TRUE NORTH INSTITUTE

An Investment Newsletter For True Long-Term Investors: Q2 2025

The aim of this newsletter is to arm the Chair of Institutional Investors' Investment Committees and the Chief Investment Officer with possible agenda items to be addressed in the upcoming investment committee meeting. We assume this audience comprises mostly of true long-term investors and the topics for discussion are only those with long-term consequences, including near-term actions which could have long-term consequences.

Elephants in the Investment Committee Boardroom

In our last letter (March 2025), the institutional investment world appeared to be more narrowly focused than usual; focused on just two issues, Trump and AI. Since then, the wall of CIO worries has ballooned to what may be a record long list. In many ways, the elephant that may be looming largest in the boardroom is that the world is changing in a way and at a pace that many of us have not seen in our careers, possibly warranting a different investment strategy and process, one that may force shorter term views and decisions, and more nimble and dynamic investing, heaven forbid. Is long term investing, (i.e., "no market timing") at risk of being wrong for the times?

Investors always run the risk of thinking today is different. So let's question that thesis today. Here is my list of small and large elephants with those on the left being more obvious than those on the right.

Exhibit 1: Elephants in the Room 20 July 2025 (Questions we may get from the IC or Board before our next meeting)

Elephant Type	Obvious	Perhaps less obvious
Geopolitical	• Non-US Governments, Companies and Investors seek to reduce exposure to and reliance on the US • Europe reshaping into Allied Independence • New Middle East Order or continued volatile stalemate • The end of the US as a safe haven ($, assets, Treasuries) • China-US decoupling/competition impact	• Impact of Musk's American Party • Russian threat to more of the Baltics
Other Macro	• Learning from Trump 7 months in -- focus on trade impact • AI military, existential, economic, cyber-security and other threats • AI impact on growth, productivity and investment opportunities • Corporate commitment to decarbonization • Energy security in US, Europe and everywhere	• Other emerging technologies - AI agents, space, robotics, quantum computing, augmented reality, energy storage • US Federal debt, inflation and rates
Financial Markets	• Asset Price Level (Equities in particular)	• Threats to corporate profits from all of the above
Investment Strategy	• IC Governance -- deeper dive on what works best • AI Tools for manager DD, risk management, portfolio construction, etc. • Geographic allocation (away from US) • More on Total Portfolio Approach (TPA)	• New investment decision making processes for the current environment • The future of private equity/venture • The future of private debt • Is AI enhancing alpha from quant strategies? • Building your own portable alpha strategy (like MIO)

The list may be longer simply because we have much more clarity on the Trump Administration's impact on the so-called world order which breaks into many different issues including many of those listed. What we can see more clearly today is that many of Trump's actions appear to be accelerating the decline of the US' hegemonic status. The US' hegemonic status emanates from being the most powerful nation economically and militarily, but also from the relative robustness of its many systems including its legal system (rule of law including balance provided by the legislative, executive, judiciary), its financial system, the dollar as the global reserve currency and the security umbrella which its foreign policies afforded.

Is Trump reducing the US's hegemonic position along the key dimensions through poor decisions and bad actions or is he merely flexing America's power, in ways it should have been flexed earlier and which will ultimately advance its hegemonic status (MAGA)? Certainly, the international community has less certainty around the US' hegemonic status today than it had under previous leadership (including Trump's first term) and therefore the international community appears to be moving in the direction of disentanglement and reducing economic and military reliance on the US. **This reshaping of the world order must be a macro issue worth having investment committees discuss, with practical investment implications like geographic asset allocation, safety net assets and currency exposure.**

As CIOs of your realm, you probably also may need to decide whether the current environment has crossed a tipping point in terms of complexity and economic threats that your investment strategy and investment process should change to be more nimble and dynamic, as Mohamed A. El-Erian is suggesting in his recent article "Is America Breaking the Global Economy?"

"Companies and investors, for example, should hold more cash and strengthen their balance sheets, diversify their supply chains and portfolios, invest more in employee development using innovative tools, and communicate more effectively.

Decision-makers must also do a better job of gaming out future scenarios, stress testing their strategies, and identifying potential vulnerabilities."

In periods of stress, this advice gets recycled over and again and should be quickly recognised as relatively unhelpful comments that I could pop into the next 20 quarterly letters and get some nods from readers. I discuss below in the "The Only Macro Debates Worth Having" section, the arguments for and against abandoning the long-term investment model in favour of more nimble and dynamic investment decision-making in the current environment, which certainly feels more complex and uncertain.

Long-Term Performance

As CIOs, our focus is always on seeking out the optimal asset allocation which is critically dependent upon forecasts of expected long-term returns of each asset class. The table below is presented here to remind us of our expected returns in comparison to historical returns for each asset class and for portfolios overall.

The return expected from the representative allocation of the large US endowments (based on our nominated 12 endowments' allocation who have an average AUM of $18B) is expected to average 8.6% p.a. over the next 10 years by our math as shown in Exhibit 1 below. Past performance of course is, to some extent, indicative of future returns, but forecasts from the likes of Partners Capital go deeper into the study of future risk-free rates, risk premia, illiquidity premia, capital flows and other drivers. Partners Capital's estimates, as just published in their 2025 Insights macro report, are shown in the right-hand column in the table below and in the bar chart at the back of this letter which decomposes future returns into beta, illiquidity premia and security selection alpha. Partners Capital's forecast generally does not differ significantly from a "consensus view" of the major forecasters such as JP Morgan, Investec, Schroders, KKR and others.

Exhibit 2: Historical and Forecast Performance of Asset Classes and Overall Portfolio

Calendar Years	Index Name	Year to Date	Last 12 Months	3-Year Peformance	5-Year Performance	10-Year Performance	10-Year Forecast (3)
		Jan 25 - Jun 25	Jun 24 - Jun 25	Jun 22 - Jun 25	Jun 20 - Jun 25	Jun 15 - Jun 25	2025-2035
Endowment Avg Asset Allocation (1) (2)	3% Cash, 10% Fixed Income, 22% Equities, 23% PE, 10% VC, 20% Hedge Funds, 12% Real Assets index	3.9%	8.8%	5.5%	11.1%	8.9%	8.6%
70/30 Equity/Bond Index	70% MSCI ACWI / 30% Barclays US Treasury 5-10 Year	8.9%	15.9%	10.7%	9.9%	7.8%	6.5%
Asset Class Returns							
Fixed Income	Bloomberg U.S. Treasury 5-10 Y	5.3%	7.9%	1.6%	(1.5%)	1.4%	4.5%
Liquid Credit	Bloomberg Global Aggregate Baa Total Return	3.9%	8.8%	4.9%	1.7%	3.3%	6.8%
Private Credit	Preqin Private Debt	1.8%	7.9%	7.5%	10.8%	8.5%	9.3%
Public Equities	MSCI ACWI (unhedged)	10.3%	19.3%	14.5%	14.9%	10.3%	7.4%
Leveraged Buyouts	Preqin Leveraged Buyouts	0.9%	7.1%	4.5%	15.9%	13.9%	10.9%
Venture Capital	Preqin Venture Capital	4.1%	4.1%	(5.5%)	11.5%	10.3%	12.5%
Hedge Funds	PivotalPath Multi-Strategy Hedge Fund Index	3.2%	8.8%	7.5%	9.3%	6.1%	7.3%
Real Estate	Preqin Real Estate	(0.9%)	(0.8%)	(1.2%)	5.7%	7.4%	10.7%

Notes:

1. The Top 12 Endowments covered include Brown, Columbia, Cornell, Dartmouth, Harvard, MIT, Notre Dame, UPenn, Princeton, Stanford, the University of Virginia (UVIMCo), and Yale.

2. This assumed asset allocation approximates the average allocation of the Top 12 Endowments over the past five years. While it is more heavily weighted toward the current allocation, it assumes slightly lower allocations to Venture Capital and Private Equity than today. We consider this a representative estimate of how larger U.S. endowments may be allocated in the future. Past performance reflects actual historical returns for each asset class

3. Partners Capital 10-Year forecast (see bar chart at back). We have multiplied Partners Capital 10-Year forecast by the assumed average allocation of the Top 12 Endowments over the past five years

4. Preqin Real Estate tracks the performance of closed-end private real-estate funds worldwide.

Macro Debates Worth Having Today

The IC Chair can usefully guide macro discussion with their committee members by establishing what macro topics are worth debating in the investment committee boardroom. Valuable airtime can be wasted on attempts to forecast the unpredictable and discuss events that may not have any material long-term impact on investment performance.

From the long list above, we think the most important issues for investment committees to discuss are:

1. **Shifting Global Order:** To what extent will foreign governments make significant moves to disentangle their economies and security umbrella from the US in the near future and what are the investment implications?
2. **Is this a case for adopting elements of the Total Portfolio Approach (TPA)?** Is the world changing in a way and at a pace that many of us have not seen in our careers, possibly warranting a different investment strategy and process, one that may force shorter term views and decisions, and more nimble and dynamic investing?

We move on to briefly discuss a "baby" elephant in the room, which is **the US' eroding status as a safe haven for investors from around the world.**

Next quarter, we do plan on addressing **the impact of geopolitics on investment strategy.** While historical analysis of past geopolitical crisis has shown little lasting impact on investment performance, we are seeing that narrative changing. According to BCA, "global allocators are scrambling to incorporate geopolitics into strategic asset allocation." Does this just have us subscribing to BCA or should our SAAs change with more insight about geopolitics?

Elephant #1: Shifting Global Order -- Are non-US countries likely to redirect their economies to have less dependence on the US and what are the investment implications?

The growing international lack of trust in US "institutions" has had an impact on what may be long-term institutional asset allocation including those moves made by US investment institutions. When commentators refer to a lack of international trust in "US institutions" due to Trump's policies and rhetoric, they are generally referring to a broad range of formal and informal structures that guide American actions both domestically and internationally. In this context "Institutions" and the trust issues include:

- **Government Institutions:** all three branches of the US government with particular concern that checks and balances are not working across the three as well as in the past.
- **Central Bank:** Trump's attacks on Governor Powell and the Federal Reserve call into question its future independence and ability to continue to guide policy around the globe with other central banks.
- **Diplomatic institutions** like the State Department, where withdrawals from long-established agreements can make nations hesitant to rely on future US commitments.
- **Academic and scientific institutions** where attacks on universities' foreign student population and restrictions on scientific research collaborations can damage the perception of the US as a hub for innovation.
- **Media institutions** where they are perceived to becoming less and less independent and objective in their coverage

Essentially, international trust in US institutions refers to the perception of the US as a predictable, reliable, and trustworthy actor on the global stage, based on the functioning and perceived integrity of its governmental and societal structures. This has clearly been damaged with long term implications.

The push by foreign governments, companies and investors to reduce U.S. dependence is largely driven by this lack of trust in US institutions. The Trump administration's tariff policies and isolationist policies and rhetoric, along with the executive branch's growing power vs the legislative and judicial branches have contributed most to foreign government concerns about the US as a military ally and trading partner. US and foreign Investors and foreign companies appear to be similarly reevaluating and revising strategies.

Tangible evidence of countries reducing military and economic dependence on the U.S. includes Europe's defence

partnerships, Japan and Australia's strategic shifts, Canada's pursuit of Mercosur, BRICS' de-dollarisation efforts, and the growth of regional trade blocs like Regional Comprehensive Economic Partnership (RCEP) and Africa's Continental Free Trade Area (AfCFTA). These actions reflect a global trend toward multipolarity, where nations seek to diversify partnerships and enhance autonomy.

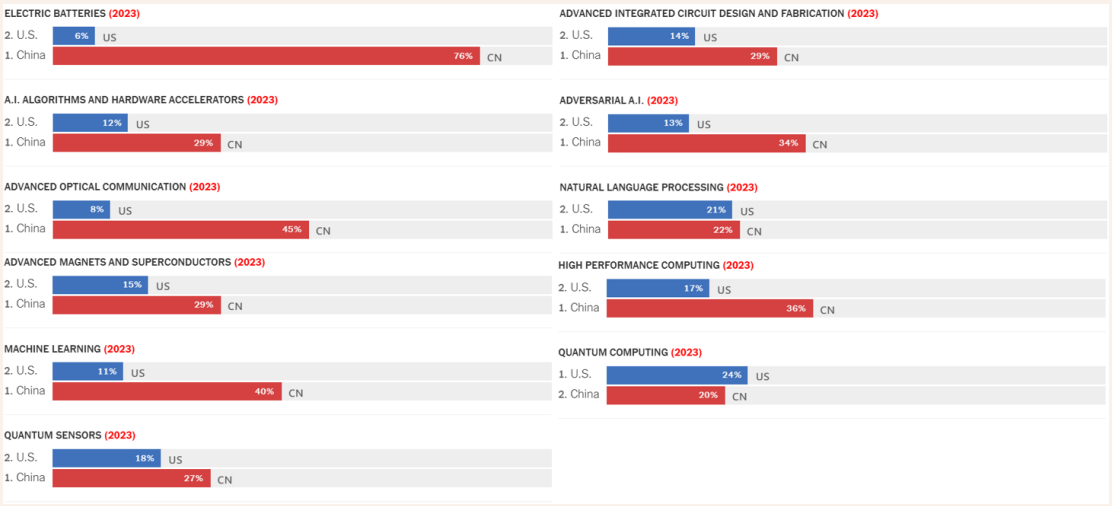
Many countries, particularly in Africa, South America, and East Asia, have joined China's Belt and Road Initiative (BRI) to access infrastructure investments and markets, reducing their dependence on U.S. trade and investment. For example, countries like Pakistan and Sri Lanka have shifted significant trade and investment ties toward China, with projects like the China-Pakistan Economic Corridor (CPEC) serving as alternatives to U.S.-led economic frameworks.

While we are clearly seeing countries diversifying relationships and distancing their political economies from the U.S., the U.S. remains a critical player in global security and economics, and complete decoupling is unlikely in the near term due to entrenched interdependencies. The investment implications of US disentanglement are discussed below in the Asset Allocation section.

US v China Technology Competition

Closely related to the US's decline in hegemonic status is its competitiveness with China on technology. Autor and Hanson (New York Times) warn the US faces a second "China Shock" that tariffs are ill-equipped to counter. According to an Australian analysis, between 2003 and 2007, the US led China in 60 of 64 cutting-edge sectors; by 2023, China led the US in 57 of the 64.

Exhibit 3: Whose research is most often cited in each field of technology?



Source: Australian Strategic Policy Institute

President Trump is clearly doing something about this as evidenced by the three executive orders he signed with great public fanfare on the 23rd of July dubbed his AI Action Plan. The three executive orders sought to achieve three things:

1. Relaxed federal permitting for data centre infrastructure
2. Promoting exports of American AI models abroad (to avoid third countries turning to China)
3. Federal government will only promote and procure AI models that are ideologically neutral (a dig at wokeism in federal procurement).

In summary, there is clearly a move by the foreign (non-US) community to disentangle themselves from the US and to reduce reliance militarily and economically. The action implications are discussed in the Asset Allocation section below.

Elephant #2: Is the world changing in a way and at a pace that many of us have not seen in our careers, possibly warranting a different investment strategy and process, one that may force shorter term views and decisions, and more nimble and dynamic investing? Is this a case for adopting a Total Portfolio Approach (TPA) and moving away from the classic endowment model?

Looking at the above long list of changes taking place in the world, it begs the question of CIOs and investment committees/boards: are we at some sort of tipping point where the sheer complexity of the world warrants more delegation of responsibility to the CIO and their team and a move more in the direction of the Total Portfolio Approach which involves less asset class siloed decision-making and a more dynamic approach to asset allocation?

Since TPA appeared on the investment thinking horizon, we have struggled to find coherent and compelling research on the topic. However, we have recently come across two excellent papers, I suggest you all read. Both came out in June 2025, both strongly making the case that the world has changed and TPA is the solution. The first is an excellent 14-page piece from Stuart Jarvis of PGIM (Prudential Financial asset management arm with $1.4T in aum). Only slightly less compelling is "What is Total Portfolio Approach" – A Practitioner Summary which is just 8 pages and written by a University of Toronto professor (Elkamhi) and an executive at Ontario Pension Plan (Jacky S H Lee), HOOPP.

Both papers are challenging the benefits of Strategic Asset Allocation (SAA) or a static long-term asset class defined allocation, generally approved by the investment committee (within bounds). PGIM state that over 95% of institutional investors employ SAA still today, but name current users of TPA to include Future Fund in Australia, CPPIB in Canada, NZ Super in New Zealand and GIC in Singapore. **Studying the arguments made, helped me come to a conclusion about TPA that I would like to share with you -- to save you the time of having long arduous debates about it in future with your board or your team.**

Answer first. Most advocates of the TPA model, mischaracterise the endowment or SAA model. Most attributes ascribed to the TPA model are often incorporated into the SAA model by the institutions who are most thoughtful about their investment approach.

Both authors point to a set of implicit assumptions which have historically justified SAA on the basis that:

1. Risk premia are stable and can be forecast reliably over long horizons;
2. Asset class correlations remain roughly stationary;
3. Rebalancing is always feasible, regardless of liquidity or external capital pressures;
4. Asset classes can be treated independently, and can be managed within discrete silos;
5. Market behaviour is mean-reverting, making historical data a sufficient guide for the future.

The authors argue that these premises were designed for a different world than ours today which is characterised by:

1. **Greater market instability and macro regime shifts** like those described above, but also including events since the global financial crisis, near zero interest rates, the pandemic and recent inflation shocks and rate hikes.
2. **Rising portfolio complexity** – a growing number of asset classes, investible markets and the growing portion of illiquid asset classes whose valuations are lagged and cannot be rebalanced.
3. **Maturation of tools and systems infrastructure** – developments in forward-looking market scenarios, liquidity forecasting models, factor-based portfolio construction tools AI-based research that accelerates time to an answer.

These papers get you thinking. What I thought was that the world has changed, but it is not at all clear that TPA is the solution. The endowment model or SAA model could still be, executed well, with some of the features of TPA.

Definitions of TPA vary, but both of these sources concur on the core elements of TPA to include:

1. More holistic portfolio focus vs asset class team silos
2. More bottom-up (manager quality wins over staying within tight asset allocation limits)

3. Beta and factor-based risk management
4. More dynamic asset allocation (vs fixed or narrow bands around an SAA)
5. More decision making delegated to CIO and their team

The result is expected to manifest a portfolio with fewer third-party managers as capital is more concentrated and relationships with managers are stronger based on narrower span of manager responsibility and a larger scale investment with each manager. This may or may not lead to generalist investment team members vs asset class specialists but mandates a more integrated approach of debate and decision making that crosses all asset classes.

The two articles focus mostly on the TPA feature of more dynamic asset allocation (#4 above) being what the doctor ordered for the changing world, which comes hand in hand with more delegation of decision making away from the board (#5 above). I focus on #4 below, but first comment on the first 3 dimensions of TPA and whether they are in fact already part of a well-managed SAA approach.

It does not logically follow that, in a more dramatically changing world, I need to move away from my focus on asset classes and what is changing in those, to **more focus on the overall portfolio (#1 above)**. If anything, we need more acute focus on how asset classes are behaving and changing in a changing world – so more in-depth asset class research and expertise. Bringing a hedge fund team member onto the internal private equity decision-making group is another matter but really depends on the individual. In-depth asset class expertise trumps a brilliant generalist in helping to make the best decisions.

Thinking about being more **bottom-up manager focused (#2 above)**, a scarier world may warrant more focus on managers vs asset allocation. Whenever there is a crisis, how many of us have said, "let's make sure that our managers, who are closest to the coal face, can navigate through this crisis?" At Partners Capital, since our founding 25 years ago, we have always made trade-offs between manager alpha and asset allocation alpha (or tracking error). The case for fewer managers should be driven by the observation of more alpha being concentrated in fewer managers, looking at the correlation of the alpha to other alpha streams as well, of course. As the world changes in the ways we have highlighted up front, does this lead to alpha being concentrated in fewer managers? If anything, it is the opposite – more volatility usually translates into more alpha for more managers – so if anything, less concentration.

Beta and factor-based risk management (#3 above) works with the SAA model and many endowments today look through manager holdings and asset classes to measure and monitor the overall portfolio exposure to different betas (equity, inflation, rates and credit) and factors (growth, value, quality, small cap, geography, sectors). Factor vs asset class risk management is a very important investment strategy dimension. At TNI and Partners Capital, we are strong advocates of an SAA model based on betas and factors, with a secondary examination of movements in asset class allocation.

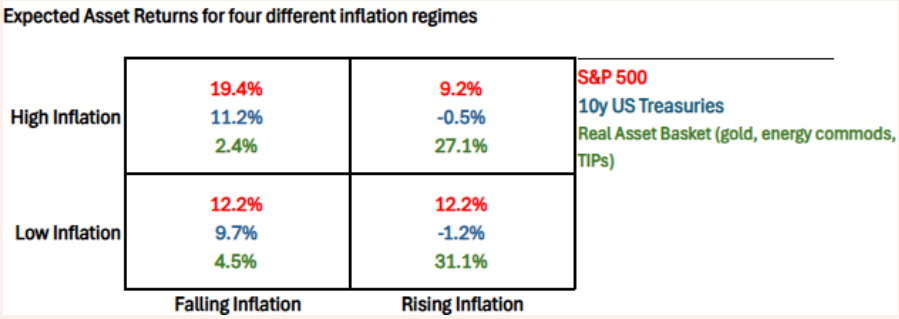
The real debate around a changing world driving a change in investment strategy should focus on how dynamic our asset allocation should be along the spectrum of a purest SAA model with fixed percentage allocations and tight rebalancing bands and triggers and a macro-hedge fund like market timing approach with large swings in asset allocation requiring a completely liquid portfolio. We remind ourselves that most macro hedge funds destroy value and most institutions are not staffed with an army of macro hedge fund analysts. So, we sit at the SAA end of the spectrum, always asking what we know better and sooner than the market? The more proprietary information and analysis we hold, the more dynamic our asset allocation can be.

Why does a more rapidly changing world suggest that the gap between our understanding of the world and everyone else's is getting wider, and we can generate alpha from being smarter and more dynamic?

The majority of the two TPA research papers is dedicated to making the case that more change means be more dynamic in your asset allocation. Neither author goes into any depth to explain why a more complex and unpredictable environment justifies a move away from SAA (no market timing) to dynamic asset allocation. PGIM's Dynamic Asset Allocation (DAA) inspires "a more in-depth portfolio review in response to enduring regime shifts that undermine core investment assumptions". It focuses on making "corrections when the economy's move to a new regime undermines the assumptions that were made when setting the pre-existing SAA." How could anyone argue with that?

PGIM define Dynamic Asset Allocation (DAA) as sitting between SAA and TAA in terms of the quantum of asset allocation changes over time, characterising allocation changes as responses to "regime changes." Their research is based on a study of 11 institutions wedded to an SAA model and 8 institutions who have implemented the TPA for many years (e.g., Future Fund, NZ Super). They conclude that TPA has earned 1.5% higher returns on average. The small sample and no attempt to adjust for different portfolio risk levels, had us dismissing this part of the research. However, to prove why this might have been the case, PGIM present a very relatable example of changing asset allocation when you move across one of the 4 regimes of the classic inflation matrix below.

Exhibit 4: Expected Asset Returns for four different inflation regimes



Source: PGIM Portfolio Research. Returns data over the period 1971Q1 to 2023 Q3.

If we believe the above historical asset class returns are reflective of future returns in a rising inflation environment, and we have high confidence that we are in a rising inflation environment, then we should sell bonds and equities and buy real assets, given the dramatic premium real assets earned in rising inflation environments (27 to 31% for real assets vs 9-12% for equities and slightly negative bond returns). PGIM defines the dynamic investor as

"One who holds a different portfolio in each state (cell in the matrix above) but now weighs the impact of a possible state transition against potential returns if the state persists. The result is a more balanced portfolio that seeks to mitigate the worst outcomes whether or not a state transition occurs." These may be significant portfolio moves "after the fact.

Any sophisticated SAA investor will build and migrate their SAA based on multiple different scenarios as they materially change, with probabilities on each and long-term asset class return estimates to each scenario. TPA may be looking at returns over shorter time frames and seeks to see the regime change coming and move ahead of most others. Our learning has been that market timing over short time frames is much more difficult than market timing over long (5-10 year) time frames.

The time frame for assessing the optimal asset allocation may come forward if the investor has found a new means of gaining insights over other investors. I don't think a changing world creates this opportunity unless it is combined with proprietary technology. TPA assumes institutional investors can now time markets over shorter time frames --moving from SAA towards a TAA model but stopping halfway at a DAA model. We agree that the tools and systems are now at our disposal to try and gain an information and insight advantage to time markets over shorter time frames, but those tools are available to all, perhaps less so for smaller investors. One open question I will leave with you on this matter is whether your team can make better use of technology and data available today (including AI, factor-based tools, macro-economic data, geopolitical research, liquidity management) than the bulk of other investors. If so, a DAA dominant TPA model could be a direction you should lean into.

In my mind, the two sources confirm that market timing and predicting moves before they occur is indeed fraught in today's environment just as it has been in the past. It is a different problem if the organisation is hampered by slow governance processes when it needs to at least move with the market, making changes obvious to all. One TPA area we do agree with is the delegation of decision-making authority to the CIO (#5 above) and their team to have some structural agility to move with the market and not be stuck behind, funding alpha for those who move faster. Covid was a perfect example where rising inflation became apparent to all and most moved after the fact to reposition portfolios for higher inflation. Most reallocated after many inflation protecting assets spiked, but the right position against the range of scenarios, even after the

spikes, was still to increase real asset exposure. Being late to that move exposed the investor to a range of outcomes that their portfolio was not prepared for. We agree with the aspect of TPA that has you building an organisation and portfolio that are structurally agile and resilient enough to adapt strategically and meaningfully when unpredictable regime shifts occur, rather than being rigidly constrained by outdated assumptions or slow governance processes.

In Exhibit 5 on the next page, we summarise our current views on features of the endowment/SAA model vs the TPA model and present a "middle ground" which we think of as a natural evolution of the endowment model. The "hybrid" approach shown is pretty much the model (with all 5 dimensions) that we follow at TNI and Partners Capital. This hybrid has nothing to do with the Partners Capital "Advanced Endowment Approach" which many of you may have read about recently. The AEA is more a list of key success factors for implementing the hybrid endowment model (e.g., select the right managers, look for new asset classes, etc.), not a different model.

Exhibit 5: Endowment/SAA Model vs Total Portfolio Approach

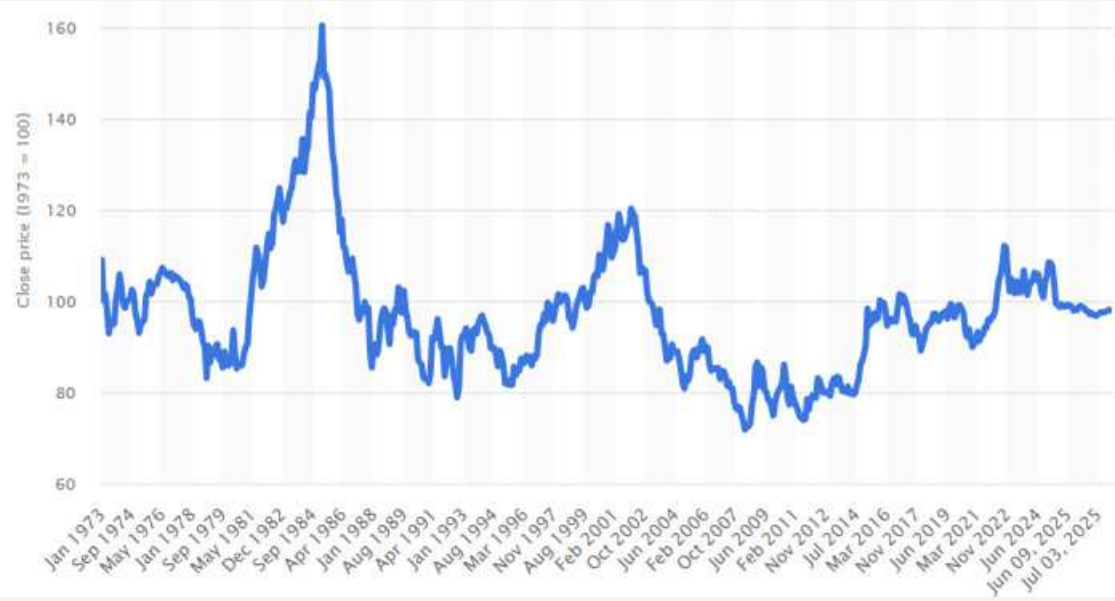
Dimension	Endowment/SAA Model	Hybrid Approach (call it what you will)	Total Portfolio Approach
1. Overall Portfolio Management	• **Top-down Strategic Asset Allocation driven** with narrow guardrails (min/max), generally deemed to be managed around optimizing performance of each asset class	• **Take a holistic portfolio approach by setting asset allocation reflecting quality of managers** (expected asset class returns incl manager alpha) • Optimize performance of each asset class by selecting the best managers in each asset class	• **More holistic bottom-up approach focused on single pool of capital; asset class agnostic within limits** • Manager selection drives ultimate allocation (within broad risk limits)
2. Manager Concentration and Relationships	• 100+ managers largely due to optimization within each asset class • Bias to owner-operated managers with highly aligned interests • "True partnership model" – LPs seek to be value added with GPs	• Have a strong bias to fewer, rather than more, managers. Set # of manager limits by asset class • Still focused on entrepreneurial owner-operated managers where institution has value-added relationship	• Much more concentrated; No optimization within asset classes (target 20-30 managers) • Institution can be more meaningful and value added to any given GP
3. Beta/Factor vs Asset Class Risk Management	• Classically focused on asset class risk management, but this model can easily accommodate a beta/factor bases approach (either alone or together with asset classes)	• Use both asset classes and beta/factors	• Multi-beta/factor driven risk management
4. Asset Allocation	• SAA driven; fixed or tight ranges • Static: no market timing • "Go anywhere" – broad diversification • Equity bias; near zero bonds • Alternatives heavy • Early adopters of new opportunities	• SAA updated with material changes in long-term macro scenarios and expected LT asset class returns • Take clear position on what proprietary insights the institution can have, if any, and exploit those for selective TAA or DAA	• No SAA • Dynamic Asset Allocation (DAA); not TAA • Every investment competes from the same pool of capital • Broad min/max allocations • More thematic driven and dynamic
5. Organization & Governance	• Asset class structured organization around deep veteran investing experts in each asset class • IC/Board sets policy: risk, liquidity, asset allocation; lets team select managers and execute against policy	• Deep asset class expertise with formal cross asset-class challenges (decision input) • IC/Board delegates more latitude to CIO for quick response to major macro changes that affect LT asset allocation	• Generalists or asset class specialists more integrated with full organization • IC/Board works more closely with internal team on most decisions including themes, tactical moves and managers

(Small) Elephant #3: Is the US Dollar losing its safe haven status?

The US dollar's share of global foreign exchange reserves has been on a gradual decline over the past two decades, dropping from approximately 71% in 1999 to 58% by 2023, according to IMF data. This trend predates Trump's second term but provides context for ongoing diversification. The IMF notes that the reduced dollar share has not been matched by significant increases in other major currencies (e.g., euro, yen, or pound) but rather by nontraditional currencies and gold. Central banks, particularly in emerging markets like China, Russia, and Türkiye, have increased gold purchases as an alternative to dollar-denominated assets. Gold's share in global reserves has risen, with these countries being the largest buyers over the past decade.

Since 2022, through to January of 2025, the dollar's share has remained relatively stable at around 58–60%, with no sharp acceleration in decline directly attributed to recent US policies. However, the US dollar index fell 10.8% in the first half of 2025, driven by investor sell-offs of dollar-linked assets due to uncertainties around Trump's tariff policies and potential Federal Reserve rate cuts. This could incentivise central banks to reduce dollar holdings going forward.

Exhibit 6: U.S. Dollar Index (DXY/USDX) from January 1973 to July 15, 2025



Economists have warned that Trump's spending and tax policies, including the OBBB's tax bill adding several trillions to US debt by the end of his term, could further erode confidence in the dollar, potentially encouraging central banks to further trim dollar holdings.

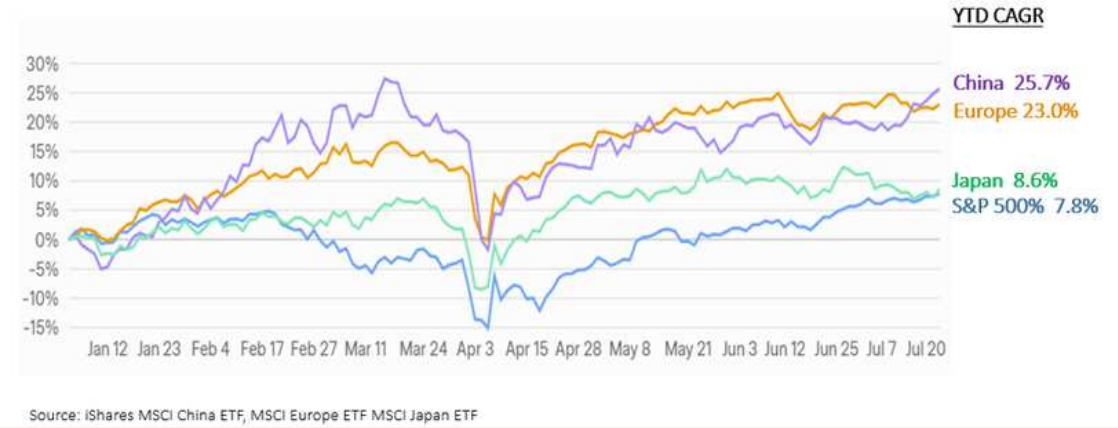
Asset Allocation Trends

The growing international lack of trust in US institutions, that we describe above, has had an impact on what may be long-term institutional asset allocation including those moves made by US investment institutions.

What we have seen in recent months as the dust settles on Trump's policies and the world's reaction to those includes the following, potentially long-term, asset allocation moves:

1. **Geographic diversification away from U.S.:** There has been a notable decline in foreign demand for U.S. assets, with reports of the fastest-ever pace of U.S. equity selling by the official sector and significant outflows from private sectors in a single month. This reflects a broader retreat from U.S.-centric investments due to the growing lack of trust in US institutions and trade policy disruptions.

Exhibit 7: Since Trump was inaugurated, the US has lagged well behind Europe and China equity markets (to July 18th 2025)



Source: iShares MSCI China ETF, MSCI Europe ETF MSCI Japan ETF

We have already seen the market impact of the allocation move with China up 27% through July 18th, European equities up 22%, while the US S&P 500 is up only 7%. This contrasts starkly with 16 years of S&P 500 outperformance of the Euro Stoxx index.

2. **Energy and Infrastructure:** U.S. trade policies including tariffs, the US declaration of a "National Energy Emergency," and geopolitical events like the Russia-Ukraine conflict have heightened focus on energy security and infrastructure. European governments are increasing defence and energy spending, benefiting companies in these sectors, while U.S. policies supporting domestic manufacturing and infrastructure are attracting capital to these areas.

3. **AI and Technology Infrastructure:** Trump has further accelerated the AI race with China continuing the significant investment in AI-related infrastructure, including semiconductors, cloud computing, and data centres.

4. **Sector rotation toward resilient and defensive assets** including consumer staples, utilities, healthcare and residential REITs. These sectors hold lower risks from U.S. trade policies, geopolitical uncertainties, and potential economic slowdowns.

5. **Safe haven assets shift to gold and non-dollar currencies:** Geopolitical risks and reduced trust in the U.S. dollar as a global reserve currency have driven central banks and institutional investors to increase gold holdings. The IMF notes that the share of gold in foreign exchange reserves, particularly in the China bloc, has risen significantly since 2015. Central banks are planning to further increase exposure to gold, alongside currencies like the euro and yuan, while reducing dollar holdings.

These five shifts may, in the end, be temporary moves, but highlight the issue of increasing how much we engage in tactical asset allocation. Did we, or could we have predicted these moves before markets reacted?

6. **Continued questioning of Private equity allocations going forward (without much change in allocations):** Institutional investors are still most uncertain about their private equity and venture capital allocations going forward, staying on the lookout (mostly from within their own portfolios) for evidence that the historical 15% returns will return. This seems unlikely given the lengthening of hold periods as recently well-articulated by Ted Seides of Capital Allocators. I would encourage you to listen to Ted's 6 minute **podcast** from 24th July called "Reconstructing Private Equity: Portfolio Construction for the Post-Distribution Drought."

The bottom-line message from Ted: expect a meaningful haircut in institutional commitments, with inflows from private wealth offering the possibility of filling the gap. The basis for this conclusion points to the "distribution drought" and more than a doubling of average holding periods for investments, from around four years to ten years (according to Hugh MacArthur of Bain & Co). Annual distributions averaged 20-30% of total PE capital invested until 2022, when it fell to 15%. 10% is forecast for this year. If investors input longer hold periods into their portfolio liquidity models (estimating the timing

of capital calls and distributions), investors have to cut commitment levels for PE to avoid a liquidity crisis. The old model of committing $150 to maintain $100 of PE "in the ground exposure" is falling to around $55-80 for each $100 -- call this a 50% reduction in PE commitments until hold periods shorten significantly.

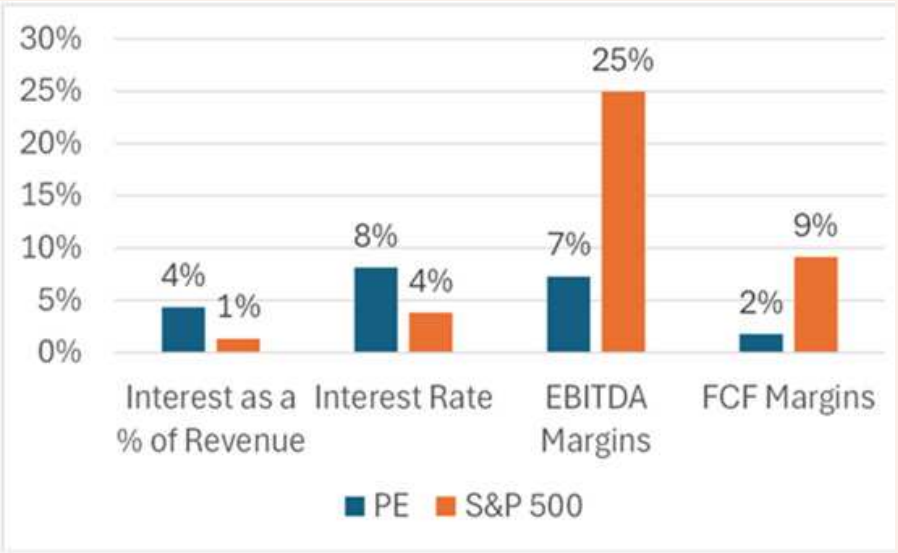
Despite the slowdown in institutional pacing, the private equity industry can still achieve growth if it successfully taps into the private wealth channel. However, the private wealth channel wants semi-liquid structures (e.g., withdraw in 2-year windows) which need to be populated with direct investments and secondaries with shorter hold periods to achieve some marketability for underlying assets to accommodate withdrawal windows. As Ted says, the industry's future growth hinges on its ability to "crack the code for private wealth."

If the private wealth channel does not come to PE's rescue, what are the return implications if PE funds are half their previous size? Firstly, nothing to do with fund size, longer hold periods generally spell lower IRR%'s. We have always struggled with a MOIC (multiple of invested capital) focus on returns, and I assume the world will figure out that IRR% are what matter if you are making asset allocation decisions against other asset classes based on IRR%'s, not MOICs.

If hold periods shorten back to previous norms, we should see returns returning to our previous 15%. In the meantime, smaller funds certainly have implications for GPs with cost structures sized in line with 2x larger funds. Conventional wisdom in PE is that smaller funds are better because smaller companies are cheaper and have more value-improvement opportunity. But perhaps this may change if the smaller funds are being managed by GPs in turmoil, restructuring their businesses, and with fewer resources to deliver post-acquisition operating value added to portfolio companies. But there should be less competition for the best companies. In conclusion, we expect to see lower PE returns in the range of 11-13% going forward, which suggests lower allocations in the future.

Dan Rasmussen of Verdad Capital produced a sobering analysis of private equity portfolio company fundamentals using a universe of 184 North American previously PE sponsored, but now public companies. Dan's assertion is that this universe is a reasonable proxy for the privately held, PE-owned, companies. The median revenue of these 184 "PE proxy" companies in 2024 was $620M in contrast to the average S&P 500 constituent of $13B in 2024 revenue, so 20x larger. Overall, PE portfolio companies are smaller, more leveraged, pay higher interest rates, and have lower margins than public companies.

Exhibit 8: "PE Proxy" public companies fundamentals vs S&P 500 Companies



Source: Capital IQ, Verdad

The median company in the Verdad sample grew revenue at 4% and EBITDA at 3%, while the median S&P 500 company grew revenue at 5% and EBITDA at 7%. If we are investing in PE because we believe that the asset class as a whole is selecting better companies or running companies better, this was not apparent in 2024.

Sustainable (Energy Transition) Investing Corner

Where does energy transition investing fit into any well-managed institutional portfolio? Two places: public equities in the industrials sectors which are the biggest emitting sectors and in venture and growth equity behind climate technologies. Below, we summarise our learning about how industrials could offer alpha opportunities to investors who understand how the energy transition is likely to evolve now 30 years into its evolution. We will pass on our learning in venture and growth investing in climate technologies in our next quarterly letter.

You all are already invested in the largest area for energy transition investing– public equities in the industrial, power and utilities sectors. We leave out oil & gas companies as, for the most part, they are not transitioning and present incalculable long-term risk in our opinion. You can own them or not; they are not really part of any energy transition investment theme. Insights into where oil & gas is going is important, however, to what is likely to happen in industrials. “Drill baby drill” has investment implications, but we would argue, less for the oil and gas sector than for the industrial sectors it affects.

As big users of energy, data centres are also very much part of the energy transition theme but are a small part of the companies who own and operate them – Microsoft, Alphabet and Amazon.

Industrials (including utilities and transportation) are transitioning, because they have economically viable options to do so. The simple example is that utility scale solar farms produce cheaper electricity than gas powered plants. EVs are cheaper than ICE vehicles, especially if you consider what BYD has on offer. So utilities, cement, steel, automobile, shipping, airline and aerospace companies are transitioning to varying degrees on varying timetables. Investors need to know these.

These sectors represent 22% of the average global public equity portfolio (excluding data centres), and account for over 80% of GHG emissions. You should want to know which utilities, steel, cement and automotive companies you own. Do you own the companies best exploiting new technology or the laggards? It is our belief that there will be a “cost of carbon” imposed on companies at various points in the future, and in Europe, Asia, Canada and California ahead of the rest of the US. Europe and the UK have a defined schedule for phasing in a cost of carbon (a carbon tax). Companies that avoid or abate emissions more cheaply and faster than others will generate higher returns to shareholders. You should own these transitioning leaders. Are your asset managers focused on this, and do they understand the policy, technology and consumer behaviour changes which dictate the economics of transitioning?

On the next page, we show some analysis that reminds us all that there is shareholder value to be created from the over $2 trillion in public equity capex invested each year in energy transition infrastructure and technology. Our analysis estimates that approximately $7.9 trillion of market value has been created in the last 30 years from energy transition companies, mostly in the EV, battery, solar and wind sectors. We further estimate that $5.9T of this has been grown inside publicly listed “brown” companies turning “green” such as Iberdrola ($118B), SSE ($28B), China Yangtze Power ($102B) and PG&E ($30B).

$2.0T of value creation has been in wholly new companies created primarily over the last 30 years, with $1T in the form of Tesla, $161B in Chinese battery producer CATL and $141B in Chinese EV company BYD. The bulk of other large energy transition success stories have less than $20B in market cap today and only 10 of these with more than $10B (<$20B).

Exhibit 9: An estimated $7.9T in equity value has been created by the energy transition in the last 30 years, of which $5.9T has been created by legacy public companies ($1T by Tesla)

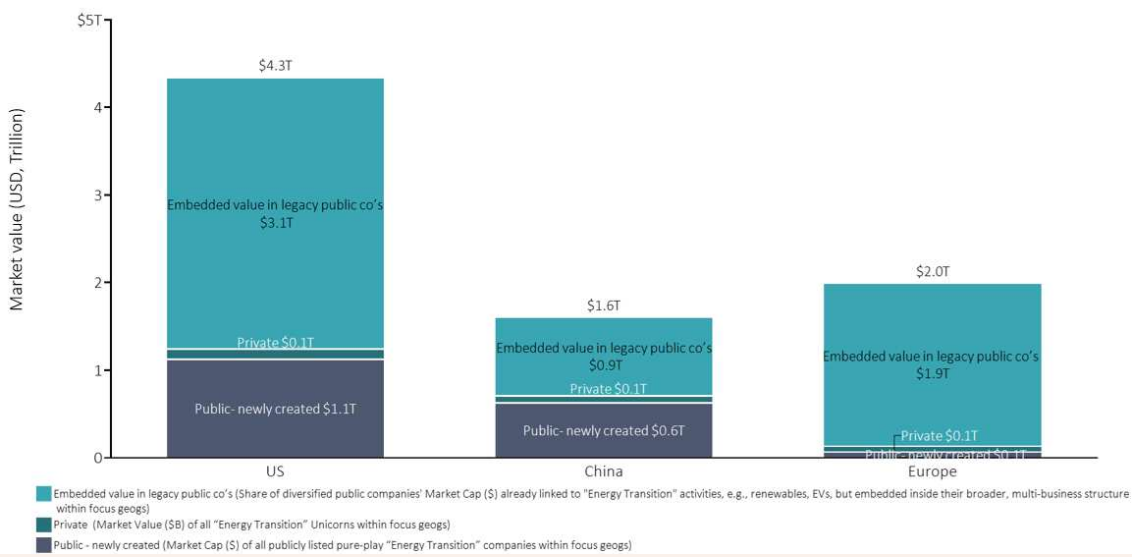
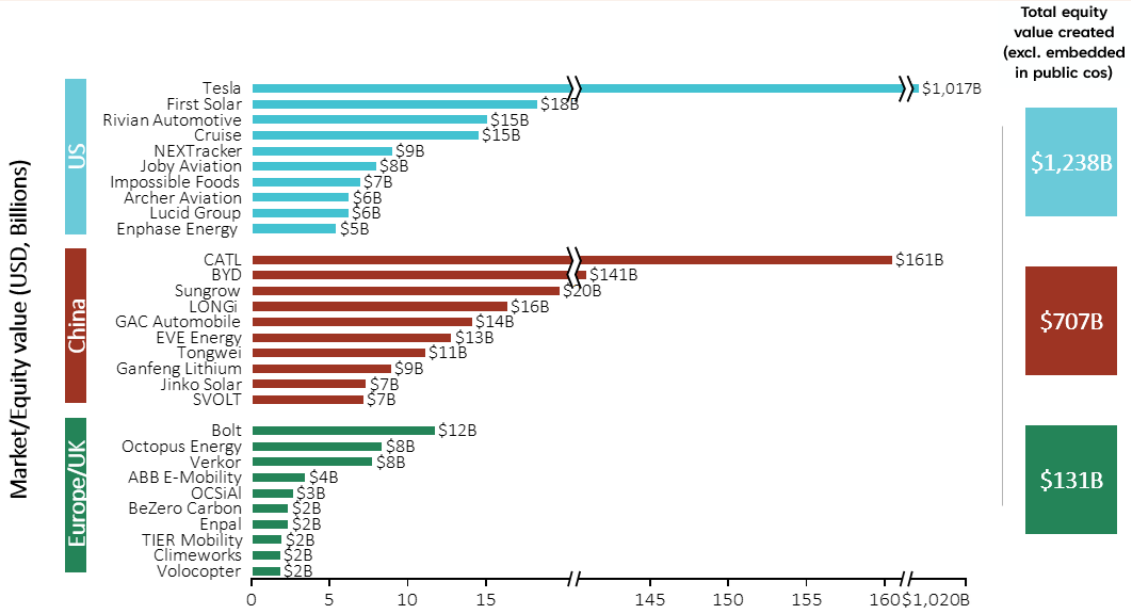


Exhibit 10: Equity value created by the top 10 Energy Transition



Source: Bloomberg; Holon IQ; TNI Research

Is the Energy Transition over, on hold, or carrying on?

Since President Trump was re-elected, he has withdrawn the US from the Paris Climate Agreement again, declared a state of national emergency allowing the suspension of environmental regulations to boost fossil fuel extraction, froze funds allocated to clean energy projects, paused federal permits and leasing for both onshore and offshore wind projects, attempted to stop EPA grants for energy efficient housing projects, cut tax credits for solar and wind and cut subsidies under the IRA 45Q for hydrogen, carbon capture and other clean energy projects. He has also withdrawn DoE funding which was critical to the success of many clean energy technologies, where China has or is taking the lead.

Many US companies have started to back off from emissions targets and commitments. Six prominent US banks (JPM, BofA, Citigroup, WFB, MS and GS) have withdrawn from net-zero pledges in January 2025. In 2024, the Science Based Targets Initiative (SBTi) removed the commitments of 239 major global companies including Unilever, Walmart & Microsoft for failing to set near-term or net zero targets, but generally due to Scope 3 measurement challenges rather than a change in commitment. Most US companies have not wavered in their commitments and are carrying on with their decarbonisation programmes. But certainly, inertia behind decarbonisation in the US has escalated since Trump was elected.

Europe's progressive policies—including the EU Emissions Trading System (ETS), aggressive EV targets, subsidies for clean hydrogen, and more—have long supported a robust energy transition in Europe. However, today the current developments with Russia, Ukraine, NATO and the US (regarding tariff threats) have Europe more focused on defence and energy security.

The EU's increased drive for energy security has significantly reinforced its commitment to the energy transition, rather than slowing it down. The ongoing Ukraine crisis has indeed forced Europe to pivot away from Russian fossil fuels, leading to an acceleration of investments in renewables and clean energy technologies. The EU has launched its Clean Industrial Deal, which aims to cut tens of billions of Euros from fossil fuel import bills in 2025 and support renewable energy sources within the EU.

This commitment is exemplified by the EU's increased 2030 renewable energy target, now set at 45% of the energy mix, up from 40%, with plans to deploy over 320 GW of new solar photovoltaic by the end of this year and almost 600 GW by 2030. Further underscoring this priority, the EU has raised its 2030 binding energy savings target to 13%, recognising energy efficiency as a key pillar of its security strategy. The EU estimates that its clean energy initiatives will save the bloc €45 billion in import costs by 2025, rising to €130 billion annually by 2030. This cost reduction is further emphasised by the expected savings for EU electricity consumers, estimated at €100 billion during 2021-2023, thanks to additional electricity generation from newly installed solar PV and wind capacity.

These actions, taken in the wake of President Trump's return to office and the ongoing disruption caused by the Ukraine war, demonstrate the EU's firm resolve to accelerate its energy transition despite heightened geopolitical and economic pressures.

In summary, rather than slowing down the energy transition, the EU's pursuit of energy security has acted as a catalyst, accelerating its commitment to cheap renewables and clean technologies. The Ukraine crisis underscored the intrinsic link between long-term energy independence and economic competitiveness, solidifying the EU's resolve to intensify its focus on a sustainable energy future. While downward adjustments to the pace and implementation of specific green policies are likely, a full-scale reversal of the EU's commitment to a low-carbon economy remains highly unlikely.

Artificial Intelligence Corner

Here, we add to our thinking on AI investing on the back of our previous newsletter (and first TNI whitepaper on AI) which focuses on two aspects of AI investing: 1) how artificial intelligence is transforming the processes around institutional investing and 2) how asset managers are using AI in their investment processes.

Below we summarise the views expressed in our second whitepaper covering just the first question on how CIOs of institutional investors should think about AI's impact on their strategies and processes. This question was debated in our 3 April 2025 CIO Forum with our group of 18 CIOs. We posed five questions on AI to our two speakers, Gavin Baker from Atreides tech hedge fund and John Stecher, Blackstone's CTO.

As CIOs of large institutions, how should we think about investing in AI?

Below are my summary answers to five sub-questions on institutional AI deployment, having listened carefully to the input of our two AI speakers in our April meeting (John Stetcher – Blackstone CTO, and Gavin Baker – PM of Atreides tech hedge fund) and our 18 CIO member forum. To be clear, these are my views.

1. Where is AI technology going in the next 5 years? What big developments should we expect?

AI technology will move beyond text (integrating video, audio and images), then to more reasoning and efficiency improvements.

Over the next five years, AI models will evolve beyond text-based systems to handle multiple data types (text, video, audio and images) seamlessly, with significant leaps in reasoning and efficiency. By 2030, this could lead to "natively multimodal" LLMs that output diverse media, surpassing human-level performance in creative tasks.

Reasoning models already exist (e.g., OpenAI's o3 series or equivalents from Google and Anthropic), achieving over 80% accuracy on benchmarks like Frontier Math and ARC-AGI. These will increasingly self-correct errors, maintain long-term memory, and exhibit common-sense understanding, paving the way for early artificial general intelligence (AGI) signs by 2027-2030. Unlike narrow AI, which excels in specialised tasks like image recognition or language translation, AGI would possess flexible reasoning, learning, and adaptability, enabling it to tackle unfamiliar challenges, understand context, and even demonstrate creativity or common sense. So more human-like.

Smaller, more efficient models (e.g., using Mixture of Experts architectures) tapping into specialised sub-models, will perform as well as today's giants but at lower costs, with industry-specific AIs outperforming experts in fields like medicine, law, and science. Open-source advancements from Chinese labs (e.g., DeepSeek, Alibaba) will nearly close the gap with Western leaders.

Capability	2025-2027 Projection	2028-2030 Projection
Multimodal Processing	Real-time text/image/video integration; voice mode standard.	3D/AR/VR manipulation; brain-computer interfaces emerging.
Reasoning	10x better problem-solving; agents handle complex tasks autonomously.	Emergent creativity; self-teaching models propose new science.
Efficiency	Cheaper, faster models including those blending specialised sub-models.	Compute costs near zero; persistent personalities.

More Autonomous Agents, Robots, and Industry Disruption

AI will shift from tools to autonomous systems, reshaping industries and daily life.

Autonomous Agents and Digital Workers: AI agents today are already able to automate coding, do research, and deliver customer service, with models like Devin or Cursor achieving 90%+ vs human benchmarks. These "digital workers" could double knowledge workforces, cutting product development times by 50% in sectors like pharma and automotive. By 2030, agents will replace traditional user interfaces with natural-language interfaces, dominating fields like trading and governance.

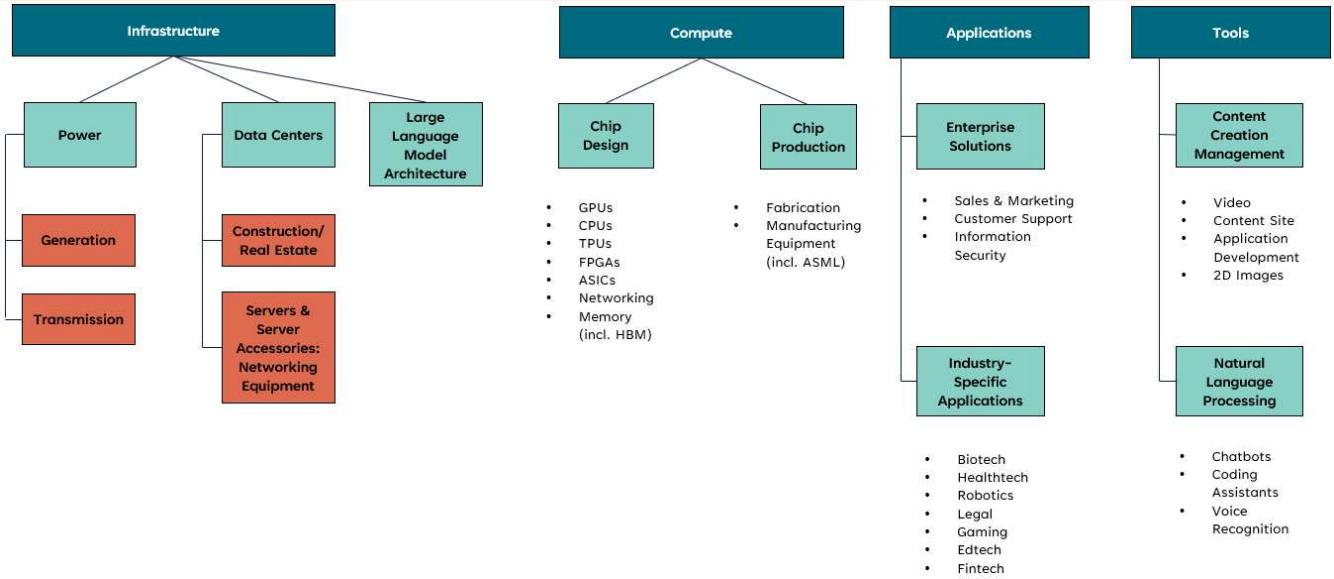
Humanoid Robots, Autonomous vehicles and other Physical AI: Over 100,000 humanoid robots could be deployed by 2030, using generative AI for flexible tasks like laundry folding or warehouse operations. Leaders like Tesla's Optimus and startups like Figure will drive this, integrating with real-world data sources and tangible hardware systems that interact with the physical world, often combining advanced sensors, actuators, and machine learning to perform tasks autonomously or semi-autonomously.

Industry-Specific Impacts: Healthcare will see AI detect issues earlier and accelerate drug discovery; energy and climate tech will benefit from optimised models; finance and marketing will leverage predictive analytics. Video generation (e.g., Google's Veo2) will become ubiquitous for media.

Stronger regulation will aim to ensure transparency and safety, and according to insiders, the pace of change may render some **knowledge jobs obsolete within five years**—prompting speculation that AIs will soon be training AIs themselves. Most importantly, AI will see a much broader proportion of the global population using AI compared to today (5% today goes to 90%?). Virtually everyone will become intimate in their use of one or more LLMs changing conversations, knowledge and productivity.

2. How do you break down the AI investment opportunity in your mind? Infrastructure, semiconductors, applications, tools?

The AI investment opportunity can be viewed through four interconnected categories: infrastructure, semiconductors (compute), applications, and tools.



Infrastructure is currently the most dominant investment area, attracting both public and private capital, with over $1 trillion expected to be invested in U.S. data centres alone. Firms like Blackstone focus heavily here, targeting assets such as data centres, power sources, and networking capabilities essential for large AI models. Since training and deploying LLMs requires immense compute and infrastructure, even investments in foundational models are effectively infrastructure plays. Companies like Microsoft and Google exemplify broad exposure across infrastructure, semiconductors, and applications.

Semiconductors, particularly GPUs from NVIDIA, are the backbone of AI compute, with growing competition from AMD, Intel, and custom chips by Amazon, Google, and Meta. Adjacent technologies—like **advanced storage, networking, and memory**—are also key investment areas that support the massive compute needs of AI systems.

On the application side, value creation is expected to be highest in vertical solutions that enhance productivity in industries like education, healthcare, mobility, law and finance. Tools—especially those improving developer productivity or enabling non-coders to build software—are an emerging opportunity, accounting for a growing share of VC investment. A sound AI investment strategy should balance exposure across these categories, with a strong emphasis on AI processing efficiency and scalability.

3. Where are the most attractive investment opportunities in the various parts of the AI value chain above?

The most attractive investment opportunities in the AI value chain are currently concentrated in infrastructure—particularly data centres, power, and compute—and in applied AI that delivers real-world productivity gains. Infrastructure dominates both public and private equity investments, supported by a massive capital surge into foundational platforms since the rise of generative AI. Venture capital has also heavily favoured core infrastructure, though there is growing attention on applications and tools, especially those solving industry-specific problems. TNI and Blackstone focus on "picks and shovels" strategies, investing in foundational enablers like data centres, renewable power, cybersecurity, and applied AI solutions across finance, legal, and compliance.

While investing directly in foundational models is seen as speculative, there's recognition that long-term value will accrue in the applications layer—much like in past tech revolutions. Applied AI tools and vertical solutions are emerging as key drivers of differentiation and value creation, making them increasingly attractive. A balanced investment strategy that spans infrastructure and high-impact applications may offer the best exposure across the evolving AI ecosystem.

4. How would you compare public equity vs private equity AI investment opportunities?

Public and private equity AI investment opportunities are both heavily concentrated in infrastructure—especially data centres, power, and compute—where the largest dollar potential lies. Public markets have seen significant value accrual at the foundational and infrastructure levels, exemplified by the $8.7 trillion surge in the top AI-focused firms since ChatGPT's debut. In venture capital, core infrastructure dominates, accounting for 75% of AI investments, but there's growing enthusiasm for applied AI and tools that drive industry-specific productivity gains. While foundational model investments are viewed as speculative, firms like Blackstone and TNI prioritise "picks and shovels" strategies—focusing on enabling platforms, data layers, and vertical applications. Ultimately, while infrastructure leads today, the long-term value is expected to shift toward applied AI solutions, echoing past tech cycles where foundational breakthroughs paved the way for transformative applications.

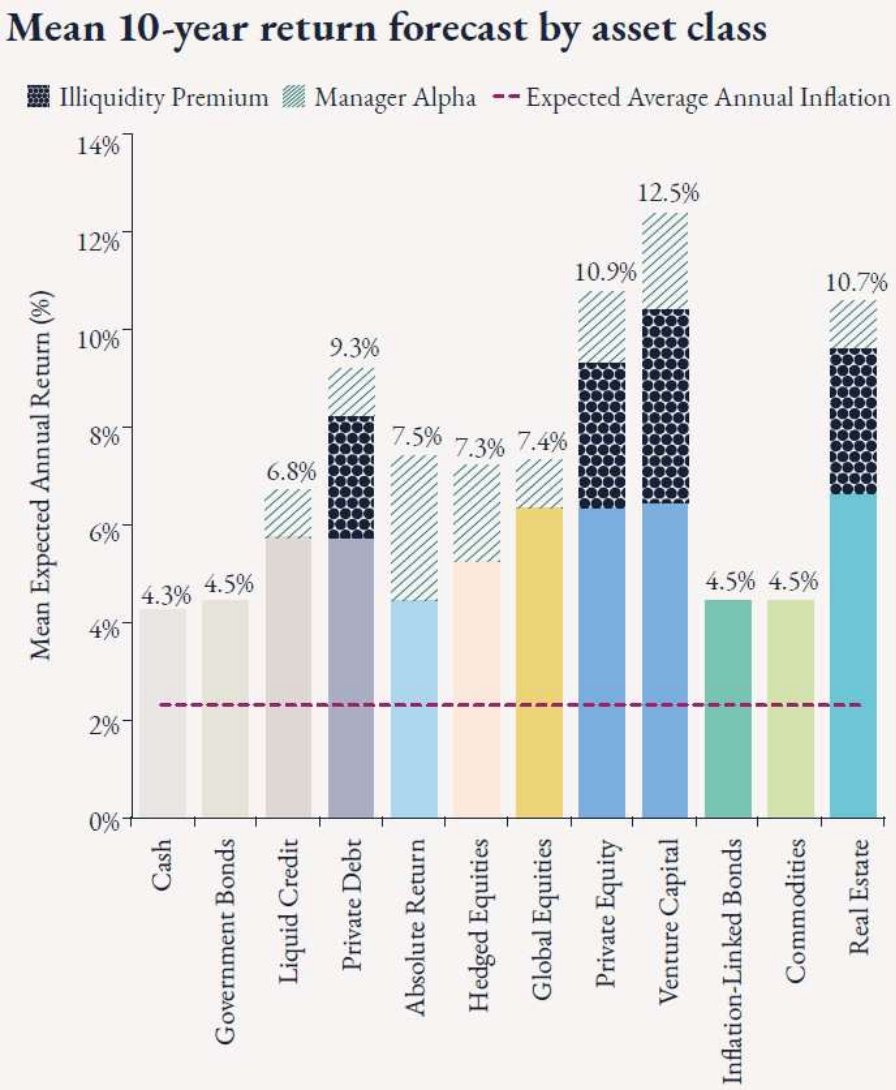
5. How should we be testing our third-party asset managers' AI understanding as it applies to any given company?

To effectively assess a third-party asset manager's AI understanding, we should evaluate their grasp of the technological drivers behind AI, their ability to delineate tasks between machines and humans, and their integration of unique data sources enriched by AI. We should ask whether they understand how advancements in algorithms and model efficiency affect various sectors, and how they evaluate a company's AI readiness or edge within its industry. We probe their use of AI tools like hybrid LLMs for research, and whether they know the boundaries of AI—recognising where human judgment remains essential, such as in assessing management quality or drawing original insights.

Additionally, institutional investors should examine how their asset managers apply AI in portfolio management, including asset allocation and real-time position sizing using machine learning. Inquire about their use of differentiated third-party data sets and how they combine these with proprietary insights to develop a unique investment view. You should also test their investment conviction by asking for examples of companies they passed on or invested in, based on AI reasoning. Ultimately, you're looking for an asset manager who goes beyond superficial AI usage, demonstrating a sophisticated, cost-effective, and productivity-enhancing integration of AI into their investment process.

Long-Term Return Forecast

Partners Capital published their Insights 2025 macroeconomic report last March, updating their 10-year return forecasts for each major asset class. Partners Capital arrive at their estimates by including a pure beta estimate and adding any illiquidity premium and expected manager alpha.



Source: Partners Capital

The only significant changes vs their 2024 return forecast are a reduction in expected annual public equities returns from 8% to 7.4%. This flows through to other equity asset classes including venture capital, which dropped from 13.5% to 12.5%, and private equity reduced from 11.5% to 10.9%. All other asset classes changed by small amounts.

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