FUNDfire

Endowments Weigh Cash Needs and Rebalancing amid Market Turmoil

By Aziza Kasumov March 24, 2020

University endowments lost billions in value during the coronavirus and oil-shock-induced stock market rout. Yet, with valuations coming down, some are putting money to work to remedy underweight equity allocations.

“The depth and duration of this crisis are very uncertain, but at the same time, as markets fall, there are more compelling valuations in equities,” says **Texas Hemmaplardh**, a partner at **Mercer**. That’s why his team has been advising clients to consider partial rebalancing and taking some of the earlier gains in parts of the fixed income market and moving them to equities.

Institutions, of course, need to consider their liquidity needs before moving any capital, especially as enrollment — and thus tuition payments — may dip in the fall, and many campuses are currently in the process of sending students home, with some partially reimbursing room and board.

“Right now, it’s all about having cash, or access to cash, and how long that cash might last,” Margaret Chen, global head of Cambridge Associates’ endowment and foundation practice, wrote in an email. “This is a ‘cash flow pandemic,’ meaning it’s about having enough cash to meet the fixed costs (payroll, taxes, rent, etc.) that will continue to be incurred, even if institutions are shut down,” she added.

Yet despite the uncertainty and liquidity needs, investment committees and staff are taking steps to move some assets.

“We haven’t seen anyone say, ‘everything’s very cheap, let’s invest heavily.’ Most aren’t even going to [move back to] their long-term allocation targets,” Hemmaplardh says. “But they’re trying to do so, in a measured way.”

Many endowments and pension funds have moved their board and investment committee meetings to video conferences or calls. Yet for the most part, that hasn't been an obstacle to the decision-making process as institutions rebalance their portfolios, says Hemmaplardh. He adds that he's actually seen some universities hold extra meetings in light of the crisis.

At ASU Enterprise Partners, the resource-raising arm of Arizona State University (ASU), which also oversees the school's close to $1 billion in endowment funds, rebalancing some previous bond gains to stocks has been precisely the credo.

"We have a sizable chunk of fixed income, … [and] bonds have offset some of the losses" on the public equity side, says Jeff Mindlin, CIO at ASU Enterprise Partners. "Rebalancing by selling some bonds and buying some stocks makes sense to get back in line with your strategic asset allocation."

Mindlin adds that he has been in conversation with the institution's outsourced CIO (OCIO), BlackRock, about getting assets that have freed up during some recent manager changes back deployed into other areas right now, such as emerging debt and growth stocks on the equity front.

"We haven't made huge shifts," Mindlin says, adding that "I think the bias is to look to add risk assets from here."

While ASU's endowment has likely taken a hit since the second half of February, Mindlin also notes that, given the size of the overall student body compared to the endowment, the asset pools play a small role in funding university operations. Yet he can't know for sure how much value was lost until asset managers report their performance for March.

The school is not alone in that uncertainty.

"There's no data to support that any particular institutions are doing well or not doing well during these periods of market volatility" so far, says Ken Redd, senior director of research and policy analysis at the National Association of College and University Business Officers (NACUBO). He adds that larger institutions, however, which tend to have more diversified portfolios, might be better off right now.

On average, endowments with less than $25 million in assets were almost 50% invested in U.S. public equities as of June last year, according to NAUCBO data. Endowments with $1 billion or more in assets, on the contrary, had more than 40% in equity-related

alternatives, a sizable real assets sleeve, and were more diversified globally in public equities.

Yet more exposure to non-U.S. stocks could have cost some larger endowments dearly in the past few weeks.

“It’s the larger endowments generally… that have overweighed, at least in the public equity part of the portfolio, emerging markets,” says Mercer’s Hemmaplardh. It’s those kinds of endowments, with significant emerging market allocations, that “we’re expecting to see get hurt the most,” he adds.

Industry professionals are hard-pressed to give a set timeframe on when the full scale of the damage can be determined.

“The next couple of weeks will be a critical time for watching both what will happen with financial markets and enrollment,” says NACUBO’s Redd. May 1 — the day when many schools require incoming freshmen to confirm their enrollment — might bring some guidance, he notes, at least on the tuition revenue front, although markets might not have stabilized by then.

Once the dust settles, the damage to the higher-ed space, which is already suffering financial and demographic pressures, might be quite bad. But how bad exactly, experts say, is impossible to know.

“Will the damage be so severe that it will increase the number of schools that are closing? Anybody who says they know the answer to that is taking a guess,” says Redd.