

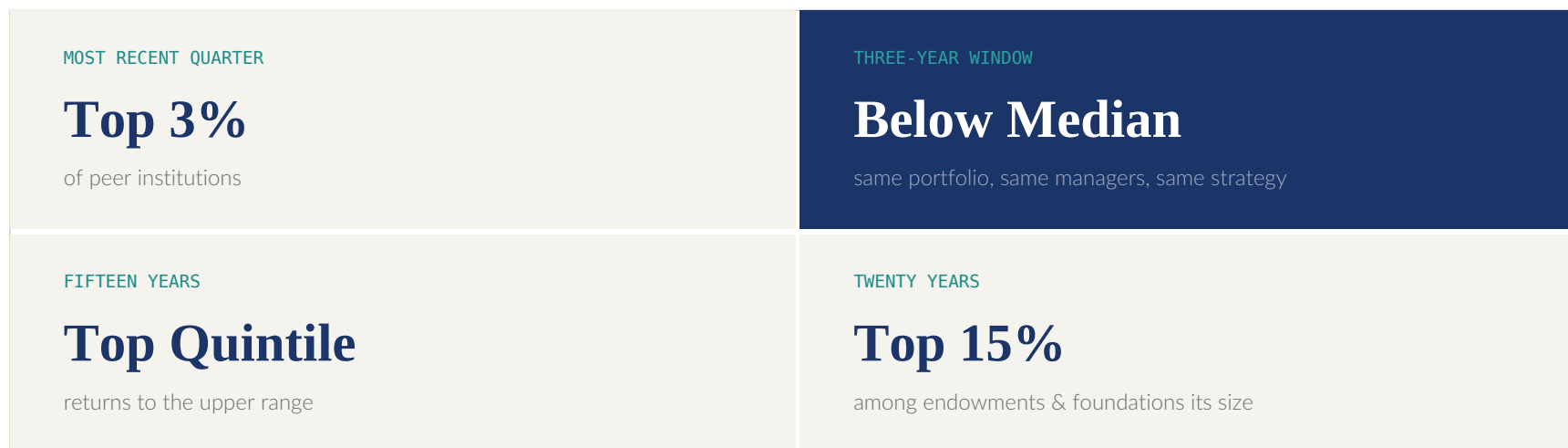
Q1 2026 QUARTERLY COMMENTARY

# Stuck to the Script?

## *The Three-Year Trap*

HOW INVESTMENT COMMITTEES DRIFT FROM THE MANDATES  
THEY WERE BUILT TO PROTECT

Consider a small puzzle:



*Nothing about the portfolio has changed. Same fund. Same managers. Same strategy. Only the window. This is not a hypothetical – it comes from the actual performance history of a perpetual-horizon institution advised by Crewcial Partners.*

The tension it reveals is not unique to that fund. It reflects a structural feature of almost every investment committee conversation happening right now.

Every investment policy statement governing a perpetual institution begins with some variation of the same commitment: *we invest for the long term*. The language differs, but the mandate rarely does. Preserve the corpus and sustain the mission. Protect the next generation of beneficiaries with the same discipline owed to the current one.

Embedded in that mandate is the oldest rule in investing, the golden rule of institutional capital: **returns ultimately come from future outcomes relative to the price paid today**. Not from what worked last quarter, or what the index did last year, or whether a strategy appears to be working right now.



*Returns ultimately come from future outcomes relative to the price paid today.  
Every durable endowment has been built on that principle.*

Yet investment committees composed of intelligent, conscientious fiduciaries regularly drift away from it — not because they reject it, but because of something more subtle: the language that begins to govern the room. The shift rarely announces itself as a change in philosophy. It arrives through questions, ones that rarely sound reckless.

- Are we keeping up with the market?
- Why are our peers doing better?
- How long should we tolerate underperformance from a manager?
- Are we underexposed to the industries driving the next phase of growth?
- What if this time really is different?
- Are we doing enough to meet our spending needs today?

Each question, taken alone, is perfectly reasonable. A prudent fiduciary could raise any of them. But taken together, or myopically, they exert a subtle gravitational pull. The conversation moves, almost imperceptibly, away from future outcomes and price paid, and toward recent outcomes and relative standing.

Once that shift happens, something important has already changed. The institution still says it invests for the long term, while the policy echoes the same goal. However, now the language guiding the discussion belongs to a different time horizon — the mandate didn't change, but the room's orientation to it did.

## SECTION I

# The Architecture of Plausible Deniability

Steven Pinker is a cognitive scientist and public intellectual at Harvard known for studying how language, psychology, and social norms shape human behavior. In several of his works, particularly *The Better Angels of Our Nature*, he distinguishes between *private knowledge* — what individuals believe — and *common knowledge* — what everyone knows that everyone else knows. The gap between the two can allow social conventions, or scripts, to persist even when many participants privately doubt them.

Ludwig Wittgenstein, the twentieth-century Austrian philosopher, pushed an even more fundamental idea. Language, he argued, does not merely describe reality — it structures how we think and what we believe is possible to say. Meaning emerges through what he called “language games,” shared patterns of speech that quietly define how groups understand the world.

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*Change the language of a room and you change the thinking inside it. Investment committees operate inside this dynamic whether they recognize it or not.*

A member may privately understand that three years of relative underperformance tells them very little about a strategy designed for 20-year horizons, but unless someone says that out loud, it never becomes common knowledge. When it never becomes common knowledge, the room defaults to something else: the familiar pattern of questions and assumptions that quietly steers the discussion. The script fills the silence. It does not require everyone to believe it — it only requires that no one interrupt it.

Interrupting it carries costs that repeating it does not: political exposure, the appearance of defending underperformance, and the risk of being wrong in public. The safer path is to ask the questions that sound responsible and familiar, even if everyone in the room understands their limitations.

What results is a form of collective short-termism that no individual member would likely endorse as broader policy, but that the group produces through perfectly ordinary committee behavior. Once the language of the room shifts, the interpretation of the data shifts with it.

Over the past three years, the S&P 500 has returned around 80% cumulatively, propelled largely by a small group of US mega-cap technology companies. A disciplined institutional portfolio — globally diversified, underweight those names, and tilted toward international equities and value-oriented managers — likely returned closer to 50%. Presented without context, that gap alone is often enough to trigger a governance conversation.

*NVIDIA alone now carries a market capitalization roughly equivalent to the entire industrials or healthcare sector of the S&P 500. The ten largest companies represent roughly 40% of the index — double their share a decade ago, and above even the concentration reached during the late-1990s technology bubble. Nearly half of the index's recent three-year return has come not from earnings growth but from multiple expansion.*

Seen through that lens, the relevant question for a perpetual institution is not “*Why didn't we capture more of that?*” The relevant question is the one embedded in the golden rule: “*What future outcomes are we being asked to pay for, and is that price consistent with our mandate?*”

## SECTION II

# The Machinery of Distortion

The international diversification that appears to be a drag over the short window has been generating its own evidence. European equities, particularly financial services, outperformed in 2025, driven by structural regulatory changes that benchmark-hugging portfolios had little exposure to. Emerging markets delivered returns exceeding 40% in select strategies. In Japan, an activist manager holding a long-tenured position in a fundamentally sound company appeared to underperform for a quarter — not because the investment thesis broke, but because a passive index reconstitution mechanically ejected the stock, forcing index-tracking capital to sell.

There is also a quieter problem that the script tends to overlook: the arithmetic of spending. A perpetual institution withdrawing capital at rates between 4% and 6% annually does not simply need competitive returns. It needs *real* returns — returns above inflation, sustained across cycles.

For most of these institutions, the portfolio has to fund spending, meet capital calls, and give the institution enough operational flexibility to navigate more difficult environments without being forced into suboptimal decisions — selling assets at distressed prices, deferring

commitments, or compressing mission-critical programs at exactly the wrong moment. A portfolio that gives up some return in a speculative environment, but holds up better in a downturn and continues to support spending through a difficult period, may in fact be doing its job precisely as designed.

One of the script's most effective tools is the benchmark comparison — measuring a carefully constructed institutional portfolio against a single market-cap-weighted index it was never designed to track. Three benchmarks tend to matter most, each answering a different question:

#### ***The Simple Balanced Portfolio (60/40 or 70/30)***

Describes the broader investment landscape: what a passive, undifferentiated institutional portfolio has returned. This is the baseline that was available to everyone — and against which peer outperformance in shorter windows tends to disappear when the window extends.

#### ***The Target Allocation Benchmark***

Built from the portfolio's own asset class weights, implemented with index proxies and peer universes where no passive option exists. Approximates what returns would have looked like absent specific manager selections and tactical judgments — isolating the value, or cost, of the choices made beyond allocation.

#### ***The Absolute Portfolio Objective***

Often expressed as CPI plus a spread sufficient to sustain spending and preserve purchasing power. The benchmark closest to what the institution actually exists to do. Anchoring the conversation here — before moving to relative comparisons — tends to shift the room.

There is also a subtler risk in allowing market indexes to carry too much weight in the room: the portfolio itself begins to migrate toward them. When relative performance against an index becomes the dominant signal of success, the natural institutional response is to reduce the gap — to add index exposure, to trim positions that deviate, to orient the portfolio toward whatever is currently driving index returns. The index becomes not a measuring tool but a gravitational force.

The pattern is visible in the historical record. The table below shows directional performance for exposures common in active institutional portfolios, relative to the cap-weighted S&P 500, by period:

HISTORICAL CONTEXT

### Active vs. Cap-Weighted: Regime Analysis

S&P 500 Equal Weight and Russell 2000 Value as proxies for diversified, non-momentum-driven institutional exposures

PERIOD	S&P 500 EQUAL WEIGHT VS. S&P 500	RUSSELL 2000 VALUE VS. S&P 500
1991–1993	▲	▲
1995–1999	▼ <i>index dominance</i>	▼ <i>index dominance</i>
2000–2004	▲▲ active regime	▲▲ active regime
2009, 2010, 2016, 2022	▲▲ active regime	▲▲ active regime
2017–2021, 2023–2025	▼ <i>index dominance</i>	▼ <i>index dominance</i>

▲ / ▲▲ = outperformed cap-weighted S&P 500. ▼ = underperformed. Numbers pending performance verification; the directional pattern is the point. S&P 500 Equal Weight pre-2003 is back-tested.

The pattern is not one of persistent failure but of cyclical regimes: extended periods of index dominance, when cap-weighted concentration drove returns that diversified portfolios structurally could not match, interrupted by environments where breadth and value reasserted themselves – and did so with force.

Compounding this is a problem of time period selection. The conventional framing – evaluate managers over a market cycle – once implied something reasonably concrete: economic, business, and market cycles tended to run five to seven years and included both expansion and contraction. The past 15 years have not produced that. What has unfolded instead is an extraordinarily extended run for US large-cap and growth equities, interrupted briefly but not reversed. A committee relying on five-year windows in that environment is not evaluating across a cycle – it is evaluating across a single elongated phase of one.

SECTION III

## How Committees Become What They Were Built to Prevent

An uncomfortable inversion is becoming difficult to ignore: many investment committees at perpetual-horizon institutions — bodies explicitly chartered to resist short-term market pressure, to hold through cycles, and to protect the long-term purchasing power of their assets — have become the most reliable source of short-term pressure on the strategies they oversee.

This is not a failure of intelligence or character. The individuals in these rooms are accomplished, thoughtful, and deeply committed to their institutions' missions. The problem is structural. Modern markets reward conformity, while passive flows reinforce benchmark concentration. Career risk penalizes deviation from index leadership. The incentive structure around committee decision-making is asymmetric: the downside of visible underperformance can be significant, while the upside of strong long-term outcomes may arrive after individual members' terms have ended. Within that environment, the script provides something valuable: plausible deniability.

Consider the marooned voice in the room — the member who privately knows that a value-oriented manager's seven-year record outperforms its benchmark by nearly three hundred basis points, even as the trailing twelve-month number triggers governance scrutiny. Interrupt the script and you appear to be defending underperformance. Remain silent and the conversation moves on. Most committee structures make the latter the easier choice.

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*The fund with a 20-year top-quintile record and a below-median three-year number is not a failing fund. It is a fund whose time horizon is being compressed by the room that governs it — the same room that, in its charter, promised not to do exactly that.*

The counterexample is worth naming directly. A college endowment recently entered a full board meeting carrying a one-year return 750 basis points below its target benchmark — a number that, presented in isolation, would ordinarily dominate the conversation. What changed the tenor of the meeting was the introduction of peer universe data. NACUBO rankings for the fund's asset-size cohort showed that the same portfolio, measured over five, ten, and longer annualized periods, ranked consistently in the top 10% to 20% of the universe.

The board's attention shifted. Rather than dwelling on six months of difficult results, committee members focused on the long-term record, asked constructive questions about the sources of recent underperformance, and left the meeting with greater confidence in the strategy. The short-term number did not disappear from the report – but it was no longer the only frame.

Markets have a way of eventually collapsing the distance between price and value, and that mechanism is rarely graceful. Consensus narratives – technology in 2000, housing-linked credit in 2008, and perhaps the current concentration in AI-adjacent mega-cap equities – tend to unwind faster than they build. The flows that reinforced them reverse while liquidity thins, and the price discovery that was suspended during the expansion phase returns all at once. The committee that spent three years pressuring its OCIO toward greater index exposure often discovers the cost of that decision over a single quarter.

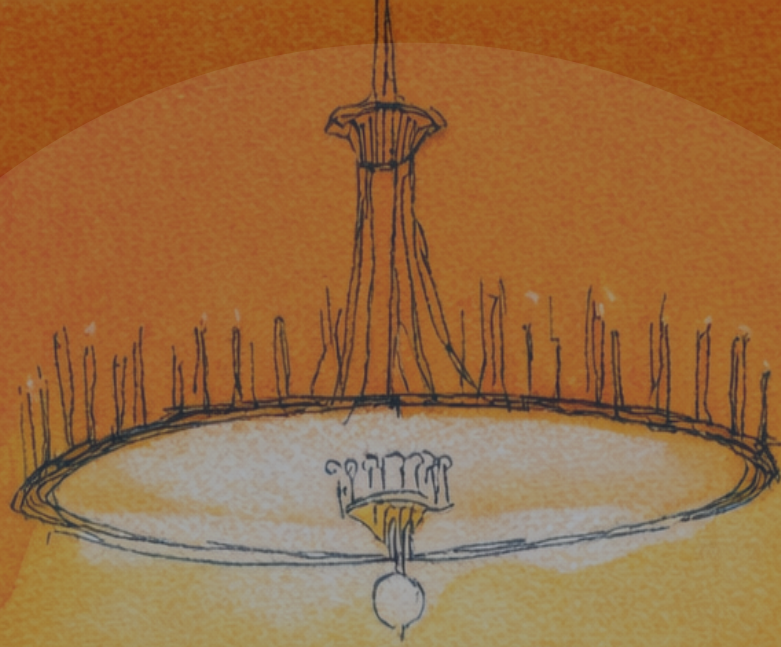
Crucially, this is not an argument against passive exposure, a guarantee that value-oriented strategies will prevail, nor a claim that the S&P 500 cannot continue to deliver strong returns. Markets are perfectly capable of extending dominant narratives longer than most investors expect. But the mandate was always long term, and the golden rule has not changed. That principle does not disappear during periods when markets reward ignoring it – it simply waits to reveal itself behind the curtain.

*“At what point in a manager’s record do you stop believing the long-term data and start believing the most recent three years?”*

If the answer is not clearly reasoned and explicitly documented in committee minutes, the script may have already answered it. The most insidious risk is forgetting what still matters.

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