

NEPC ENDOWMENT & FOUNDATION SURVEY FALL 2019

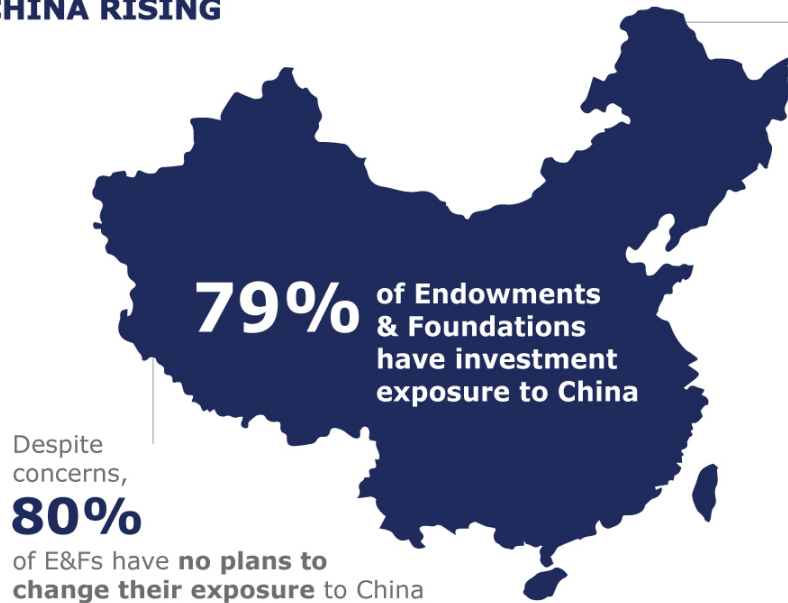
Survey Results & Commentary



BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

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CHINA RISING



Concerns about China exposure include:



27%
U.S. - CHINA
TRADE TENSION



22%
CORPORATE GOVERNANCE
ISSUES AND WEAK
INVESTOR PROTECTIONS



19%
DECLINING ECONOMIC
GROWTH

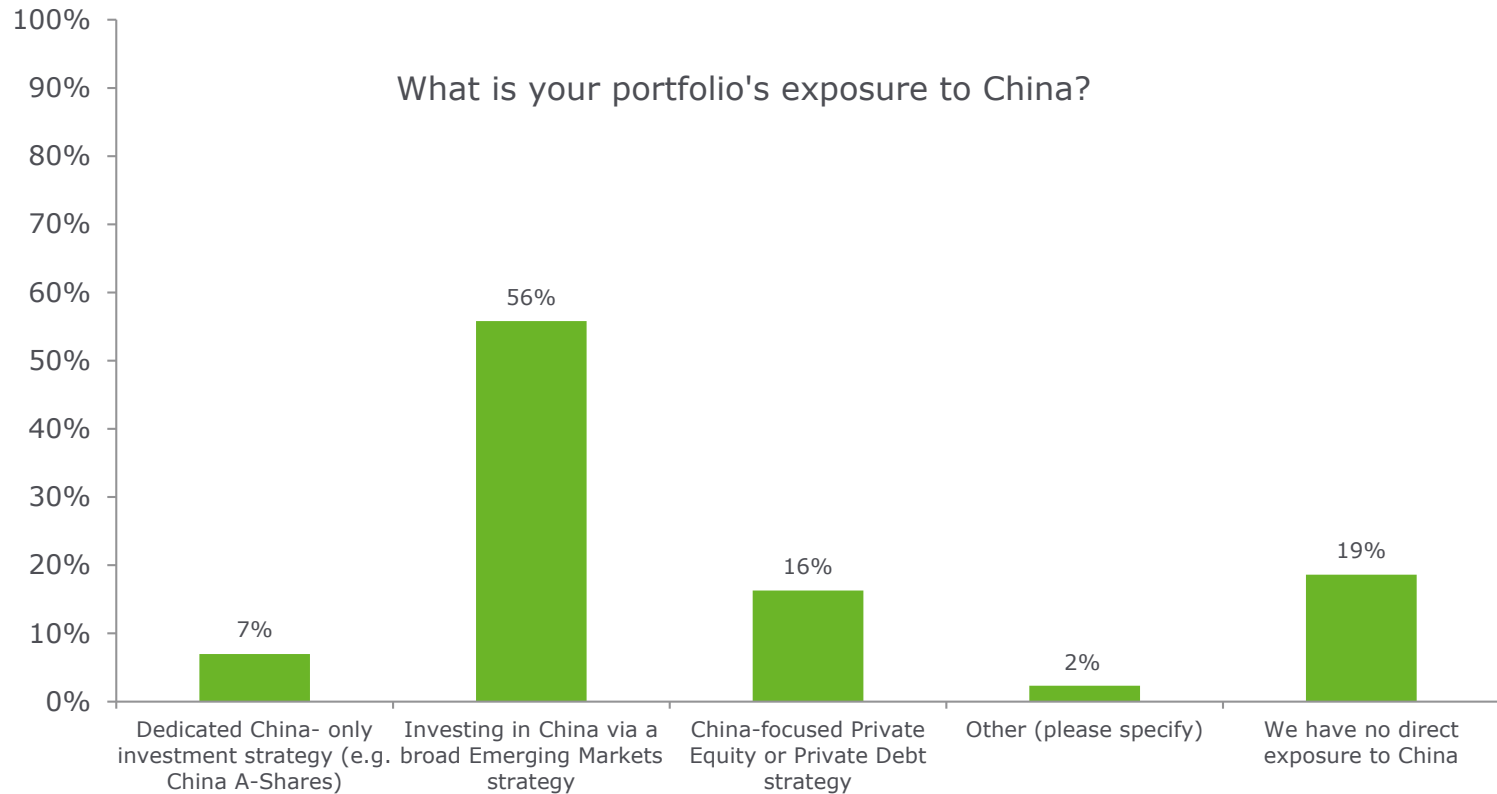


18%
GROWING DEBT LEVELS
IN THE COUNTRY

NEPC's Take...

China is the world's second largest economy (by 2019 GDP). It's no surprise that most investors have exposure to China. Endowments and Foundations typically have a long-term perspective on investments. So we would expect most to stay the course despite trade and other concerns.

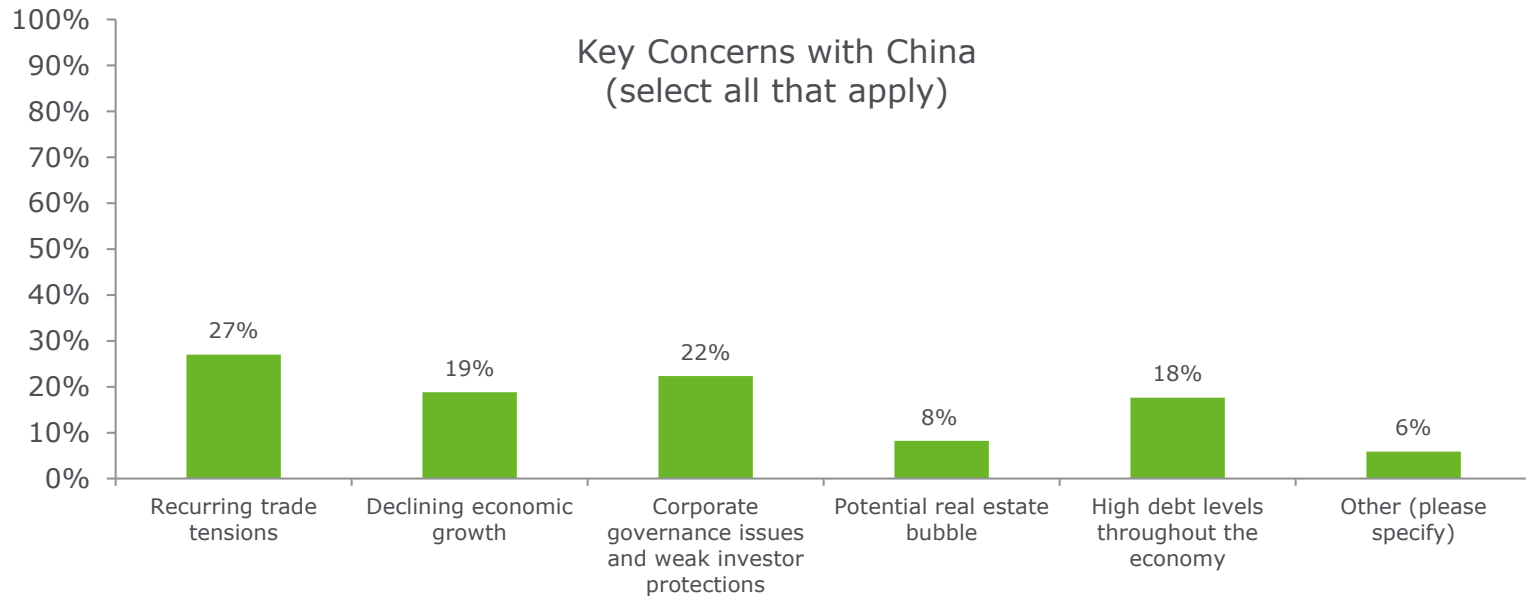
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NEPC's Take...

MSCI added China to the EM Index in 2018, so most investors already have exposure to China via public markets. NEPC believes that the most compelling opportunities in China today may be in Venture Capital. We have been active with our research in this area – and have worked closely with our Endowment and Foundation clients to explore these opportunities.

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NEPC's Take...

Investors seem to view China/U.S. trade tensions as a temporary matter or a manageable risk. When looking at weaker investor protections in China and governance issues, Endowments and Foundations seem to have made the same calculation that U.S. businesses have made: the opportunity is too compelling.

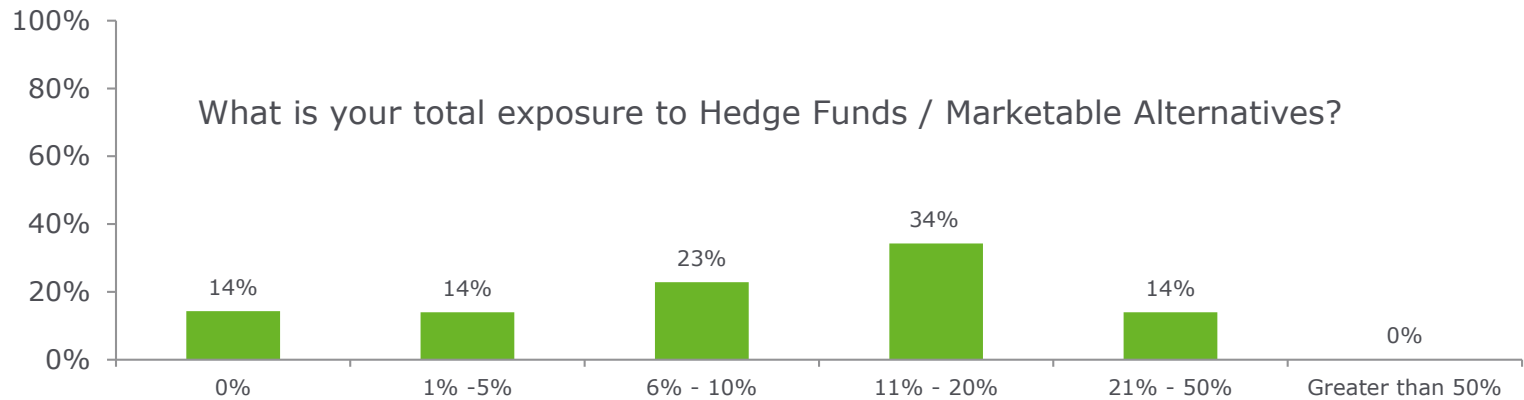
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NEPC's Take...

Speaking of investment opportunity... Despite its size, China's economy has grown faster than all other economies in recent years. So while it is a large market, in many ways it continues to develop as a service-oriented economy. As a result, China certainly has the potential for higher growth compared to other markets.

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PERSPECTIVES ON HEDGE FUNDS TODAY

Exposure trends

▼ **37%**

HAVE DECREASED THEIR EXPOSURE IN THE LAST YEAR

▼ **21%**

PLAN TO DECREASE EXPOSURE WITHIN THE NEXT YEAR

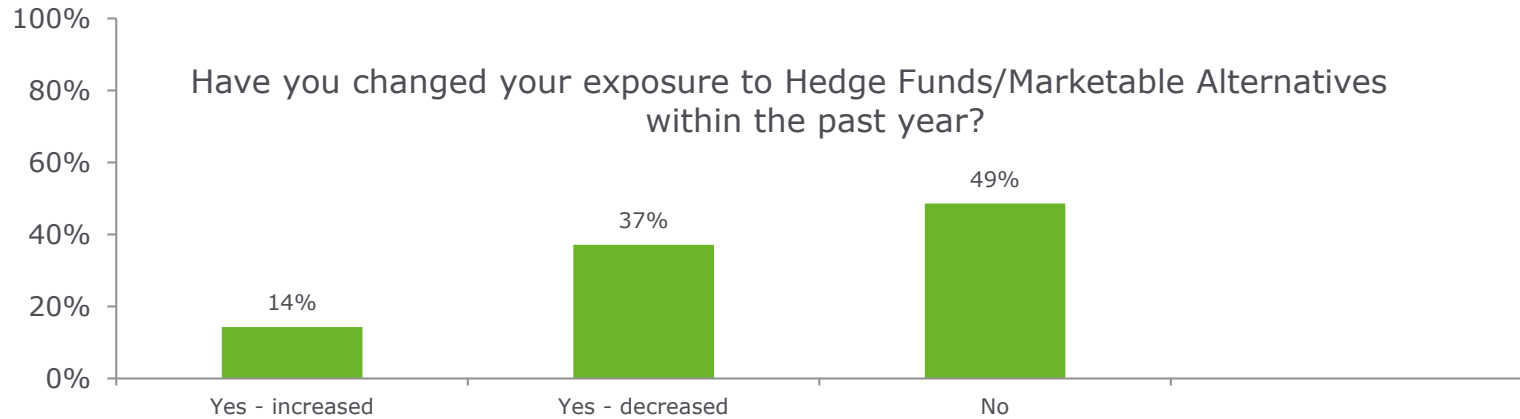
▶ **86%**

WILL MAINTAIN SOME LEVEL OF EXPOSURE

NEPC's Take...

Mark Twain is believed to have said: "The reports of my death are greatly exaggerated." The same may be said of Hedge Funds. However, we have seen an evolution in *how* Endowments and Foundations are using these strategies. And, as a direct result, investors have "right-sized" their exposure to Hedge Funds to better align with their expectations for these investments.

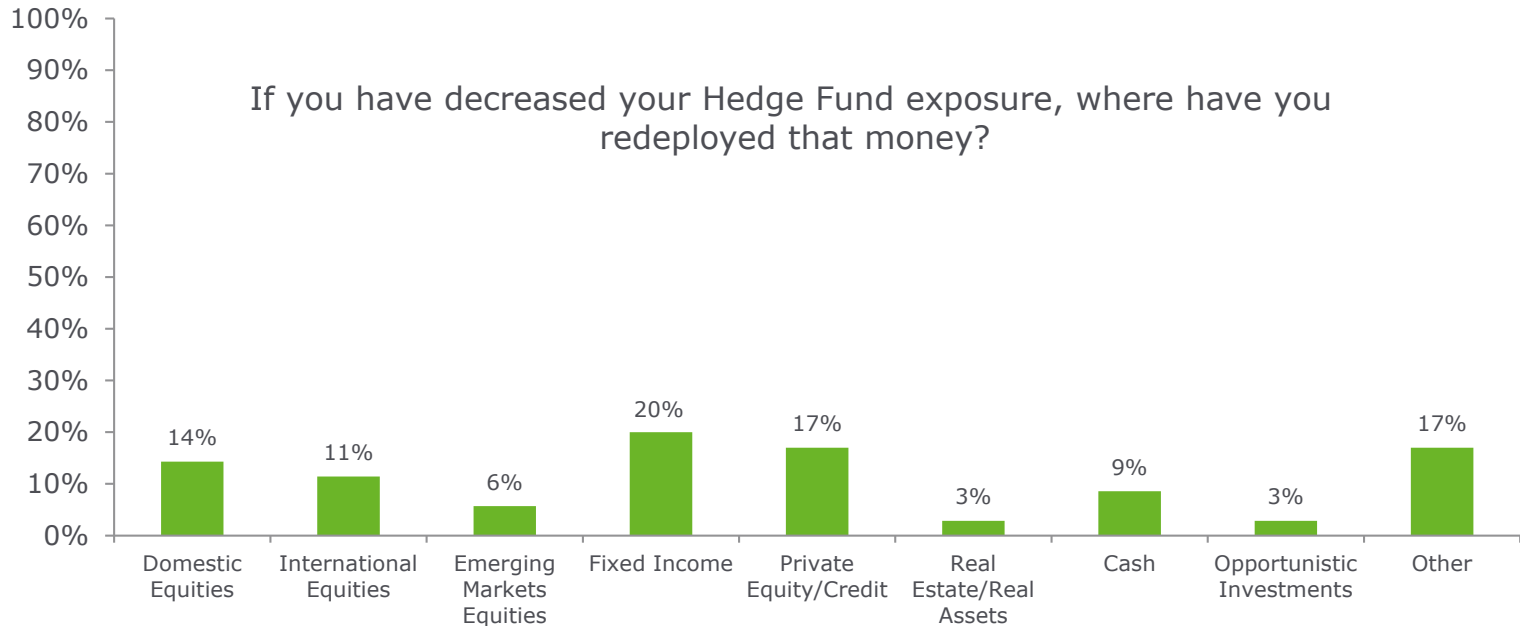
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NEPC's Take...

"There are lies, damn lies, and statistics." Yes, 37% of Endowments and Foundations reported a decrease in their Hedge Fund exposure. And that's often the story one hears in the media. However, 49% reported no change whatsoever. And 14% had actually increased their exposure to Hedge Funds within the past year. In our view, Endowments and Foundations have recalibrated and seem to have reached an equilibrium point with Hedge Funds. Some will continue to reduce exposure; others will do the opposite.

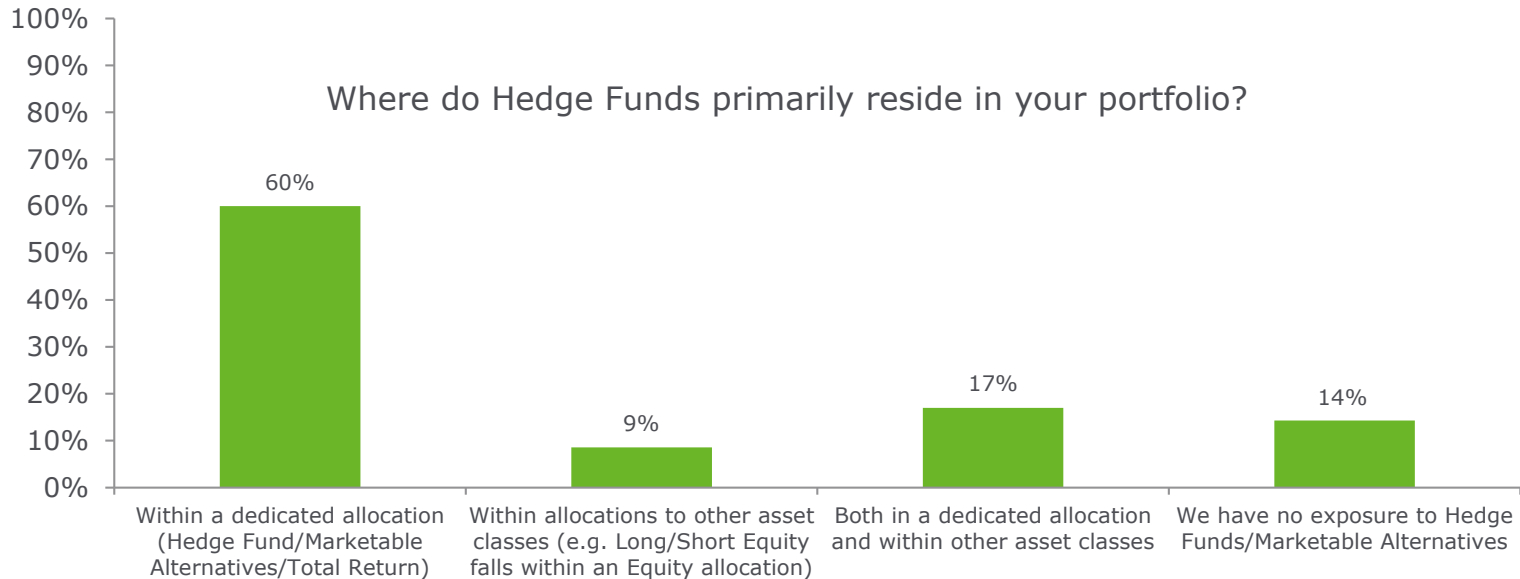
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NEPC's Take...

The wide range of responses here makes sense to us. Endowments and Foundations expect their Hedge Funds to provide something different and valuable. Investors generally want lower-cost ways to access broad market exposure.

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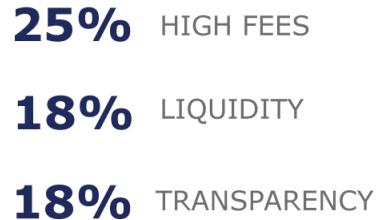


NEPC's Take...

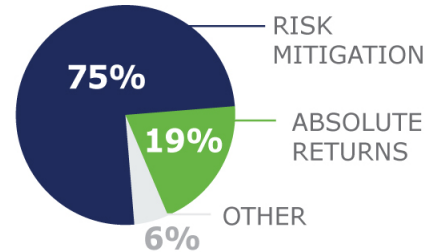
Investor expectations for Hedge Funds may have changed. However, Endowments and Foundations generally have maintained a "Hedge Fund" category within an overall portfolio structure / asset allocation.

PERSPECTIVES ON HEDGE FUNDS TODAY

Greatest pain points



Why do E&Fs invest in hedge funds?



NEPC's Take...

Why do Endowments and Foundations invest in Hedge Funds? How about “All of the Above”? Survey respondents overwhelmingly cited risk mitigation as their primary rationale. However, in our experience, many Endowments and Foundations expect Hedge Funds to deliver risk mitigation while also delivering compelling absolute returns.

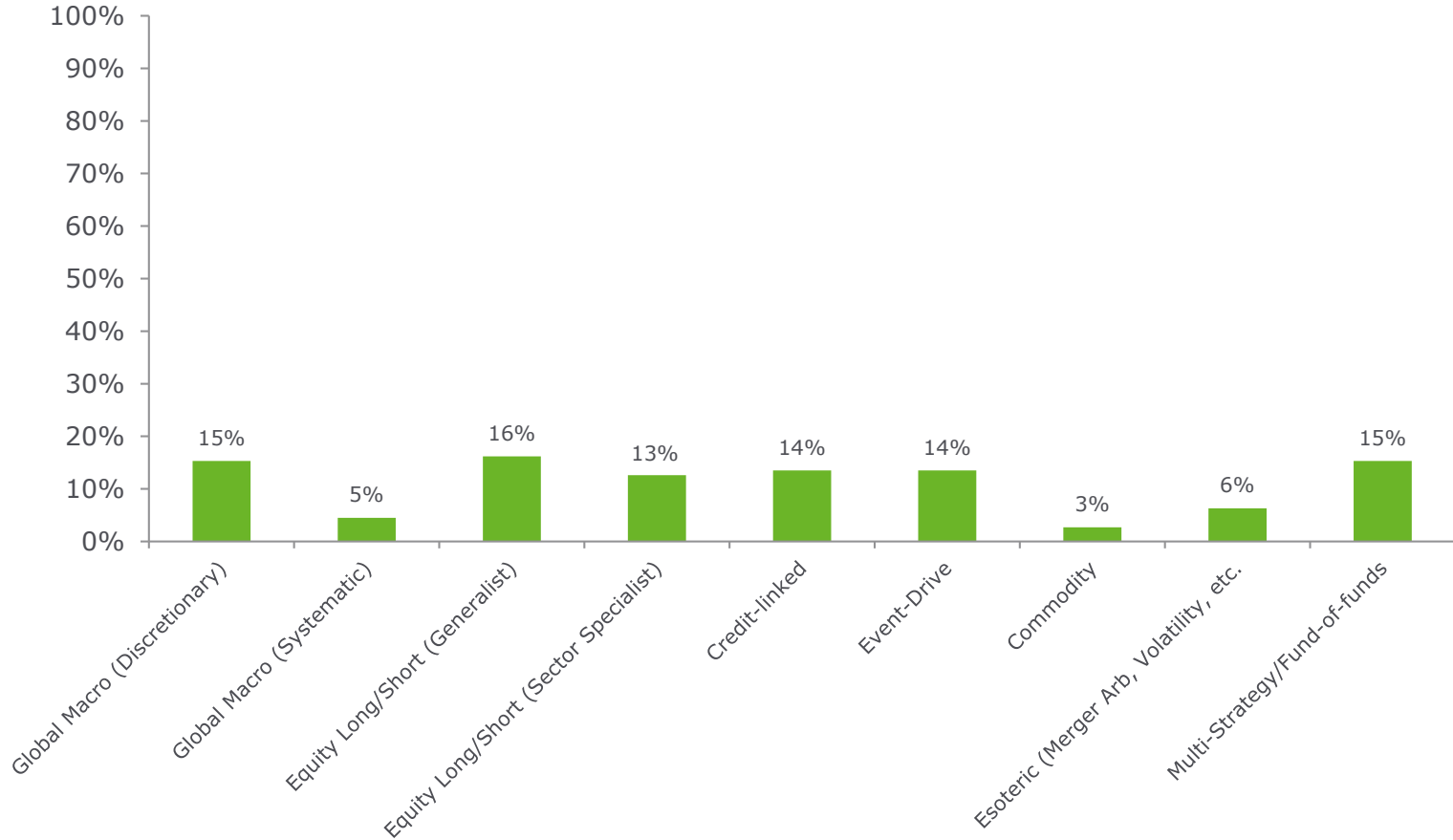
This dovetails nicely with survey responses to the “pain points” question. High fees remain a bugaboo for everyone. And if you’re paying high fees, you tend to expect a lot in exchange.

APPENDIX (ADDITIONAL DATA)

NEPC, LLC

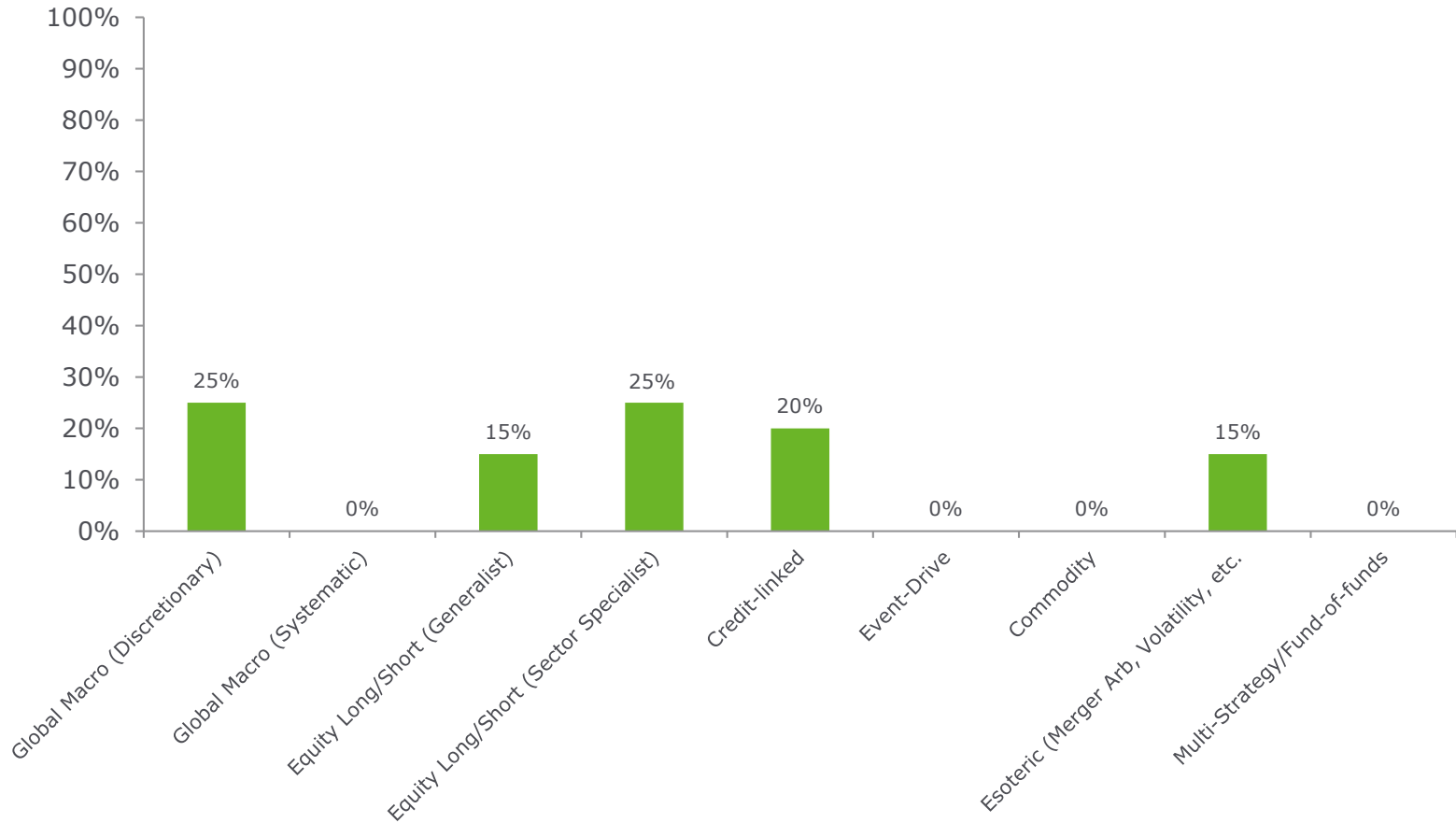
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Which types of Hedge Funds / Marketable Alternatives do you invest in? (select all that apply)



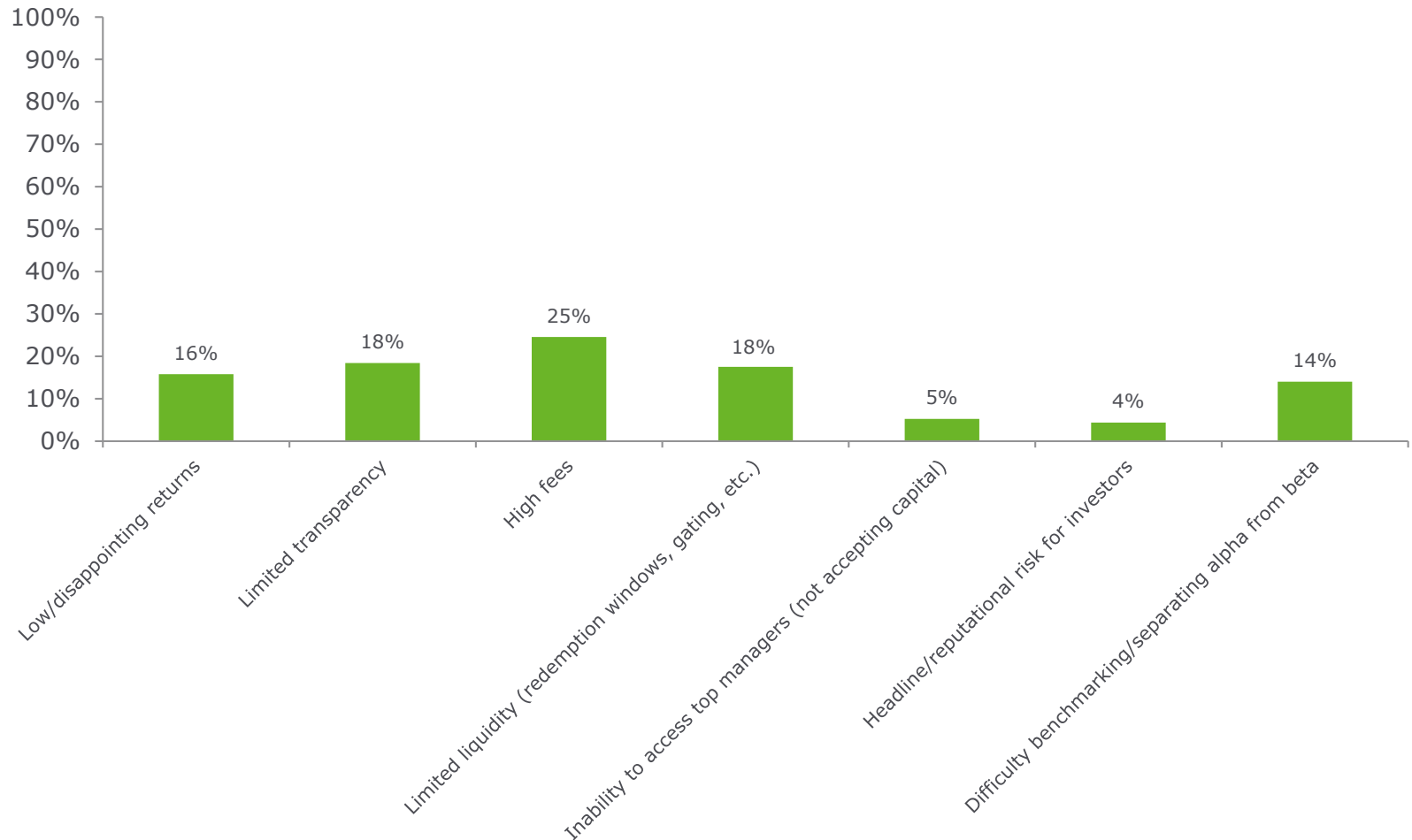
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Do you expect to increase your exposure to any of the following Hedge Funds / Marketable Alternatives strategies in the next 12 months? (select all that apply)



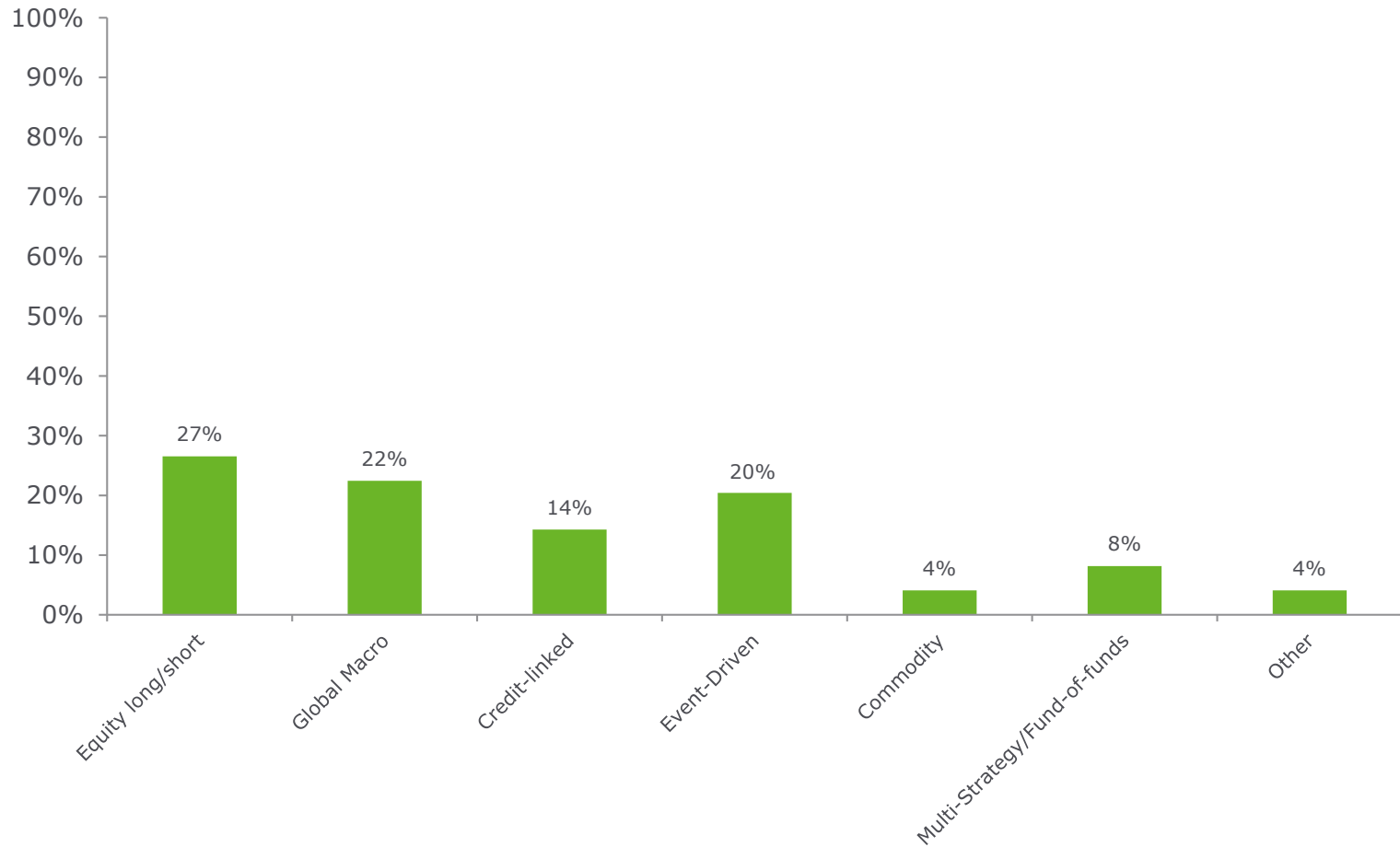
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Which do you consider the biggest challenges when investing in Hedge Funds / Marketable Alternatives? (select all that apply)



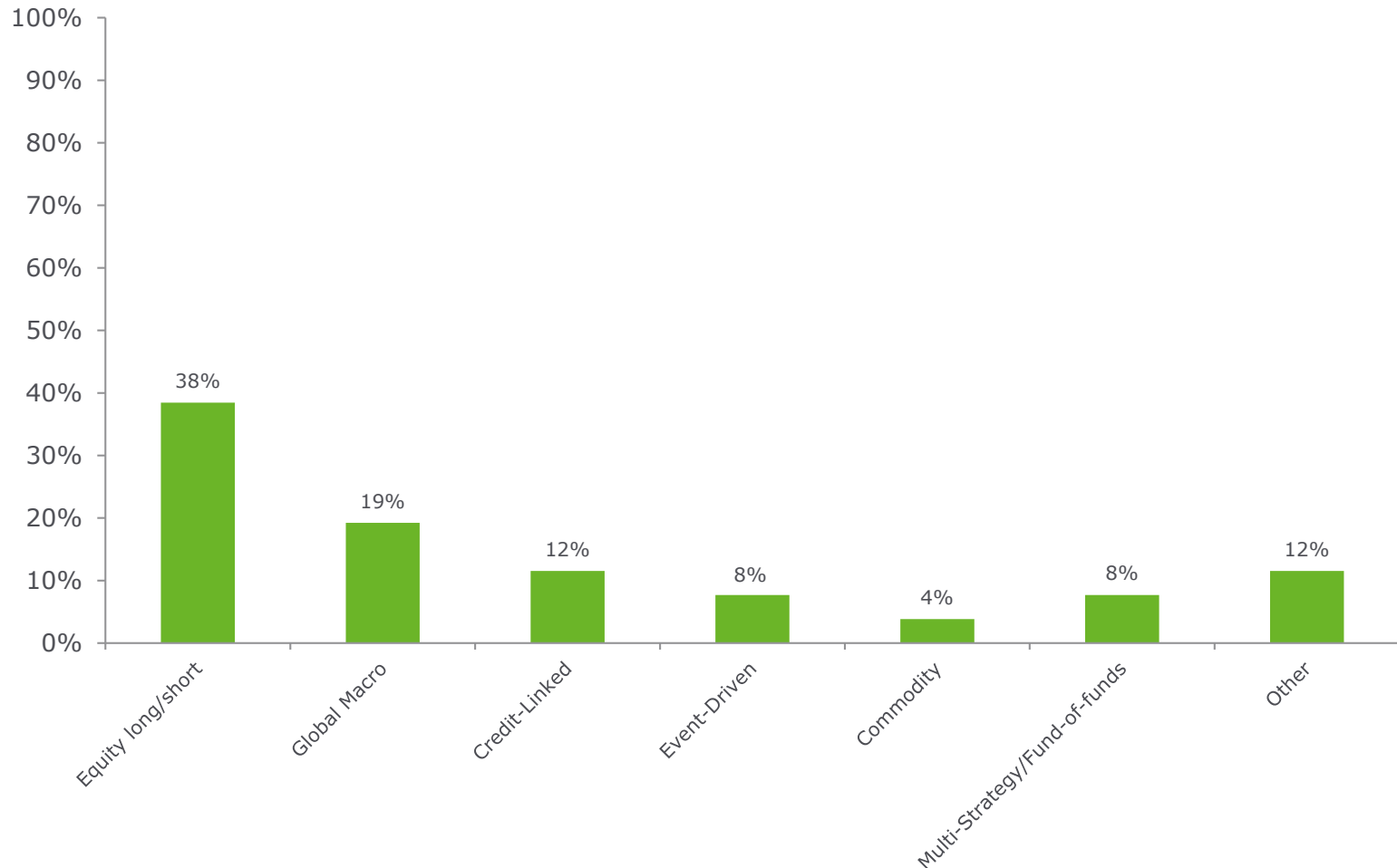
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Which Hedge Fund / Marketable Alternative strategies do you think will generate the highest returns over the next 3-5 years? (select all that apply)



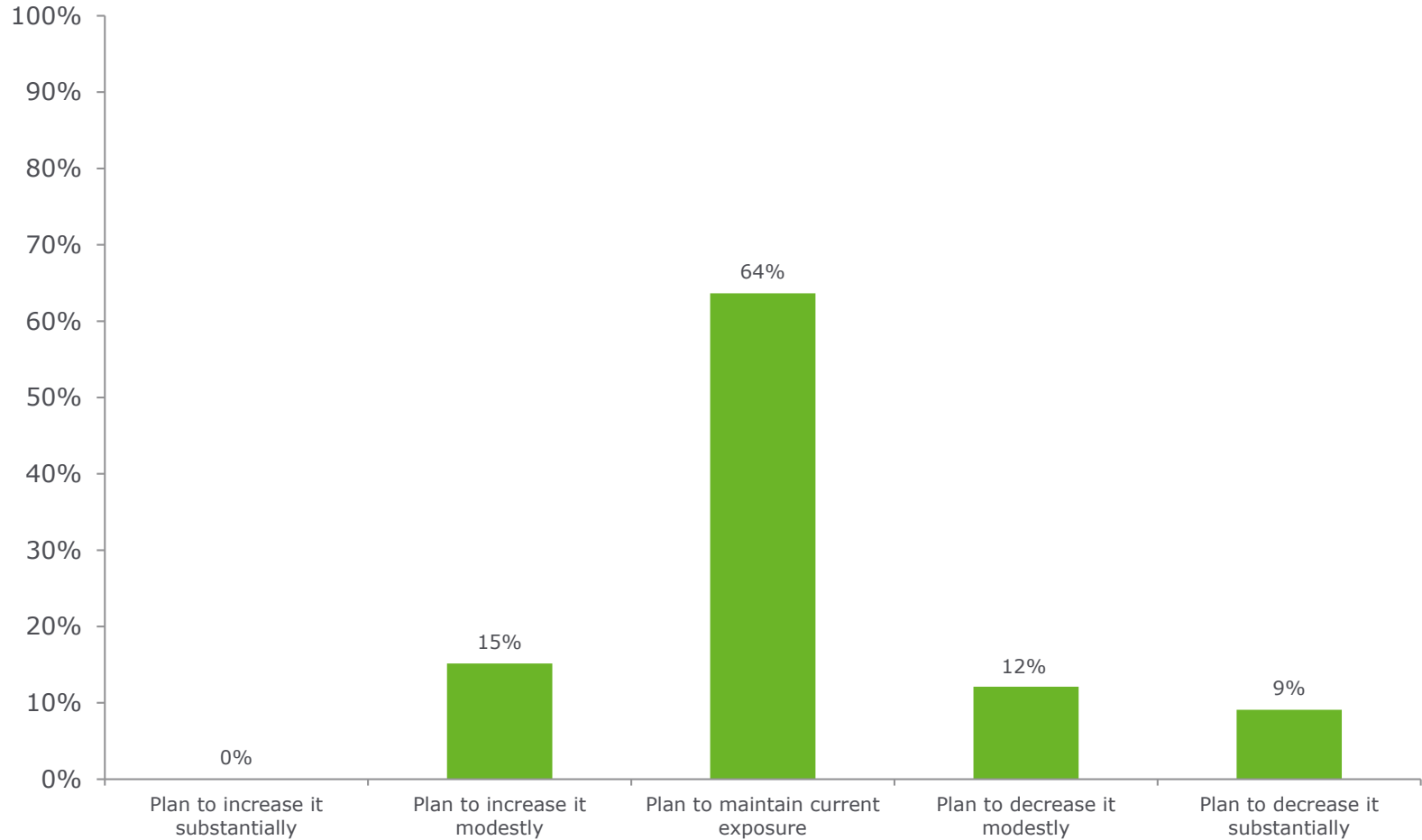
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Have you added exposure to any of these Hedge Fund / Marketable Alternative strategies within the past year? (select all that apply)



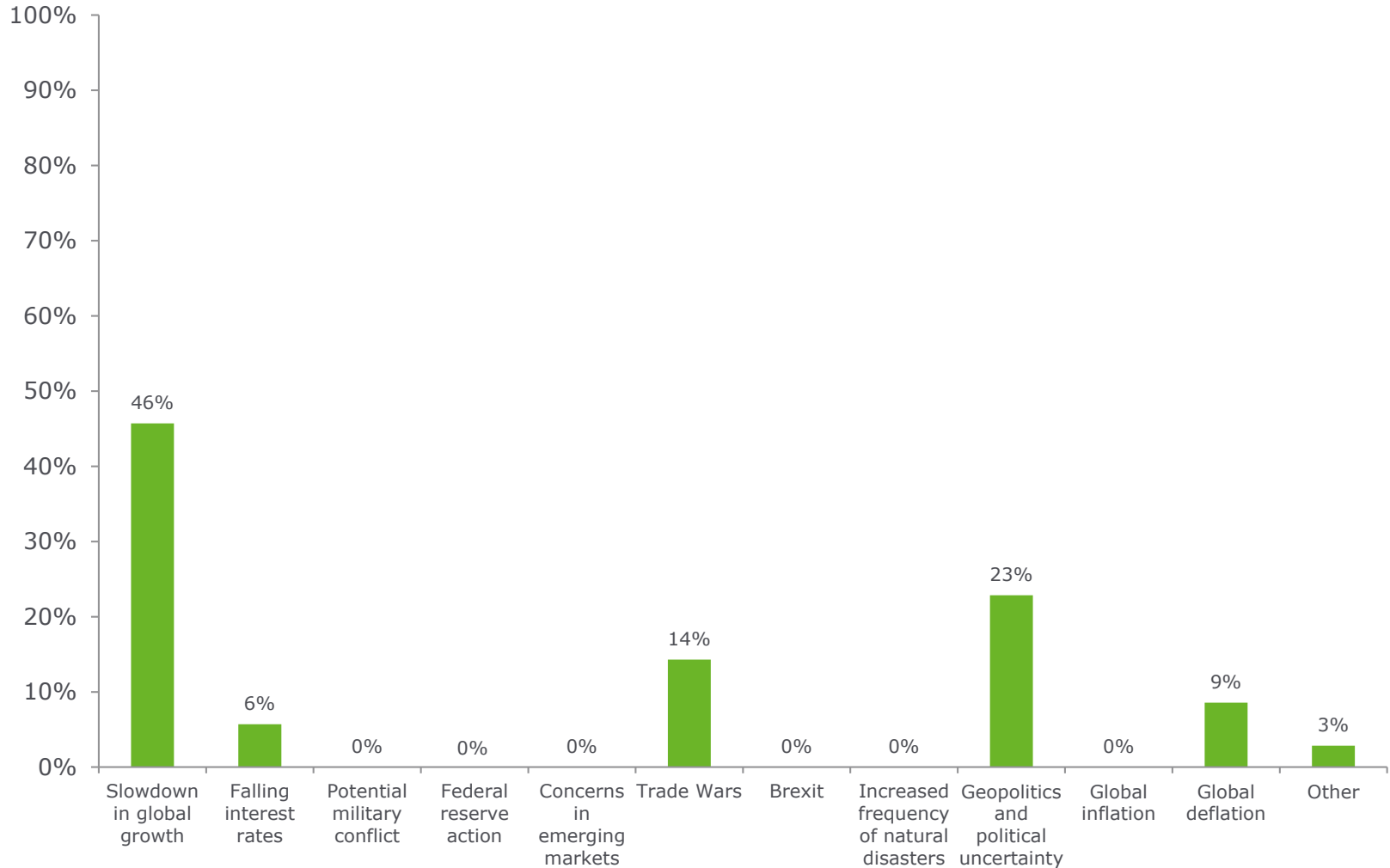
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Do you plan to change your overall exposure to Hedge Funds / Marketable Alternatives in the next 12 months?



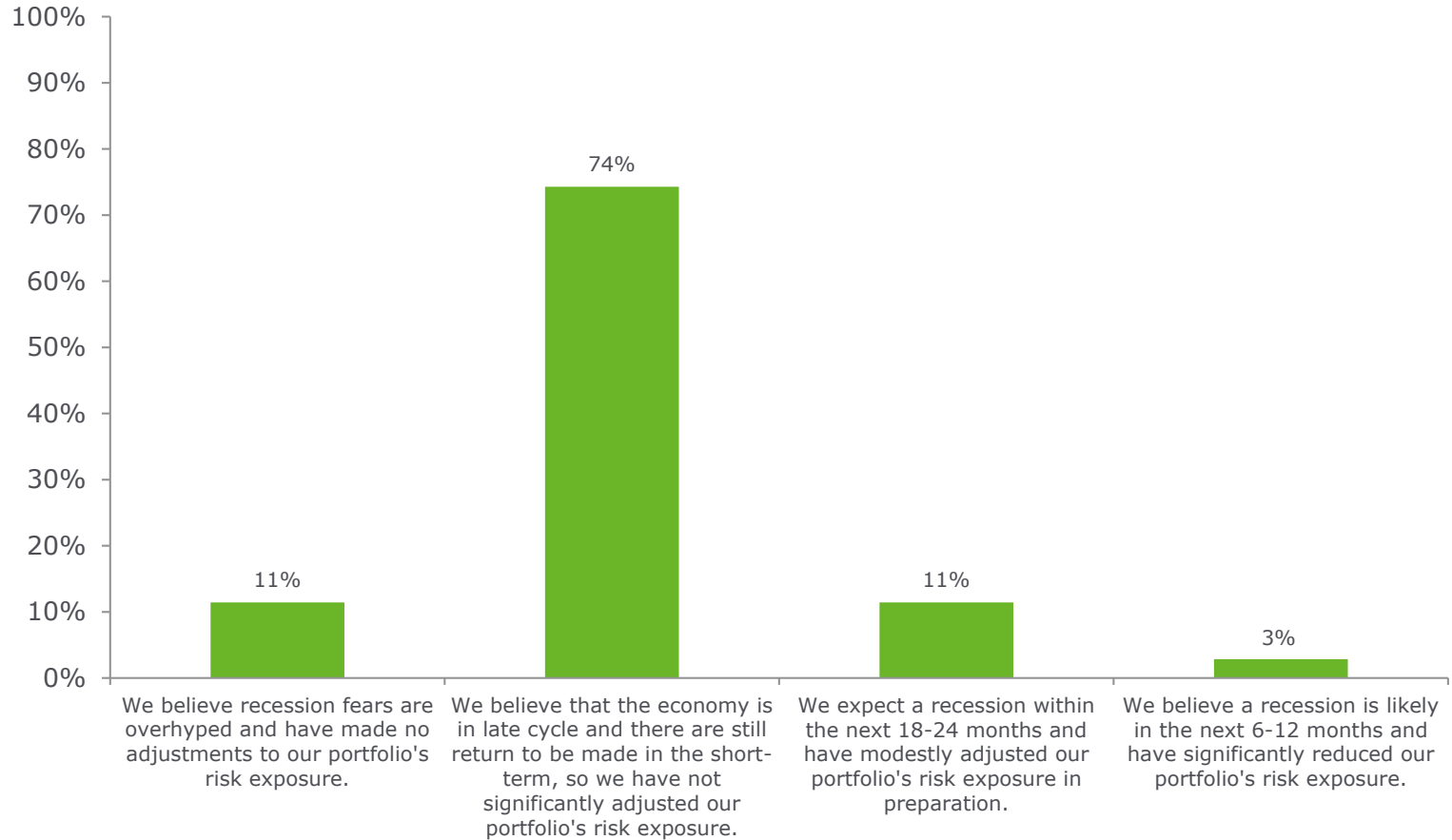
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Which of the following poses the greatest threat to your investment performance in the near term?



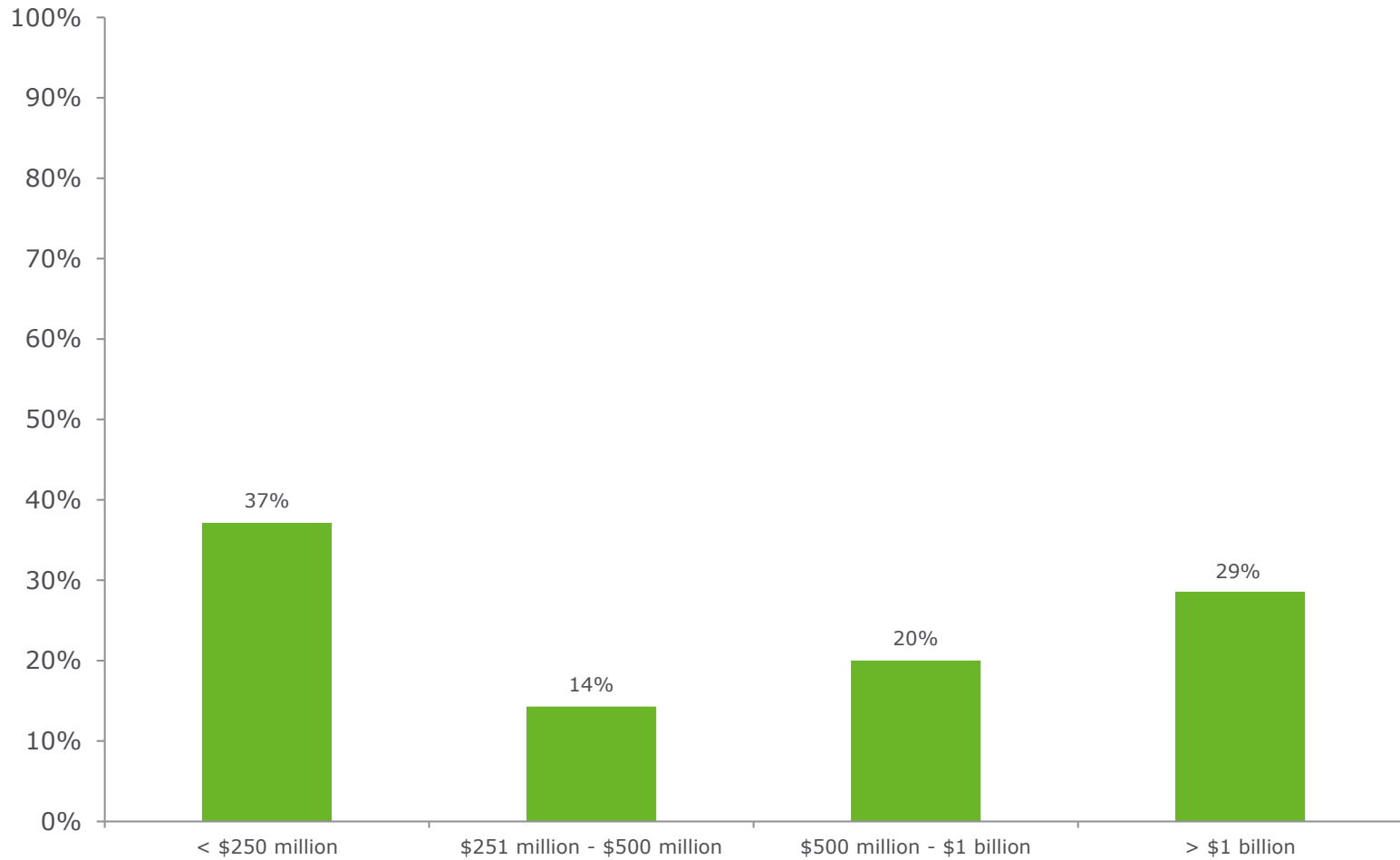
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Which of the following best describes your current market outlook?



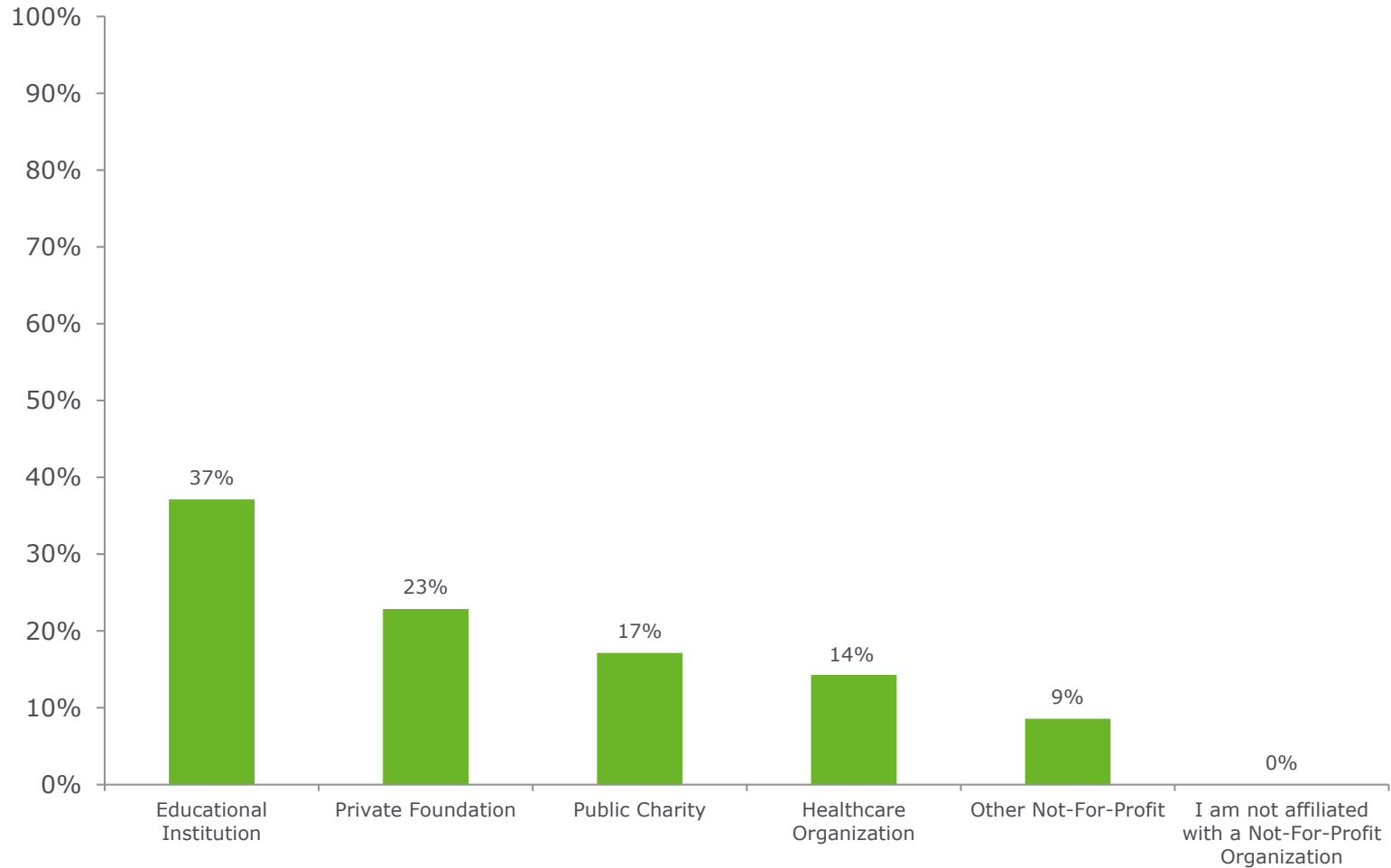
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What is the asset size of your Endowment / Foundation?



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Which of the following best describes your not-for-profit affiliation?



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- **The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.**
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