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TNI CIO Forum on what Global Regime Change means for the Endowment Model – 29th and 30th October 2025

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If I would summarise the conclusion to the question posed, it would be that the dust has settled on a lot of uncertainty and we are back to the grind with no major changes requires to investment strategy. This applies to both the question of heightened geopolitical risk and the risk and return prospects for our future PE and VC investments.

Geopolitics and Macro Shifts

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?

My main take away in terms of actions for institutional CIOs who allocate mostly to third party asset managers is that our active asset managers of equities and credit (public and private) have a more difficult job. They always have a difficult job in security selection, but today there is the complexity of how the following macro factors will affect their portfolio companies' future ability to generate profit growth:

1. artificial intelligence and other technology changes (quantum, blockchain, bioengineering, semis, etc.)
2. geopolitics including the effect of tariffs
3. the related strategic drive for supply chain security, and
4. in particular, access to abundant low-cost energy as a competitive advantage

Our research teams need to be assessing which asset managers are well on top of these issues with the deepest of insights and make the implied reallocations. There was one assertion that the "ability to get an edge is easier today..... alpha is found in spaces where a lot is new – e.g., defence, healthcare, biotech, China, VC, activism."

National Security, broadly defined, appears to be the biggest single macro-economic change driving behavioural changes for both governments and corporations. The goal of national security includes not only defence, but also energy security (e.g., Europe's push for energy independence and the return of nuclear power) and supply chain security generally, but for critical materials in particular.

The most important macroeconomic changes were fundamental shifts including the remapping of regional alliances, diversification of supply chains for energy, minerals, and manufacturing, and large-scale AI and defence-led investment. The combination of these changes are likely to fundamentally reshape economic clusters along multiple dimensions, not just geographic. Much of the CAPEX behind these shifts may be non-productive, risking more inflation than real growth.

Another major structural change is the sharp, sustained upward snap in real interest rates that began in 2022, reversing a decades-long rate decline. This is considered a "gigantic change" of historical proportions. This has driven a flip in the stock-bond correlation, which is now positive after a 23-year negative streak. The bond market is now pricing in stagflation risk driven by supply shocks (in contrast to the pro-cyclical, demand-driven inflation of the globalization era).

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Another large **long-term risk is social change, social tension and the related growing income inequality,** exacerbated by stock market gains in the short term and AI in the longer term. There is huge uncertainty around the long-term social effects of AI in terms of productivity growth vs job losses and their offsetting impact on global economic growth. But both would seem to drive a bigger haves and have nots gap. This creates inevitable pressure for **higher taxes** to address massive deficits and social tension (already visible in the US, UK and across Europe).

The sheer scale of investment is driving investment opportunities in sectors such as technology, defence and energy. The movement in asset prices that this investment is fuelling is clearly masking the normal economic headwinds we would expect from trade uncertainty, the inflationary effect of building supply chain redundancy, and the employment impact of AI. While not stated in either discussion, the implication is that if we see an AI bubble burst or a retrenchment in AI and supply chain investment, we may experience the compounded effects to the downside, leading to recession.

Despite the above "gigantic changes," it is not clear that the world has more moving parts than ever before in our working lives as CIOs, as some CIOs have asserted. However, one perspective among our group was that "there are far more 'cylinders' that the world is firing or sputtering on today including war, defence, reshoring, tariffs, health care, energy, AI, other tech, demographics, political dysfunction, fiscal deficits, currency debasement, etc. To the extent there are a bunch of these that are not strongly connected, it should help inform how we think about diversification, portfolio construction and hedging." My take was that, as investors, we have been living with this pace and magnitude of change for many years, or perhaps decades.

Market Concentration

Market concentration is currently **higher than during the dot-com bubble,** with the top 10 stocks accounting for 40% of the S&P 500's market cap and 30% of its earnings. This **"Mag 7" dynamic** represents a dimension of financial markets that the participants haven't seen before. The consensus expected a severe growth slowdown, but the **biggest immediate surprise is the strong economic growth** and equity performance this year, cushioned by a **reflexivity effect** from equity gains adding a trillion dollars to US household wealth.

Conventional investment thinking is that there is more risk of market declines when concentration is high; but derisking should only follow investors taking a fundamental research-based view on valuations of those companies creating the concentration. What I would want to see before underweighting those securities driving increased concentration, is analysis of the potential ROI on all of the AI investments being made and planned to see what has to be true to justify current valuations of the Mag7. I suspect this will prove a bubble is well in place.

Will Growth factor finally give way to Value?

The theory on deglobalization is that it drives **Growth** because lowering barriers drove down prices and manufacturing costs. The new environment, focused on **resilience and efficiency**, may reward **Value** or, more specifically, **well-run companies** and sectors that demonstrate superior **operational efficiency.** Furthermore, the structural shift from DB to DC pensions has increased the **retail investor impact,** which may create a **momentum factor** causing stock overshoots to last longer before reverting.

Some investment teams are **reducing their overweight to growth** without fully tilting to value, as the latter is viewed as "a road too far." This is a pragmatic de-risking move against the high concentration in just one or two sectors. The concentration also creates a **principal-agent issue** where active managers are forced to look for other strategies, as buying mega-cap tech is easily and cheaply done via passive funds. At TNI, our stance is to lower overall portfolio risk to the low end of our IPS range and underweight US exposure in favour of Europe. This caters to a view that the Mag7 is in bubble territory and will correct.

China and the US Dollar

The trend toward mutual dependency reduction between the US/West and China is confirmed, driven by a need for supply chain resilience rather than a full cut-off of trade. As this process progresses (e.g., China reducing semiconductor dependency), Taiwan becomes a less critical issue. The existential risk for US investors in China remains capital controls, advising against illiquid China exposure and favoring a hedge strategy of shorting MSCI World against China positions (in one CIOs view).

Our general view was that the US Dollar remains at a high valuation supported by higher rates and stronger growth, with most institutions maintaining exposure. However, central banks are building gold reserves to reduce their dollar/Western asset exposure.

Summary conclusions on whether today constitutes "regime change" and calls for a new investment strategy

The changing environment justifies a discussion around adopting elements of the **Total Portfolio Approach (TPA)** including 1) delegation from Board/IC to CIO/Team, 2) more Dynamic Asset Allocation 3) more bottom-up manager focus (less SAA) and 4) beta/factor based risk management vs asset allocation. Dynamic Asset Allocation was defined as something between rigid Strategic Asset Allocation (SAA) and short-term Tactical Asset Allocation (TAA). It involves making long-term allocation adjustments based on large, known regime changes (e.g., shifting to real assets in a rising inflation environment) without trying to market-time the exact moment. Some organizations are already thinking about or implementing DAA as "market responsiveness"—moderating equity beta and using cash as offense (not defense) at the margins, driven by statistical valuations and expectations of mean reversion.

In our opinion, the current macro and geopolitical situation does not call for a radically new institutional investment model, but rather one that migrates more in the direction of factor-based risk management and dynamic asset allocation, both being features of TPA or features of some approaches to the endowment model. We don't need to debate labels for the model, but rather we should debate the key features of any model. Different institutions will feel differently about their ability to successfully implement individual features of any institutional investment model. Implementing TPA/DAA requires careful consideration of organizational structure, incentives, and collaboration to move away from traditional SAA/asset-class silos.

The current level of uncertainty suggests a need to maintain flexibility and potentially a marginal reduction in illiquid commitments (like private equity, see below), not to avoid risk, but to exploit opportunities that arise from the reshuffling of global arrangements.

The Future of Private Equity and VC

In Private Equity, the 5-year historical performance of US PE showing just 70bps annual premium over public markets and -1.2% lag for US venture capital was not contested by the group and so triggered an internal debate on whether a premium still exists today. Performance, if benchmarked against sectors (like software) would potentially yield even less outperformance. Private middle market company earnings growth over the last three years has been c 10% pa vs 6% for the S&P 500, so the main driver of PE returns seems intact. One CIO cited a similar conclusion on earnings growth from a consolidated lookthrough analysis of their overall PE portfolio. The underperformance gap is primarily driven by **multiple compression**, not earnings.

We questioned whether leverage and market multiple growth were outweighing earnings growth as the historic driver of returns. Bain & Company (and other) research has shown near zero post-acquisition value addition over the long term in PE, so we were left not being able to reconcile that anecdote with strong private company earnings growth. One alternative explanation is that PE firms are doing better at selecting companies with strong earnings growth – i.e., security selection alpha vs operating value added. So the usual questions arose around the drivers of historic returns and therefore the driver of recent poor returns is left to further investigation as returns get reported for 2025.

The 3X growth of capital raised for all private equity in the last 10 years points to the most obvious driver of poor returns which is that there is quite simply too much capital now in the space. That normally points to higher prices being paid, but ebitda/EV prices paid have been flat at around 12x. Today there is approximately $3T in planned PE fund raising in the pipeline against c $1T of LP demand, suggesting much smaller funds will be raised and some funds won't get raised. The LP return implications won't be known for a decade.

We came away from the second CIO session, feeling sceptical of PE and VC firm's ability to maintain historic premiums over public equities in light of these structural challenges:

- 5000 PE firms still exist, implying excess and imminent consolidation
- The PE market is acting as a **"closed system"** where limited **IPO** and **strategic exits** are forcing funds to sell assets primarily to other PE funds (PE-to-PE sales). If PE is to be the primary source of exits and 2x is the low end of return expectations, then the PE market has to double its size every 5-7 years (average holding period).
- This closed system leads to massive funding needs: there is approximately $3 trillion in funds seeking capital versus only about $1 trillion in institutional appetite (a 3:1 ratio). This mismatch is linked to the DPI (Distribution to Paid-In) crisis. If PE firms can't raise the capital, they won't be there to be the buyers.
- Pricing in the secondary market reflects distress and lack of liquidity:
  - VC/growth secondary pricing is at 70-76% of NAV.
  - PE tail-end funds are priced even lower at 64% of NAV.
  - Buyout pricing remains robust at 90% of NAV, perhaps due to the evergreen/retail channel growth.
- The push for retail investors to access private markets (citing Partners Group marking daily for retail demands) is expected to accelerate marking and lead to increased private equity performance volatility as private markets become more liquid.

Despite the points above, we hear many long-time private equity investors continue to underwrite PE to c.15% net returns or there abouts.

The Partners Capital framework suggests continued differentiation in expected returns based on the size of the deal:

  - **Lower Middle Market: 17%** expected returns.
  - **Middle Market: 14-15%** expected returns.

- **Large Cap/Mega Cap: 9-11%** expected returns.

If the global macro picture today does in fact embed higher uncertainty, this would suggest that investors should be less inclined to make new illiquid commitments on the margin to "maintain flexibility" and exploit new opportunities outside of PE, stemming from the many “macro cylinders” that the world is firing on.

What asset class would be the beneficiary of any reduced allocations to PE/VC? There is no consensus on the answer to this question. At TNI, we would view specialist public equity strategies, private credit and specialist real asset classes as the logical beneficiaries in cuts to PE allocations. We continue to like the early stages (“first 10%” or “concept-to-shovel ready”) of infrastructure where investors are paid for the early-stage risk of commercial scaling of newer types of facilities (e.g., next generation geothermal).

The long-term strategy for private markets may now require a pivot to reaching even higher up the manager quality stack, to **top decile managers** (vs. previous top quartile) and a focus on specialized strategies like **secondaries, defence, and energy infrastructure** that offer true sourcing advantages, market tailwinds and better risk/reward. We of course are still screening out PE managers without demonstrated post-acquisition value addition track records.

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