

Endowments Ain't Giving Up on HFs

Stockholm (HedgeNordic) – Endowments and foundations reduced their hedge fund exposure in the past year, but many organizations still use hedge fund strategies to mitigate investment risk. According to a recent survey by NEPC, a consulting firm to endowments and foundations, many organizations are re-evaluating their approach to investing in hedge funds, citing high fees and concerns over limited liquidity and transparency.

The latest Endowments and Foundations Survey by NEPC was conducted in September, with survey respondents including a diverse range of endowments and foundations such as educational institutions, private foundations, public charities and other not-for-profit organizations. The NEPC survey results are based on around 50 respondents and cover the 12-month period that ended in September. About half of the respondents oversee assets under management above \$500 million.

The survey finds that 37 percent of institutions polled reduced their exposure to hedge funds within the past year, whereas 14 percent increased their exposure and about half reported no change. Those institutions that reduced their hedge fund exposure predominantly redeployed capital to fixed income (20 percent of respondents), private equity and credit (17 percent), and domestic equities (14 percent).

The survey results also reveal that most endowments and foundations polled plan to maintain the current exposure to hedge funds in the next 12 months (64 percent). Around 12 percent of respondents plan to decrease the exposure modestly over the following year, whereas nine percent of respondents have plans to reduce the exposure substantially. About 15 percent of respondents, meanwhile, plan to increase the exposure to hedge funds modestly over the coming 12 months.

About 48 percent of the endowments and foundations surveyed maintain exposure to hedge funds of more than 10 percent, with 14 percent of all respondents having more than 20 percent of their portfolios invested in hedge funds. Around 23 percent of respondents maintain a hedge fund exposure between 5 and 10 percent, 14 percent have an exposure between 1 and 5 percent, and a similar 14 percent have exposure of less than 1 percent.

Survey respondents overwhelmingly cited risk mitigation as the primary rationale for investing in hedge funds (75 percent of respondents), whereas 19 percent invest in hedge fund strategies for absolute returns. Endowments and foundations are also increasingly preferring sector specialists over generalist hedge funds. About 25 percent of respondents expect to increase exposure to equity long/short sector specialists in the next 12 months, with an additional one-quarter of all respondents expecting to increase their exposure to discretionary macro managers. The responders also plan to increase exposure to credit-linked strategies.

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