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Endowments to up allocations to private markets

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The NEPC Q4 2015 Endowment and Foundation Poll found that about a third of institutions polled planned to up their allocation to private markets this year, a stronger response than to other asset classes.

More endowments and foundations are planning to increase their allocation to private equity than to other asset classes, according to investment consultant NEPC.

Amid worries about a slowdown in global growth, 30 percent of the survey respondents to its Q4 2015 Endowment and Foundation Poll said they are planning to allocate more to the private markets. Only 4 percent said they would decrease allocations to private markets, and 66 percent said they will maintain their allocation levels.

Meanwhile, 22 percent of respondents said they will increase their allocation to hedge funds, 17 percent for US equity and 15 percent for real assets. For emerging market debt and international fixed income, 11 percent of respondents said they will decrease their allocations.

About a quarter, or 24 percent, of the respondents projected US equity to be the strongest performer in 2016, down from 36 percent in the same survey last year. Meanwhile 19 percent said the same for private markets, coming in second, down slightly from 20 percent last year.
They expected real assets to be the least strong strategy, at 2 percent of the respondents, compared with 5 percent last year.

Energy seemed to be an area of perceived opportunity for foundations and endowments. Over one-third, or 35 percent, of respondents said they are looking to make an opportunistic allocation to energy-related investments in 2016. Of those, most, or 53 percent, said they are considering private equity as the means for pursuing such investments.

“The pullback in emerging markets, namely in China, declining commodity prices, significant oil price declines and divergent central bank policies have created an investment environment that has become more difficult to navigate,” NEPC’s endowment and foundation practice group head Cathy Konicki said. “However, investors believe there are opportunities for return in select asset classes for those willing to move quickly and look past short-term noise.”

The survey took place online in January and had 54 participants. Forty-four percent of respondents had an asset range of $50-250 million, 24 percent had $251-500 million, 19 percent had $501 million-1 billion, and 13 percent had greater than $1 billion, according to NEPC spokesman Matthew Kirdahy.

NEPC advises $62 billion in endowment and foundation assets, and about $1 trillion firm-wide.