

The Move in Marketable Alternative Strategies

A Commonfund Viewpoint



Independent schools' allocation to marketable alternative strategies has been declining in recent years, raising questions about why and whether it will continue.

Independent schools' allocation embraces hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives. Tracking this allocation over the past four years¹ shows the trend:

Fiscal Year	Allocation (%)
FY2018	18
FY2019	17
FY2020	17
FY2021	12

As the allocation is reported on a dollar-weighted basis, major moves by schools with assets over \$50 million have the greatest impact. Among this size cohort, the allocation has shrunk from 22 percent in FY2018 to 14 percent in FY2021. But schools in other size categories have also reduced their allocation; this fiscal year alone, schools with assets between \$10 and \$50 million lowered their allocation to 3 percent from 7 percent.

Whether this trend continues is a question that can only be answered by future Studies. Discerning why is more problematic. Traditional U.S. equity returns have been exceptionally strong over the past three years; that could well attract additional assets and, if not rebalanced, would swell U.S. equities' share of schools' portfolios.

There is a benefit associated with a lower allocation to marketable alternative strategies: better diversifying the allocation to alternative strategies in general. We have commented on aspects of this before, noting that independent schools' alternatives allocation was highly concentrated, mostly in marketable alternatives.

Taking schools in the middle range of the three size cohorts as an example, in the following table we have FY2018 versus current allocations for schools with assets between \$10 and \$50 million.

numbers in percent (%)	FY2018	FY2021
Private equity	2	4
Private credit	-	-
Marketable alternatives	8	3
Venture capital	-	1
Private equity real estate (non-campus)	1	1
Energy and natural resources	2	-
Commodities and managed futures	1	1
Distressed debt	-	-

TAKEAWAYS

- Overall, this cohort's allocation to alternatives strategies has decreased by four percentage points, 14 percent to 10 percent. That happens to be the same four-percentage-point reduction in the alternative strategy allocation for all schools in the Study, 33 percent in FY2018 to 29 percent in FY2021.
- Diversification for schools with assets between \$10 and \$50 million has improved: A higher—and more meaningful—allocation to private equity; a much smaller allocation to marketable alternatives, thus leading to a better-balanced allocation; and at least a small allocation to venture capital—one percent versus none in FY2018.
- On the other hand, there was no allocation to energy and natural resources, where previously there was a two percent allocation. The allocations to private equity real estate (non-campus) and commodities and managed futures were unchanged at one percent. Private credit was not included in the FY2018 Study and distressed debt remained at zero.

¹ Data from Studies prior to FY2018 cannot be used because the methodology changed and is thus not comparable.

CONCLUSION

Independent schools' portfolios are tipped toward U.S. equities; this fiscal year's 34 percent allocation was a significant move compared with 28 percent in FY2018. While the allocation to alternative strategies in general has decreased, it remains at a meaningful 29 percent, making it the second-largest allocation overall.

That, however, continues to be accounted for by schools with assets over \$50 million, whose dollar-weighted alternatives allocation was 35 percent in the current Study. On an equal-weighted basis, these schools' allocation fell to 27 percent. And for all schools in the Study the dollar-weighted 29 percent overall alternatives allocation decreased to just 14 percent equal-weighted.

Schools with assets over \$50 million continue to have a proportional allocation to alternative strategies. Schools in the other two size cohorts may want to consider more meaningful allocations (being mindful that schools with assets under \$5 million may not qualify as accredited investors). Regardless of the size of their alternatives allocation overall, schools in all three size categories may want to work toward greater diversification within the allocation.



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