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CIO Roundtable: Meeting Complexity and Uncertainty with Clarity

A Commonfund Forum Spotlight

From left to right: Chris Montgomery, Susan Manske, Sonali Dalai and Mark Anson

A foundation, a university and an insurance company operate in different worlds and have different priorities—but make investment decisions in the same environment

Institutions depend on their endowments to provide the financial resources to fulfill their missions. Fiduciaries, in turn, depend on making thoughtful, well-informed decisions to deliver the needed returns. Yet investment portfolios become ever more complex and the global economic and political environment becomes increasingly uncertain. How do CIOs and others charged with investment decisions manage in this environment? The CIO Roundtable at Commonfund Forum 2025 plumbed the depths of that question. The panelists were Sonali Dalai, Vice President and CIO, University of St. Thomas, Minnesota; Susan Manske, CIO, MacArthur Foundation and a member of the Commonfund Board of Trustees; and Chris Montgomery, Vice President and CIO, Grange Insurance Company. Mark Anson, Chief Executive Officer, Commonfund, moderated the discussion. Portions of the discussion have been omitted or condensed for ease of readership.

Mark Anson: Let's start with a survey question we asked Forum attendees: How bullish are you that your organization will be able to achieve its target returns over the next 10 years? Results: 72 percent, very bullish or modestly bullish; 28 percent starting to feel nervous or very nervous. So, people are starting to feel a little queasy. Let's find out where our panelists are.

Sonali Dalai: Modestly bullish. In my five-speed vehicle I would say the markets have moved from fifth gear down to fourth. So, we're keeping an eye on that.

Susan Manske: I'm probably in third or fourth. I'm not sure what that translates to in miles per hour, but I'm in the modestly bullish camp. We now have a real return on cash, the illiquidity premium is intact and we have confidence in our active managers. I don't think there's any reason we can't do what we've done historically.

Chris Montgomery: I'm probably in fourth gear, but I have an automatic transmission. Ten years is a long time, especially for an insurance company and the particular portfolio that we've constructed.

Anson: At Commonfund we'd be in the modestly bullish camp as well. We're starting to see some green shoots despite potential short-term concerns with the economy. Chris, what does the liability stream look like for a property-casualty insurance company?

Montgomery: In our business we have very short-term liabilities. Auto and home claims happen quite frequently so we maintain a high level of liquidity. But we also want to grow our capital. That means we're not only thinking of short-term liabilities, maybe six months to a year, we also want to take some duration risk to generate higher yields. Still, we're relatively short by many standards, especially compared to a life insurance company. Because we want to grow our capital, we have not only short-duration fixed income securities but also public equities, private equity and private credit.

Anson: Susan, at the MacArthur Foundation you have an unusual way of capturing alpha and spreading it across the portfolio in terms of the manager selection and adding value with your asset allocation process. Walk us through it, please

Manske: The MacArthur Foundation, for those of you who don't know, is in Chicago and we have a $9 billion endowment. We do the traditional asset allocation like everybody else, kind of working backwards in terms of the risk we're willing to take and the beta we think we need to support our 5 percent real spend. To add value, we think that our competitive advantage, if we have one, is manager selection. That's how we try to outperform our benchmarks. Most active managers underperform net of fees. So, when we were trying to optimize the portfolio, we said let's see if we could do a long-only manager or take from the hedge fund community and find the highest risk-adjusted returns. We tend to look for the managers who have the lowest beta because we're paying big fees and we don't want to pay those on beta.

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>
> *– Susan Manske, MacArthur Foundation*

We put a portfolio of those hedge funds together, largely with a beta of zero, but some of them up to 0.2. Then we overlay them with futures or swaps to get market exposure. So, effectively, we get a long-only manager but we get one that's got cheap derivatives. This has worked very well for us over the past 20 years, but our concern now is that the fee structures have gotten enormous. We think what we do still works, but there may be a point where it becomes too expensive. But once again, when we put it together the way we do it is still significantly better than traditional long-only managers. It will be interesting to see what happens over time.

Anson: Sonali, let me change gears and ask you about geopolitical risk. There's a lot of discussion about the global macro economy and the state of the U.S. economy, both against a geopolitical backdrop. How does your portfolio reflect this environment?

Dalai: I'll start with our asset allocation. Our portfolio is about $870 million—a little less given what's been going on this month. We are a very typical endowment portfolio: 70 percent equity, both public and private, and 30 percent non-equity, namely fixed income and hedge funds, which have a low correlation to public equity. As far as geopolitics is concerned, I would liken it to hurricanes. All this time—and I've been investing for more than 20 years—it has generally been a category one hurricane that would come in and take the beach with it. Most of it impacted the fringes of our portfolio, emerging markets in particular. Now it's moving up to a category five and it will take a lot more real estate. Overnight, friends are becoming enemies and enemies are becoming friends. Now, it doesn't have to be all bad. It could be good if we have world peace in five years. But as far as the portfolio is concerned, in general the economic parameters are more important versus those of pure geopolitics. But today geopolitics is getting very close and is beginning to overlap the economic parameters. If we were truly economic indicator focused, this would be the right time to get back into the Chinese market. But now there are greater concerns about where the relationship will go. We aren't necessarily modeling geopolitical risk in our asset allocation modeling, but we are mindful of it.

Anson: Does that mean that you have brought more of your asset allocation back within the borders of the United States?

Dalai: Public equity is still overweight in international markets. Our private market investments are more U.S. focused.

> *"Today geopolitics is getting very close and is beginning to overlap economic parameters.*
>
> *– Sonali Dalai, University of St. Thomas, Minnesota*

Anson: Chris, another topic getting attention is the bond market. Are we still in an inflationary environment? Could the Fed potentially raise rates and re-invert the yield curve? How's all this impacting your thinking?

Montgomery: It's a challenge right now. What we feel you should do in the fixed income space is diversify your portfolio regardless of the rate environment. We have half of our portfolio in investment-grade fixed income but not entirely corporates. In fact, we've been lowering our allocation to corporate debt because spreads are historically tight. So where do you go? We've been in the investment-grade space of the MBS market, except now you're starting to see some cracks in housing. We also have Treasuries and agencies. We have tax-exempt securities but the Tax Cut and Jobs Act of 2017 reduced the opportunities there. So, now we're going into places like private credit and emerging market debt, but you have to think about geopolitical risk with the latter. We're also into what we call nonstandard asset-backed securities or structured fixed income. And that is an area where we're finding real opportunity to get some nice yield as long as you do good credit work and stress test the collateral. I've lived through 2008 and 2009 and I have the scars to prove it.

Anson: You mention private credit. What does that strategy mean to you and how are you applying it?

Montgomery: We have a 2 percent – 3 percent weight to private credit today. Within private credit we're looking at senior credit, first-lien managers who are high up in the capital structure. Even at that level, you can generate some very nice, double-digit yields.

Anson: Sonali, give us a sense of the allocation to private capital and illiquid assets.

Dalai: Thirty-five percent is the target and we are at 30. Of the 70 percent allocation to total equity, we are 40 percent in public equity and 30 percent in private investments, which are mainly private equity and venture.

Anson: Susan, how about the foundation?

Manske: We do not include hedge funds among our alternative assets but I know many do. Using our definition we are at about 38 percent but we've gone as high 40 percent over the past decade. We also have a little bit of distressed debt but that's rolling off. We haven't had as much success there simply because we haven't had a distress cycle for a while. Our allocation process is a little backwards in that it starts with how much liquidity we feel we want in the portfolio. Then we search for sources of the biggest illiquidity premium, which we find in private equity and venture capital. We aren't big players in private credit, for example, because even though there is a premium it's not as great and the investment period has elongated, meaning you don't get your distribution back as quickly.

Anson: A timely topic is tariffs. As we think about tariffs, how might they impact our portfolios? Chris – I am going to start with you because you have some interesting insights.

Montgomery: Thinking about the potential impact on rates, if rates move up for an insurance company we have cash flow to put to work during any kind of market environment. So higher rates, our reinvestment rates improve and tariffs lead to higher rates. But tariffs are a little different when it comes to insurance companies because our loss costs can rise.

When there's a claim for a car accident or home repair, the cost of needed parts or materials are going to go up. Therefore, the insurance costs for replacement will go up and, hence, our premiums will go up as well. That said, it takes time for those rate increases to take effect as you need state approval and some of your policies may be six months or a year out and don't renew right away.

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> *– Chris Montgomery, Grange Insurance Company*

Anson: Susan, higher tariffs, potentially higher inflation: How might that impact what the MacArthur Foundation thinks about the portfolio? Any adjustments to be made or opportunities to be seized?

Manske: As you think about tariffs, they're taxes. They're taxes both ways to both countries, which is not good. They're inflationary, they slow the economy and they potentially shift the demand curve backward. All those things are bad for a foundation trying to generate a 5 percent real return.

Dalai: They're going to impact returns in the shorter term for sure. Corporate margins are at all-time highs, so there is an ability for corporations to absorb some of it. But, for certain, some of it gets passed on to consumers, so it will definitely impact demand. The more problematic issue is does it happen at the same time as the labor market weakens? Then we get into a recession scenario.

Anson: But fast forward five years, 10 years from now, how will the world look with reciprocal tariffs? Will each region have its own little hub of manufacturing catering to local demands? Do you think that will be more sustainable in terms of growth and real incomes? Or is this just a tit-for-tat trade war?

Dalai: It may not be all negative. It could be positive, but we still have to go through the pain before we get to the other side. In terms of our portfolio over the longer term, we will have to see how much industrial production can be brought back into this country. It's going to be an evolving process and it's likely that most things will get more expensive before reindustrialization on that scale comes into play.

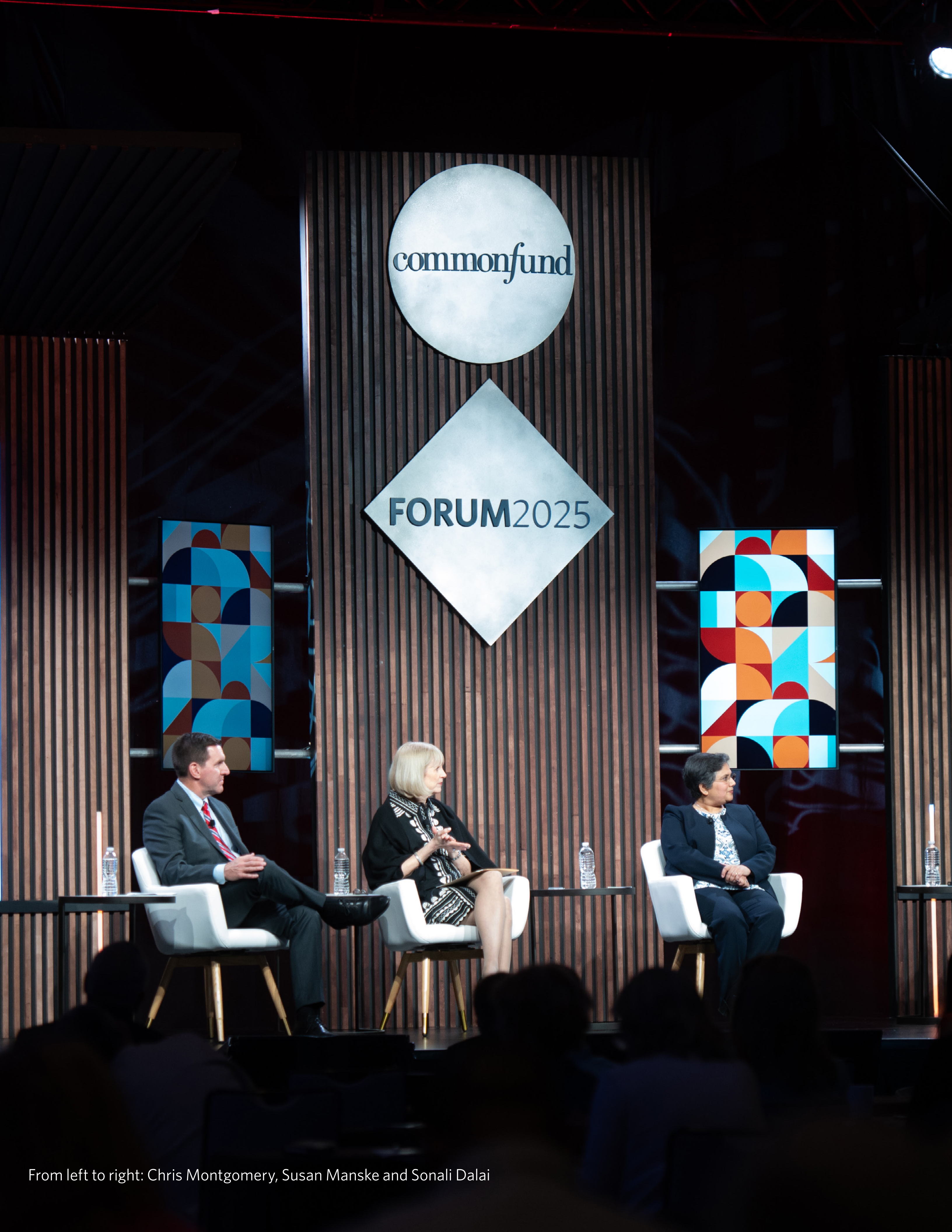
Anson: Let's conclude with a question about what most concerns each of you at this point. Chris?

Montgomery: Right now, I would say it's the volatility in our large-cap equity portfolio. As an insurance company, we have two risks: underwriting risk and investment risk. The question is how to balance the two. Equities are off all-time highs and tariffs would impact the inflation aspects of our underwriting. So, what to do with our large-cap equity allocation is an immediate issue.

Manske: I continue to worry about our private allocations and the length of time it is taking to receive distributions. It's much slower than it had been and if the economy slumps I'm concerned it will be even slower. So, we would have to fund the shortfall from our liquid assets. I also worry about changes in regulations, the IRS, foundations, endowments. Will we be paying taxes? Our organization is talking about spending more, which will likely change our asset allocation.

Dalai: Stagflation is the biggest immediate risk in the portfolio. In the long term the main concern is permanent loss of capital.

To view a replay of the session visit https://www.commonfund.org/research-center/videos/cio-roundtable-forum-2025.



From left to right: Chris Montgomery, Susan Manske and Sonali Dalai

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