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EMORY UNIVERSITY GETS HARD LESSON AS COKE'S STOCK FAILS TO MAKE GRADE

BY JOHN HECHINGER

At Emory University, things used to go better with Coke. But not any more.

The elite Atlanta school has more than half of its endowment in shares of CocaCola Co. -- the result of two decades of generous gifts, especially from the families tied to Coke from its earliest days. No other major college has such a big percentage of its total holdings in a single stock. For years, as Coke stock soared, the investment created results that put Emory at the head of its class.

But Coke's shares are down 30% from their July 1998 high as the company's growth has slowed, leading to massive layoffs this week, especially at Coke's headquarters in Atlanta. Some on campus are saying Emory made a mistake by not heeding suggestions to sell some of its Coke stock and diversify the portfolio.

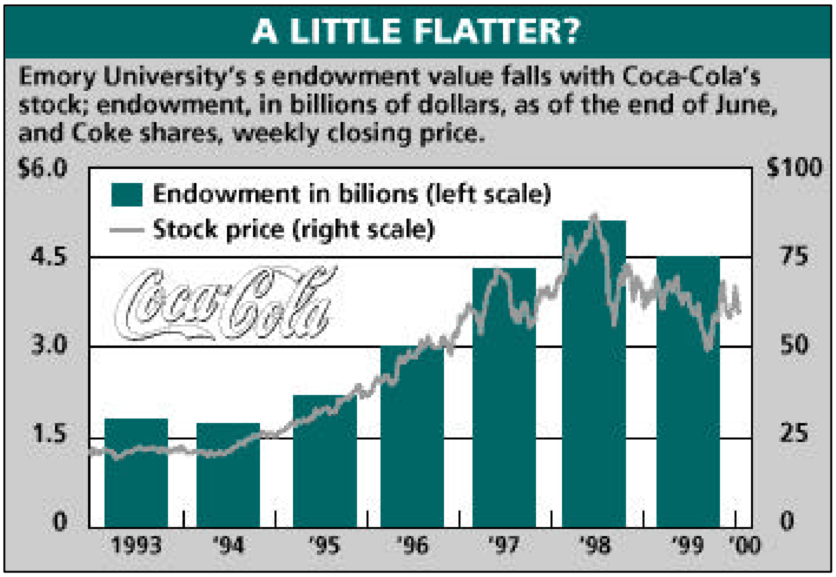
As of June 30, 1999 -- the latest number available -- Emory's endowment was about $4.5 billion, down from $5.1 billion a year earlier, according to a prospectus for the school's recent bond offering. That is a decline of about 12%, or $600 million, amid a roaring bull market. The value of Emory's 39.5 million Coke shares fell more than $900 million during the period and dropped $100 million more since June 30, provided Emory's stake in Coke hasn't changed.

Emory was fifth among university endowments as of June 30, 1998 -- behind Harvard, Yale, Princeton and the University of Texas system. But Emory's endowment has fallen behind Stanford and is roughly even with the University of California as of June 30, 1999, according to a preliminary survey of major schools by the National Association of College and University Business Officers, say people who have seen the survey. The report -- closely watched in education circles -- is due out in February.

George J. Benston, a professor of finance who specializes in stock-market theory at Emory's Robert C. Goizueta Business School -- named after the former chief executive of Coke -- says Emory should dump some of its Coke shares. He calls the strategy of hanging on to so much of one company "foolish."

As long ago as 1989, and a number of times since, Prof. Benston says, he has mentioned his concern to John Temple, now the school's chief operating officer. Prof. Benston said

Mr. Temple believed Coke would achieve 20%-plus returns. Mr. Temple says the university has "great confidence" in the future of Coca-Cola and if he had followed Prof. Benston's advice years ago "we'd be far worse off today."



Prof. Benston said all academic research points to the benefit of diversifying. Most professional investors won't hold more than 5%, if even that much, in a single stock. In effect, he says, Emory gambled by holding on to the Coke shares and, until recently, won.

But he adds, "It's not worth keeping your money on the table once you've won the bet."

For their part, Emory executives say they have diversified somewhat during the years. Moody's Investors Service, a bondrating agency, estimates that the university sold more than $350 million of stock during the past few years to reach its target Coke allocation of 48% -- but Coke stock kept rising, until now.

"We've been deliberately bringing down our Coca-Cola stock," says Mr. Temple. But, he adds, "We're not uncomfortable holding what we're holding now." University officials said the school's Coke allocation stands at the low-50% range.

Emory's endowment doubled from 1994 to 1998 and, during the past 10 years boasts average annual investment returns of almost 19% -- far better than the median endowment return of 13%, according to the university survey. With an enrollment of about 11,000 students, Emory draws about 10% of its $1.8 billion annual budget from the endowment.

In 1979, the Woodruff family -- which has long, storied ties to Coke -- donated $105 million in stock to the school. Countless other gifts from families with ties to the company have come in, and so many buildings bear names of Coke-related benefactors it has been referred to as "Coca-Cola U." Emory's own Web site features a catchy cheer, ending with, "So fill your cup, here's to the luck / Of the Coca-Cola School."

Coca-Cola's board has deep ties to the university. M. Douglas Ivester, Coke's departing chairman, sits on Emory's 35-member board, which as of September also had one current and one former executive from SunTrust Banks Inc. of Atlanta. A predecessor of the bank was one of the underwriters of Coca-Cola's initial public stock offering in 1919. Instead of taking a $110,000 fee, the bank took Coke stock. The stock was never sold, and the Bank now owns 48.3 million shares, valued at about $2.9 billion.

To avoid conflicts, Mr. Temple says, no one with Coke ties serves on the board's eight-member investment committee. Still, holding on to Coca-Cola stock has enriched so many in Atlanta that getting them to sell it is, well, a hard sell.

Wayne Coon, the university's chief investment officer, pushed to diversify into other holdings, such as foreign stocks, real estate and venture capital. But, when Coke's stock was rising, board members often would complain about how much more money the school would have had if the endowment had never let go of a share, according to people familiar with the discussions. (Mr. Temple says that about 15 years ago the university had almost all its endowment in Coke stock.)

Mr. Coon plays down any conflict, but acknowledges he had "to work on those relationships." He stresses that Emory invests in Coke because it likes its growth prospects, not because of any ties with the company. "The stock is reasonably priced at this moment," he says. Mr. Coon also says many foundations concentrate their holdings in single stocks.

Christopher Curran, an Emory University economics professor, worries that the board has let its loyalty to Coke cloud its judgment. He says that is the risk in a city, like Atlanta, which derives so much of its wealth from one company.

"It's just stupid," says Prof. Curran, who joined the faculty in 1970. "Even though all the evidence says you diversify -- you don't put all your eggs in one basket -- that's just what they've done."