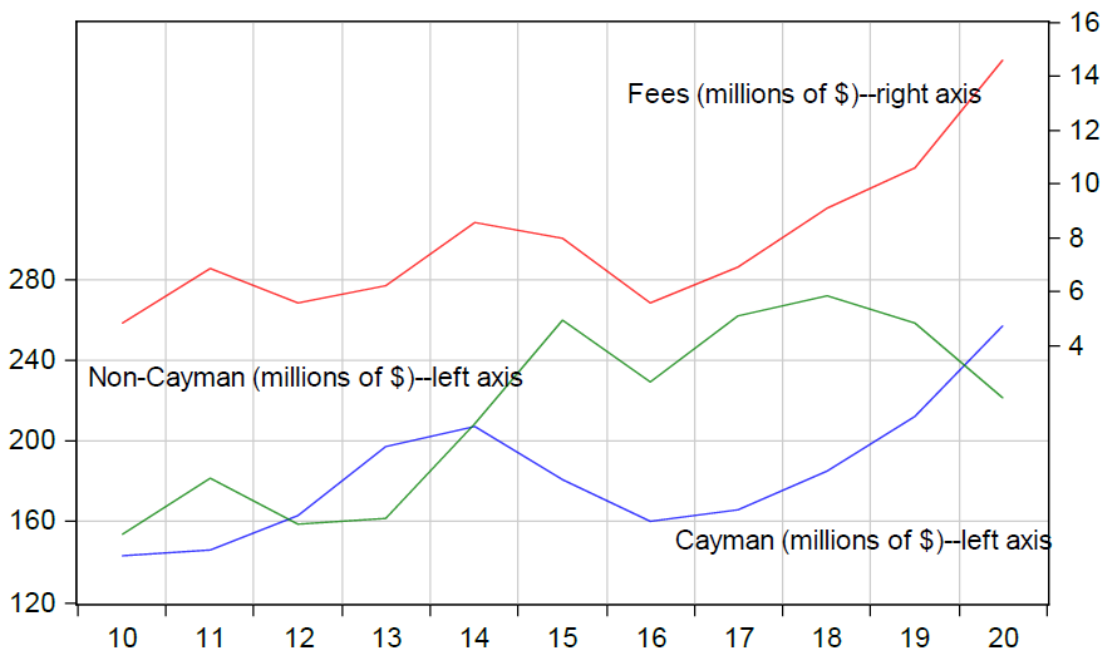
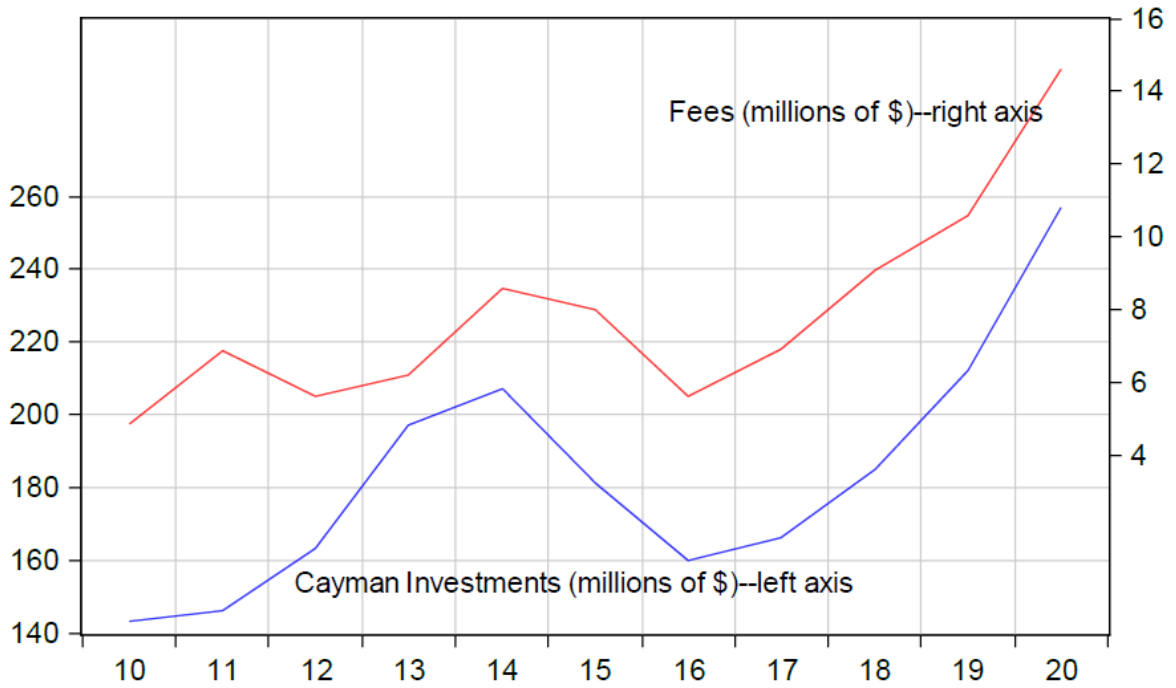
Evidence

Given the background above, it has been extremely difficult to gather evidence. For decades, Union published fees ("investment management fees (including any incentive fees)"). However,

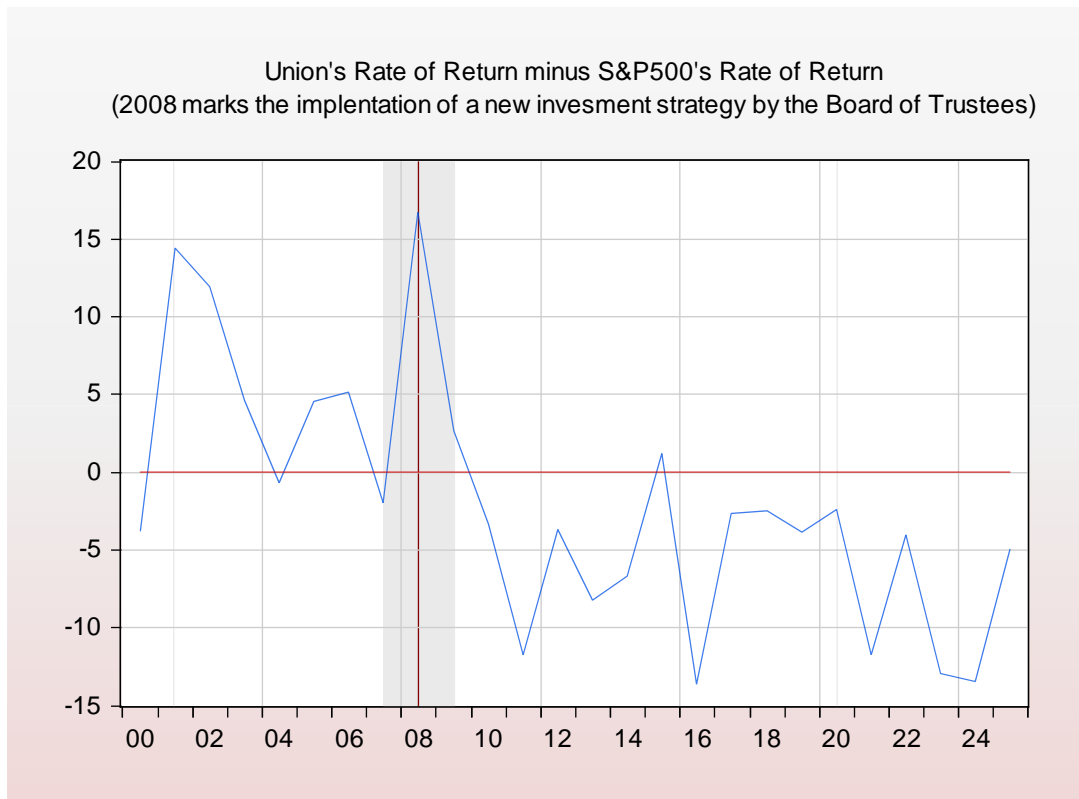
³ We use the term "maximize" here in the sense of constrained maximization. That is, given a set of legal and other constraints, the objective is fee maximization.

⁴ Based on Union's FY2024 financial audit, the following were evaluated by NAV method [net asset value], rather than "fair market value." Any of these could be regarded as "alts": "Private equity and venture capital," "Multistrategy funds," "Hedge equity funds," "Emerging market funds," "Real assets," "International equities," "Global equities."

starting from FY2021 it has adamantly refused to publish them. Moreover, any financial activity on Cayman Islands is, by definition and design, nontransparent, and beyond the jurisdiction of U.S. law. Nonetheless, by examining Union College’s annual audits, and its IRS 990 tax returns, the following patterns emerge. (In all figures below, the horizontal axis shows fiscal years.)



The following graph is based on data from Union's annual audits, plus publicly available data on S&P500. The average annual underperformance for the 2009-2025 period is 6 percentage points.



Conclusion

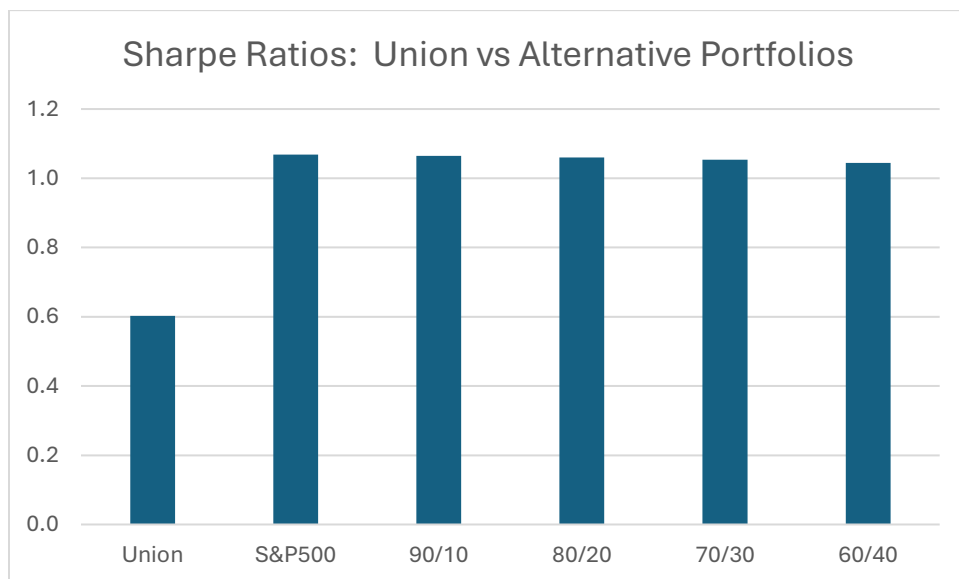
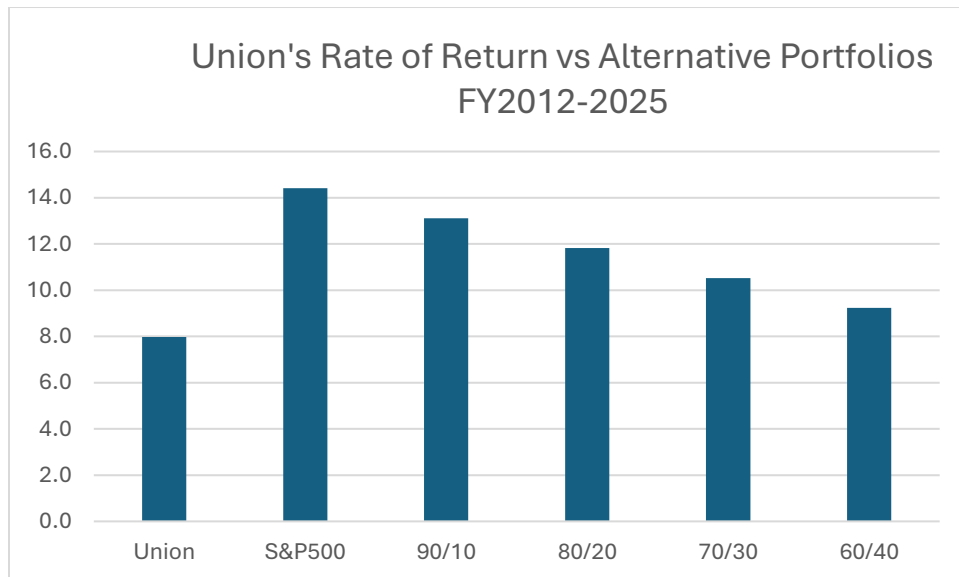
The correlation coefficient between fees and Cayman investments is 0.90; whereas between fees and non-Cayman investments is 0.46. That is, there is a very strong degree of association between the amounts invested on Cayman and fees. We are fully aware that correlation and causality are different. Nonetheless, in the presence of low-cost, transparent, liquid, high-return, low-volatility (as compared to Union's own track record) options (as in 90-10 formula proposed by Warren Buffett), why would one go to Cayman Islands for high-cost, nontransparent, illiquid, low-return (net of fees), high volatility options?

(For details of Union endowment's performance for the period FY2012-FY2025 see the addendum below.)

Addendum

Endowment Performance

Union College



The lower the Sharpe ratio, the higher the risk. So, in summary, Union pays millions of dollars in management fees per year, and underperforms *all* reasonable benchmarks both in terms of *risk and return*.

Some detail

1. **Return Comparison:** Union’s rate of return (RoR) is, on average, below the returns of Buffett’s 90/10, 80/20, 70/30, and 60/40 portfolios. [S&P500/US Treasuries]
2. **Risk and Efficiency:** The Sharpe ratios across strategies indicate that Buffett’s portfolios deliver better risk-adjusted performance (~1.05 vs 0.6). In other words, the actively managed portfolio underperforms the static weighting schemes, despite the fees paid to the investment management firm.
3. **Performance Over Time:** Union’s portfolio underperforms the 90/10 portfolio by 5.1% per year on average.
4. **Comparison with peer institutions:** For the period FY2000-2024, or any subperiod thereof, Union’s endowment growth is below median growth of its peer institutions. (Check [here](#).)
5. **Commonfund:** For the one year that Commonfund has been the College’s consultant—FY2025--the performance has been subpar as well. Here are the numbers:⁵
 - a. Union 10.2%
 - b. S&P500 15.2%
 - c. 90/10 14.2%
 - d. 80/20 13.1%
 - e. 70/30 12.1%
 - f. 60/40 11.1%

Table 1: Summary Statistics, FY2012-FY2025

	<i>Union</i>	<i>S&P500</i>	<i>90/10</i>	<i>80/20</i>	<i>70/30</i>	<i>60/40</i>
Average returns	8.0	14.4	13.1	11.8	10.5	9.2
Sharpe ratio	0.6	1.1	1.1	1.1	1.1	1.0
Underperformance		-6.4	-5.1	-3.8	-2.5	-1.3

Note: I am grateful to the many reviewers who provided invaluable insights on the earlier versions of this report. I am solely responsible for the contents. Also, in accordance with principles of transparency and accountability, all my spreadsheets, methodologies, etc., used in the preparation of this report, are available upon request.

⁵ Union’s data for FY2025 are tentative. This is because, as of this writing (4/18/2026), the College’s annual financial statement [audit] has not yet been posted.