

# Penn CIO Peter Ammon on Why 'People Matter Immensely' to Successful Investing

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*Let the trading begin! Thousands of high school students worldwide took to Wharton's OTIS Online Trading and Investment Simulator this past week with the official start of the [2019-2020 KWHS Investment Competition](#). Ultimately, these teams of four-to-seven students will be building their investing skills from the ground up and developing long-term investment strategies. Since learning is the ultimate goal throughout the 10 weeks of the competition, we reached out to the Penn Office of Investments to gather some investing intel.*

*Peter Ammon is the University of Pennsylvania's chief investment officer, leading a team in the Penn Office of Investments in Philadelphia, Pa. Prior to joining Penn in 2013, Ammon worked at the Yale University Investments Office under David F. Swensen, who is legendary for his highly successful investment philosophy.*

*The Penn Office of Investments is responsible for investing Penn's endowment and pension assets. The endowment is made up of some 7,000 individual endowment funds, benefiting the university's schools, research centers and the University of Pennsylvania Health System. Penn's endowment produced an investment return of 6.5% for the year ending June 30, 2019, which was a decrease from 12.9% last year, and total endowment assets increased by \$873 million during the year, reaching \$14.7 billion as of June 30.*

*We interviewed Ammon about his work, investment approach and the qualities of a great investor.*

**Knowledge@Wharton High School:** Help us better understand what the Penn Office of Investments does?

**Peter Ammon:** Our office is responsible for investing Penn's endowment. The endowment is a pool of capital that has been built up over hundreds of years, with much of the money coming from thousands of separate gifts from donors. Every year, Penn spends a portion of the endowment to help fund the activities of the university. Endowment spending supports everything from financial aid, teaching, and research to athletics and the library.

When a donor gives a gift to the endowment, the intention is typically that the spending from a gift will support a specific purpose — for example, a scholarship — every year, into perpetuity. We want to support current and future students equitably, so we try to spend the most we can from the endowment today, while still maintaining a high likelihood of being able to provide the same scholarships, research, and teaching for future generations of students. Our job is to invest the endowment to allow it to meet that goal of perpetual support. That means we have to generate high enough investment returns to make up for both the spending from the endowment and for inflation in the cost of what the endowment supports. It's a very difficult goal.

**KWHS:** What is the role of the chief investment officer and who are the key members of your team?

**Ammon:** As chief investment officer, I am ultimately responsible for all of the investment decisions we make. Fortunately, Penn has a world-class team in the Office of Investments. We have 18 people who are responsible for identifying and evaluating investments around the globe. We have a team of five people responsible for all of the operational work required to invest an endowment, including moving capital among investments, tracking and reporting everything, and handling all legal documentation. Finally, we have a team of three who support the day-to-day operations of the office itself.

**KWHS:** What is your investment approach?

**Ammon:** Rather than having the office try to pick individual stocks for Penn to own, we invest by identifying and then partnering with the best investment management firms around the globe. This model allows us to have a relatively small team, and yet still invest across a range of asset classes and geographies. When we look for investment management firms to invest with, we focus heavily on the people. The people we partner with have to be very talented investors, but it is critical that they also have high integrity and character.

“Great investors strike a balance between having the confidence to believe they are right, often in the face of a market that vehemently disagrees, while still maintaining the humbleness to admit when they are wrong.” — Peter Ammon, Chief Investment Officer

**KWHS:** What insights can you share about a long time horizon approach to investing?

**Ammon:** Penn has been around for hundreds of years, and will be for hundreds more. We try to take the school’s time horizon and make it our investment horizon, as a long time horizon can provide a real competitive advantage in investing. Much of the investment world has to think about performance over short periods of time, such as a month or a quarter. There are a lot of reasons for this, ranging from information asymmetries to financial incentives to people’s fears of getting fired. All this focus on the short term, though, creates opportunities for investors who can look through near-term noise to make a longer-term evaluation of investments.

**KWHS:** How do you tackle effective analysis?

**Ammon:** We try to focus on having a disciplined decision-making process. We can’t control the eventual outcomes of investments, but we can control whether we are taking an approach that is likely to lead to good decisions over time. We base our decisions on both quantitative and qualitative analyses. I think one thing people new to investing often find surprising is that the answers are rarely found in the numbers alone. Ultimately, people matter immensely to the success of investments, and a big part of our job is evaluating people.

**KWHS:** What are some global trends in investing?

**Ammon:** Over time, investors have become increasingly aware of the importance of thinking about environmental, social, and governance issues. While years ago people might have dismissed these as unimportant, we spend a lot of time thinking about our investments in this context, as these issues can have a huge impact on the success or failure of investments.

Another trend that a lot of investors are fixated on right now is indexing, which you can think about as investing in every public company, rather than trying to pick specific ones to own. Indexing has become popular in part because the fees are much lower, which is great for investors. All of the capital flows into index funds, however, can have interesting implications and potentially create some inefficiencies. For example, companies that are not included in indices may have very different stock price performance than those that are included in indices, even if the underlying fundamental performance of the companies is similar.

**KWHS:** How do you incorporate broader economic events into your strategic thinking?

**Ammon:** We have to be very aware of what is going on in the world, but ultimately we, and the investment firms we partner with, invest bottom-up. That means we are not trying to guess the direction of interest rates, or predict whether there will be a recession. Instead, we invest with people who are analyzing individual companies or securities and assessing their potential to generate attractive risk-adjusted returns.

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**KWHS:** Do you believe that it's important for investors to have a global perspective?

**Ammon:** Absolutely — the world is too interconnected not to. This doesn't mean that every investment firm should invest globally, though. It's really important for investors to understand where they have competitive advantages, and often times it's very hard for an outsider to understand or access the best investments in a particular market. When we invest abroad, we typically do it by identifying and partnering with the best investors in particular geographies, who we think can have true competitive advantages in their home markets.

**KWHS:** You say that great investments are rarely obvious. What do you mean?

**Ammon:** Investing is incredibly competitive — there are a lot of smart investors around the world looking for opportunities. To earn outsized risk-adjusted returns, investors have to have a differentiated view of an investment and believe that it is mispriced in the market. Maybe it's because they have uncovered something through their research that makes them think differently about a business. Maybe it's because other investors don't like owning a company that has a lot of near-term uncertainty. Maybe it's because other investors aren't comfortable navigating a bankruptcy process. But whatever causes the mispricing, it takes a certain courage for an investor to say, "I'm right and others are wrong." Great investors strike a balance between having the confidence to believe they are right, often in the face of a market that vehemently disagrees, while still maintaining the humbleness to admit when they are wrong.

**KWHS:** What role does teamwork play in your decision-making process?

**Ammon:** It's very important. We work on all of our investments in small teams. We think that having multiple perspectives across a small group can lead to robust discussion and discovery, and ultimately to better outcomes. To make it work, we have to have a culture that allows people to be comfortable sharing their ideas and disagreeing with each other. When people disagree about something, we try to clearly articulate what's driving those different views, so that we can really drill down to the key underlying questions. We don't have to reach agreement on everything, but I think it's important that we understand the different perspectives around the table.

**KWHS:** The stock market is notoriously unpredictable. Do you worry about making mistakes? How do you rebound from setbacks?

**Ammon:** It's important to keep in mind that there's a huge amount of noise in the stock market. Over long periods of time, the stock price of a company should reflect its fundamental value. But over shorter periods, stock price and fundamental value can diverge dramatically. Often, that presents great opportunities for investors. But when evaluating the progress of an investment, it is important to separate how the company's business is actually doing from what the stock price is doing.

All investors make some investments that don't turn out as they expected. It's important to try to learn from those, and as part of that, it's critical to separate process from outcomes. Put differently, not all investments that turn out poorly were mistakes, and not all investments that perform well were the result of good decisions. We spend a lot of time reviewing our process and decision-making to try to learn the right lessons from investments. Our conclusions are frequently specific to a particular investment, but if there is one key takeaway I've had over the years, it is that we can never compromise on the quality of the investors we are partnering with, no matter how compelling the underlying market opportunity might appear to be.

**KWHS:** How has the ethical lens shifted in the past decade in the wake of the financial crisis?

**Ammon:** Broadly speaking, I think companies and investors are more aware that they sit within the broader ecosystem of society, that they are not simply operating in a vacuum, and that what they do can have real consequences for the

world. And even if someone believed that the sole goal of a company should be shareholder-value maximization, it would be reckless not to weigh the risks created for a business if a company acts with total disregard for other stakeholders.

**KWHS:** How do you become the chief investment officer in charge of investing billions on behalf of Penn?

**Ammon:** I've been fortunate enough to have amazing mentors and colleagues throughout my career. The people I have worked for and with have been critical to my learning and developing as an investor. They have been by far the most important factor in my career.

**KWHS:** Can you share one experience that profoundly shaped you as a finance professional?

**Ammon:** When I was working at Princeton University's investment office early in my career, the school changed its financial aid packages, replacing loans with grants that did not have to be paid back. The school's ability to do that was driven in large part by the success of the endowment. That really drove home the point for me how much the work we did mattered to the school. At Penn, I love that our work can have a meaningful impact on an amazing institution. It's hugely motivating to our entire team.

**KWHS:** What advice would you offer to aspiring young investors and asset managers?

**Ammon:** Work with people who will provide you with great mentorship. Never cut corners — not only is ethical behavior the right thing to do, but maintaining your reputation as someone of high integrity is critical to success. Outcomes matter, but never confuse good outcomes with good decisions.