

INSTITUTIONAL AI | **AI CONTROL. FOR FINANCIAL INSTITUTIONS.**

WHITE PAPER • 2026 EDITION

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# TOP BUSINESS NEEDS OF ASSET OWNERS IN 2026 — 2027

*Strategic Priorities, Operational Challenges, and  
Investment Considerations by Investor Type*

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AN INSTITUTIONAL AI WHITE PAPER

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## EXECUTIVE OVERVIEW

Institutional asset owners enter 2026 confronting a fundamentally different operating environment than the one they navigated only twelve months ago. Markets delivered another year of strong returns in 2025 — global pension assets rose 9.6 percent to a record USD 68.3 trillion, sovereign wealth funds achieved one of their best years on record, and U.S. higher education endowments posted an average 10.9 percent return — yet the structural risks beneath those numbers have intensified. Geopolitical fragmentation, persistent inflation, *AI-driven concentration risk*, and an accelerating wealth transfer have moved from background concerns to active drivers of asset allocation.

Three forces define the 2026 — 2027 horizon. First, a "great convergence" between public and private markets, projected by McKinsey to mobilize between USD 6 trillion and USD 10.5 trillion of capital over the next five years, is dissolving the operating boundaries that have historically separated traditional and alternative asset management. Second, a deliberate and accelerating shift toward active management, particularly among the largest institutions, reflects diminished confidence in passive beta and rising concern about index concentration. Third, *AI has emerged as both the single most influential macro factor cited by large asset owners and the most underdeveloped element of their governance frameworks.*

This 2026 edition of Institutional AI's annual white paper synthesizes data from BlackRock, McKinsey, Mercer, WTW Thinking Ahead Institute, Invesco, UBS, Preqin, NACUBO-Commonfund, State Street, Northern Trust, BNY, Goldman Sachs, Morgan Stanley, and Natixis to map the strategic priorities, operational challenges, and investment considerations defining each major asset owner category. The document emphasizes North America while maintaining a global lens, and is intended for board, investment committee, and CIO audiences.

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|---|---|--|
| <b>USD 68.3T</b><br>Global pension assets, 2025 (+9.6%) | <b>USD 27T</b><br>Sovereign wealth fund / central bank assets | <b>USD 23T</b><br>Insurance industry investable assets |
|---|---|--|

|   |  |  |
|---|--|--|
| <b>USD 944B</b><br>U.S. higher education endowment assets, FY25 | <b>USD 651B</b><br>Family office wealth covered (UBS 2025) | <b>USD 6 — 10.5T</b><br>"Money in motion" next five years (McKinsey) |
|---|--|--|

## What you will find in this report

- A category-by-category analysis of strategic priorities, operational challenges, and investment considerations across pension funds, sovereign wealth funds, insurance companies, family offices, and endowments and foundations.
- Quantitative anchors drawn from the most recent industry studies, with sources cited at the end of the document.
- A cross-cutting view of the three structural forces — public-private convergence, the active management revival, and the AI governance gap — reshaping institutional capital allocation through 2027.
- A concluding synthesis directed at boards, investment committees, and CIOs, with implications for governance, technology, and operating model design.

## THE MACRO BACKDROP

### Three Forces Defining 2026 — 2027

Before turning to category-specific analysis, three structural forces deserve naming because they cut across every type of asset owner covered in this report. They define the strategic context, the operational pressures, and the investment vocabulary of 2026.

#### 1. The "Great Convergence" of Public and Private Markets

McKinsey's Asset Management 2025 report frames the most consequential structural shift in institutional investing as a convergence between traditional and alternative asset management. Global assets under management reached a record USD 147 trillion by mid-2025, but margins remained tight as costs climbed. The traditional boundaries between public and private investing are dissolving: private capital managers are penetrating wealth, defined contribution, and insurance channels, while traditional managers race to acquire or build private market capabilities. McKinsey estimates this convergence — combined with the reassertion of local-market bias and the mainstreaming of active ETFs — could mobilize between USD 6 trillion and USD 10.5 trillion of capital over the next five years.

For asset owners, the implication is concrete: portfolio construction is moving beyond a 60/40 split toward what McKinsey describes as a 60/20/20 model that blends public equities, public fixed income, and private exposures in a single integrated framework. The Total Portfolio Approach (TPA), highlighted by the WTW Thinking Ahead Institute in its 2026 Global Pension Assets Study, is the governance framework most aligned with this shift.

**USD 6 — 10.5 trillion**

McKinsey's estimate of capital "money in motion" across asset management in the next five years, driven by public-private convergence, active ETF adoption, and home-country bias

#### 2. The Return of Active Management

After more than a decade in which passive strategies outpaced active by every meaningful metric, 2025 marked a clear inflection. The 2025 Invesco Global Sovereign Asset Management Study — covering 141 sovereign wealth funds and central banks managing USD 27 trillion in collective assets — found that on average sovereign investors now hold more than 70 percent of their portfolios in active strategies across both fixed income and equities. Fifty-two percent of sovereign investors plan to increase active equity exposure over the next two years; 47 percent intend to do the same in fixed income. The shift is most

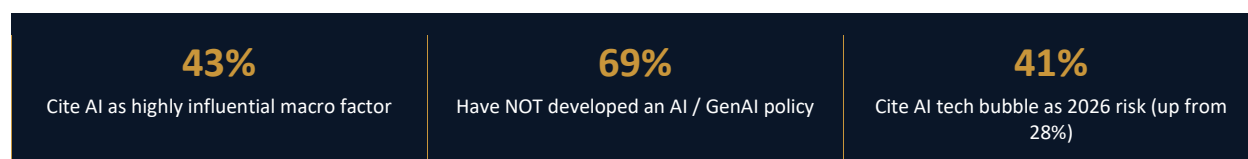
pronounced at the largest institutions: 75 percent of sovereign investors managing more than USD 100 billion have increased active equity allocations over the past two years.

Northern Trust Asset Management's 2026 Global Investment Outlook frames the rationale plainly: "the era of passive beta is giving way to one where quality, value and low-volatility factors can help advisors position client portfolios for resilience." The drivers are concentration risk in mega-cap AI stocks, structural divergence within asset classes, and policy uncertainty that rewards security selection over benchmark exposure.

### 3. The AI Governance Gap

Mercer's 2025 Large Asset Owner Barometer identified *AI as the single factor* most asset owners believe will be "highly influential" in shaping the macro environment over the next five to ten years — cited by 43 percent of respondents, ahead of geopolitics (34 percent) and the energy transition (34 percent). And yet, more than two-thirds (69 percent) of large asset owners report that they have neither implemented nor begun developing an AI or generative AI policy. Among the world's top 20 pension funds, ten reported strengthening AI expertise in 2024 and nine cited technology adoption in portfolio management as a strategic priority while explicitly recognizing AI as both an opportunity and a governance risk.

In our view, the gap between recognized importance and operational readiness is among the defining institutional risks of 2026 — 2027. Natix's 2026 institutional outlook (a survey of 515 global institutional investors managing USD 29.9 trillion, conducted September — October 2025) found that 41 percent of institutional investors now cite an AI-driven tech bubble as a portfolio risk, up from 28 percent the year prior. McKinsey's 2026 AI Trust Maturity Survey reports declining confidence in adequate response to AI risks across industries. KPMG's Q1 2026 Asset Management and Private Equity Pulse Survey finds that large firms (annual revenue greater than USD 1 billion) plan to invest an average of USD 101 million in AI in 2026, with 24 percent already running AI agents in production and 68 percent actively piloting agentic AI solutions. The infrastructure is being built; evidence suggests governance is not yet keeping pace.



## PENSION FUNDS

### From Recovery to Resilience

Pension funds entered 2026 in their strongest aggregate financial position in more than a decade, but the institutional posture has shifted from celebrating recovery to building durable resilience. The WTW Thinking Ahead Institute's 2026 Global Pension Assets Study reports that global pension assets rose 9.6 percent in 2025 to a record USD 68.3 trillion across the 22 largest pension markets, creating USD 6.0 trillion of new pension asset value during the year. The seven largest markets — Australia, Canada, Japan, the Netherlands, Switzerland, the United Kingdom, and the United States — account for 91 percent of the global total.

A historic milestone occurred in 2024 that defined the 2025 league tables: Norway's Government Pension Fund Global overtook Japan's Government Pension Investment Fund (GPIF) as the largest pension fund in the world after more than two decades at the top. Combined assets of the world's top 20 pension funds exceeded USD 10 trillion for the first time, reaching USD 10.3 trillion. The defined contribution shift continues to dominate: in the seven-largest markets, DC now forms 63 percent of all pension assets, with the United States at 72 percent and Australia at 90 percent.



### Strategic Priorities

The strategic conversation among pension trustees in 2026 is dominated by what the Thinking Ahead Institute calls the Total Portfolio Approach (TPA). The framework reflects a recognition that traditional governance models — designed for an environment of stable correlations and predictable model performance — are no longer fit for the complexity, interdependence, and weaker model stability that now characterize institutional investing. TPA emphasizes integrated decision-making, faster coordination, broader scenario analysis, and a clearer view of the trade-offs between private-market opportunity, liquidity, and long-term resilience.

Asset allocation continues its gradual rotation toward private markets and alternatives. Average pension fund allocations sit at approximately 45 percent equities, 33 percent bonds, 20 percent alternatives, and 2 percent cash. The fastest-growing asset classes remain private credit, infrastructure, and private equity, with home-country bias gradually declining. Mercer's 2025 Large Asset Owner Barometer found that 47 percent of large asset owners expect to increase private debt and credit allocations over the coming year.

and 46 percent expect to increase infrastructure allocations; among asset owners with more than USD 20 billion in assets, those figures rise to 70 percent and 63 percent respectively.

A second strategic priority is the unresolved retirement income problem. The Thinking Ahead Institute's 2025 Global DC Peer Study found that 60 percent of leading DC organizations identify retirement income as the central challenge of the next decade. DC systems were built to help people save, not to convert savings into reliable lifetime income, and providers are under increasing pressure to deliver credible income solutions. In the United Kingdom, this is driving the development of a stronger Value for Money framework with consolidation expectations.

A third priority — closely related to the AI governance gap discussed earlier — is the deliberate buildout of in-house AI and analytics capability. Among the world's top 20 pension funds, ten reported enhancing their AI expertise in 2024, and nine highlighted technology adoption in portfolio management as a strategic priority. AXA Investment Managers' core investments outlook for 2026 anticipates a sharp increase in operating spending earmarked for risk and data systems and AI investment models, particularly in private markets where talent gaps remain most acute.

### **Operational Challenges**

Pension fiduciaries face a more complex operational environment than at any point in the past decade. Funded status volatility, talent gaps in private markets, and the operational burden of managing illiquid allocations have moved from secondary concerns to central management challenges. McKinsey's research on institutional investors finds that less than 20 percent of participants in CEM Benchmarking's recent survey indicated they were ready to incorporate AI and other future technologies into their operating models. Only 18 percent of front-office teams said they could obtain timely data access without manual intervention.

Outsourcing and partnership are the dominant operational responses. Mercer reports that only 5 percent of large asset owners surveyed manage their investments entirely in-house, while 41 percent prefer to outsource investment management entirely. Pension funds increasingly rely on outsourced CIO (OCIO) providers and specialized partners to access private market expertise without building large internal teams. Asset servicers — including BNY, State Street, and Northern Trust — are repositioning themselves as integrated technology platforms rather than custody utilities. BNY's 2025 annual report describes the firm explicitly as the "operating system" for institutional clients seeking end-to-end solutions across data, investment operations, custody, fund services, payments, liquidity, clearing, collateral, analytics, and reporting.

### **Investment Considerations**

The investment playbook for 2026 — 2027 balances the resilience of the new rate regime against rising concentration and geopolitical risk. Northern Trust Asset Management's 2026 Global Investment Outlook expects real GDP growth below 2 percent globally, with the United States and Canada leading at 1.5

percent. Inflation is expected to remain elevated near 3 percent, with tail risk of running hotter than market expectations. Treasury Inflation-Protected Securities, global government bonds, and real assets — particularly infrastructure — feature prominently in 2026 outlook recommendations as diversifiers.

Private markets remain the central investment theme. Preqin's Global Reports 2026 found that 81 percent of investors plan to maintain or increase their allocations to private credit over the next twelve months, with distressed and asset-backed lending forecast as the fastest-growing strategies. McKinsey notes that more than USD 620 billion in high-yield bonds and leveraged loans approach maturity in 2026 — 2027, creating a refinancing opportunity that will spur further demand for private credit solutions. The total private capital deal value in North America reached USD 2.3 trillion in 2025, the strongest year since 2021, with regional AUM in North American private capital reaching USD 8.46 trillion by mid-2025.

Inflation-sensitive and real assets — particularly infrastructure debt and equity — feature prominently in 2026 allocations. Demand for resilience, inflation linkage, and energy transition exposure has elevated infrastructure debt as a defensive income sleeve. ESG integration, while less politically prominent in the United States than three years ago, has become embedded in mandatory frameworks such as the EU Corporate Sustainability Reporting Directive and updated SEC climate disclosure rules. Mercer's 2025 Barometer found that 70 percent of large asset owners now incorporate sustainable investment goals into their investment objectives, a seven-percentage-point increase year-over-year, even as 36 percent now report no plans to set net-zero targets — a 10-point increase reflecting a more pragmatic, project-based approach to climate alignment.

## SOVEREIGN WEALTH FUNDS

### Active Management in a Fragmented World

Sovereign wealth funds entered 2026 with one of their strongest performance years on record, an average return of 9.4 percent in 2024, but with their strategic vocabulary fundamentally rewritten by political and regulatory uncertainty. The 2025 Invesco Global Sovereign Asset Management Study — based on the views of 141 senior investment professionals at 83 sovereign wealth funds and 58 central banks managing a combined USD 27 trillion — describes a sector in which "political and regulatory decisions have become the main drivers of investment strategy, leading sovereign investors to fundamentally reassess portfolio construction and risk management."

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| <b>USD 27T</b><br>SWF + central bank assets (Invesco 2025) | <b>88%</b><br>Cite geopolitical tensions as top risk | <b>70%+</b><br>Average allocation now in active strategies |
|--|--|--|

### Strategic Priorities

The defining strategic shift among sovereign wealth funds in 2026 is the embrace of active management. On average, sovereign investors now hold more than 70 percent of their portfolios in active strategies across both fixed income and equities. Fifty-two percent of respondents plan to increase active equity exposure over the next two years; 47 percent plan to do the same in fixed income. The shift is most pronounced among the largest institutions: 75 percent of sovereign investors managing more than USD 100 billion have moved toward more active equity strategies in the past two years. The rationale, as articulated in the Invesco study and echoed by Northern Trust's 2026 Outlook, is that index concentration risk and structural divergence within asset classes have eroded the case for passive beta exposure in mega-cap-dominated markets.

Private fixed income has emerged as a second strategic priority. Sovereign investors accessing private fixed income through direct or co-investment routes rose from 30 percent in 2024 to 44 percent in 2025; fund-based access rose from 56 percent to 63 percent. Fifty percent of sovereign funds plan to increase private fixed income allocations over the next year, led by North American institutions at 68 percent. Invesco frames the shift as a structural one: "Fixed income is no longer limited to defensive, risk-free positioning — it has become a dynamic and versatile part of the portfolio."

A third priority is funding the energy transition. State Street Investment Management's March 2026 Insights publication on sovereign wealth fund trends notes that private market investments have grown notably faster than public market positions over the past five years, with infrastructure — particularly renewable energy — taking the lead. At least half of sovereign funds now carry some form of domestic

development mandate alongside return objectives, and renewable energy infrastructure has emerged as a preferred sector across Gulf, Asian, and European sovereign portfolios.

Notably, the Invesco study reports that direct allocations to digital assets remain limited but are beginning to increase, with sovereign investors viewing digital assets as a source of long-term optionality. Central banks are advancing digital currency initiatives slowly, balancing innovation ambitions against potential risks to financial stability. Confidence in China's innovation leadership is driving renewed sovereign investment into critical Chinese technology, even as broader macroeconomic concerns persist.

## **Operational Challenges**

Sovereign wealth funds face an operational environment in which 88 percent cite geopolitical tensions as the principal short-term risk to global growth, up from previous years. Inflationary pressures are cited by 64 percent, and excessive volatility in financial markets has risen sharply as a concern — cited by 59 percent of respondents in 2025, more than double the 28 percent recorded in 2024. Nearly 90 percent of sovereign investors believe geopolitical competition will be a key driver of volatility, while 85 percent expect protectionist policies to entrench persistent inflation in developed economies. Sixty-two percent now identify deglobalization as a major threat to investment returns.

Governance, talent, and operating model evolution are the persistent operational themes. Newer sovereign funds continue to lean on experienced asset managers to execute parts of their strategy while building in-house expertise. The agent-directed model emerging in securities financing — in which large sovereign and pension funds drive their own program parameters with greater oversight, supported by service providers like BNY, State Street, and Northern Trust — illustrates the broader shift toward in-house governance with external execution support. Northern Trust product managers describe sovereign funds and large pensions as institutions with "governance, modeling and expertise in place, with plumbing similar to advanced asset management firms."

## **Investment Considerations**

Sovereign wealth funds remain among the most willing institutional investors to take contrarian, long-horizon positions. The 2025 Invesco study found nearly 60 percent of sovereign wealth funds plan to boost allocations to Chinese assets over the next five years, with North American-based funds especially aggressive — 73 percent intend to increase China exposure despite geopolitical tensions. India and other emerging markets with strong demographics and stability remain prime investment destinations.

On the public markets side, active management is making a clear comeback. With predictable markets a thing of the past, sovereign investors are deploying active strategies through both in-house active teams and external active mandates. ESG investing remains a significant consideration — Mercer's 2025 Barometer found that 81 percent of asset owners managing more than USD 20 billion include sustainability goals in their policies, compared with 64 percent among smaller asset owners — but

momentum on formal climate targets has plateaued. The pragmatic shift is toward tangible investments, particularly green infrastructure, rather than declarative emissions goals.

Private markets remain a cornerstone. According to State Street and Global SWF data, private market allocations among sovereign funds have grown notably faster than public allocations over the past five years, with the rate of annual growth in private market investments increasing further in 2024 and 2025. Sovereign investors continue to find private assets appealing, but performance dispersion has prompted more selective manager engagement. Infrastructure remains the preferred private asset class, aligning both financial and strategic objectives.

## INSURANCE COMPANIES

### Flexible Models, Disciplined Capital

For insurance company asset owners, the central narrative of 2026 is the continued, secular shift toward private markets paired with a deliberate move to more flexible operating models. BlackRock's 14th annual Global Insurance Report — surveying 463 senior investment professionals across 33 markets representing USD 23 trillion in insurance assets under management — describes a sector that is "navigating the environment with discipline" while "embracing new operating models." Risk appetite remains historically low: just 12 percent of insurers plan to increase overall investment risk exposure in 2025, the same level as 2024 and well below the 28 — 60 percent range observed between 2018 and 2021.



### Strategic Priorities

Inflation has overtaken interest rate risk as the principal market concern for insurers, cited by 63 percent of respondents in BlackRock's 2025 study. Public assets remain foundational — 73 percent of insurers plan to maintain current public allocations and 21 percent plan to increase — but the appetite for incremental public market risk has reached an all-time low. Private markets, by contrast, continue to attract steady inflows: 30 percent of insurers plan to increase private market allocations over the next twelve months, and 58 percent plan to maintain current exposure. Within private markets, the most attractive sub-strategies cited are single-strategy direct lending (39 percent), special situations and opportunistic credit (38 percent), infrastructure debt (37 percent), and multi-alternative strategies (50 percent).

A defining feature of the 2026 outlook is the emergence of more flexible asset management operating models. Eighty-seven percent of insurers report that they are changing their asset management operating model, moving from purely internal management or pure outsourcing toward hybrid arrangements that combine in-house expertise with external partnerships. BlackRock frames the shift as "an accelerated transformation, particularly among life insurers, toward long-term private capital deployment, especially in areas like private credit and infrastructure."

Capital management has emerged as a distinct strategic priority. BlackRock's 2025 study found that 67 percent of insurers anticipate utilizing reinsurance sidecars over the next twelve months, 54 percent expect to increase their use of third-party capital, and 53 percent plan to expand captive insurance and

reinsurance capabilities. The drivers are diversification of balance sheet income through fee-based revenue, optimization of capital structures, and access to non-dilutive capital sources.

Sustainable investing remains a core strategic priority for insurers globally. For the second consecutive year, clean energy infrastructure was cited as the single most attractive sustainable and transition opportunity — by 55 percent of insurers — followed by core infrastructure (51 percent) and green bonds (38 percent).

### **Operational Challenges**

Insurer investment teams must continue to balance asset-liability management, capital efficiency, and an accelerating technology transformation. The most common operational focus areas cited in BlackRock's 2025 study were integrated asset and liability management (62 percent), risk management (55 percent), and compliance with regulatory and reporting requirements (40 percent). Technology priorities have shifted: insurers now name *AI-related software and technologies as the single largest investment area* (73 percent), followed by portfolio and risk management software and platforms (70 percent) and liability and analytical tools (56 percent). Specific use cases driving technology investment include inflation risk monitoring (48 percent), private asset modeling (44 percent), and regulatory capital integration (42 percent).

Implementation of IFRS 17 and ongoing recalibration of risk-based capital frameworks continue to demand significant operational resources. Insurers are simultaneously managing the deployment of large private credit and infrastructure programs — which require specialized analytics for valuation, credit monitoring, and regulatory capital integration — while modernizing their core portfolio management infrastructure. The convergence of public and private market analytics in a single, unified ALM platform is now the operational benchmark.

### **Investment Considerations**

Insurers are deploying capital into a market environment characterized by lower expected returns from public credit, persistent inflation, and an accelerating technology cycle. Northern Trust Asset Management's 2026 Outlook expects credit losses to remain below long-term averages, supported by steady fundamentals and disciplined corporate behavior. Within fixed income, fixed-rate instruments are well positioned to benefit from a declining rate environment, with high-yield credit outperforming floating-rate leveraged loans in 2025. As policy rates move lower, duration is expected to become a more meaningful driver of relative performance.

Private credit enters 2026 with strong momentum. Northern Trust forecasts the asset class could surpass USD 5 trillion by 2029, supported by regulatory constraints on traditional banks, slower M&A activity that drives borrowers toward private credit, and the emergence of retail and insurance capital pools as significant funding sources. Senior direct lending strategies are positioned to deliver resilient returns,

supported by elevated yields and strong borrower fundamentals. Private credit funds have outperformed public market equivalents by an average of 3.2 percent annually since 2000, a trend expected to persist.

Insurers continue to reduce allocations to private equity (24 percent plan to decrease), real estate equity (21 percent), and real estate debt (20 percent), reflecting valuation concerns and slow exit environments. The shift in capital is decisively toward private credit and infrastructure debt, where capital treatment under risk-based frameworks remains favorable and yield characteristics align with long-duration liabilities.

## FAMILY OFFICES

### Wealth Transfer Meets Operational Maturity

Family offices in 2026 are managing two simultaneous transitions: a generational wealth transfer of unprecedented scale, and the operational maturation of family offices themselves into institutional-grade investment organizations. UBS's 2025 Global Family Office Report — drawing on insights from 317 single family offices across more than 30 markets, with an average net worth of USD 2.7 billion and combined wealth of USD 651 billion under coverage — describes a sector that has tilted toward developed market equities and active hedging in response to trade and geopolitical uncertainty, while maintaining structural commitments to private markets.



### Strategic Priorities

A global trade war ranked as the single largest investment risk for family offices in 2025, followed by major geopolitical conflict and higher inflation. To protect portfolios, family offices have increased their use of active management, hedge funds, and selectively, precious metals. Regional asset allocation has tilted further toward North America (53 percent of allocations) and Western Europe (26 percent), with Greater China and Asia-Pacific excluding Greater China each accounting for only 7 percent. Developed market equity allocations rose to 26 percent on average in 2024 and are expected to reach 29 percent in 2025 among the third of family offices planning changes. Almost half — 46 percent — anticipate a significant or moderate increase in developed market equity allocations over the next five years.

Private markets remain a structural commitment, though the trajectory has flattened. Average private equity allocations dipped slightly from 22 percent in 2023 to 21 percent in 2024 and are projected at 18 percent in 2025 among those making changes — driven by reduced direct investment commitments as financing costs and slower exit activity persist. Private debt, by contrast, has emerged as the fastest-growing private allocation: average exposure doubled from 2 percent in 2023 to 4 percent in 2024 and is expected to rise to 5 percent in 2025. The Goldman Sachs 2025 Family Office Investment Insights confirm a parallel trend of family offices increasing public equity and private credit exposure while reducing excess cash.

Succession and governance have moved from implicit to explicit strategic priorities as the largest wealth transfer in history accelerates. Just over half — 53 percent — of family offices globally have wealth

succession plans for family members in place. Twenty-nine percent without plans cite the belief that they have plenty of time to prepare. Strengthening governance is on the rise: family offices are establishing boards of directors, formalizing investment policy statements, and bringing in independent investment professionals to professionalize decision-making.

## Operational Challenges

The defining operational challenge for family offices in 2026 is institutional-grade execution at boutique scale. UBS research finds that the average family office works with more than five financial institutions, and without automation, this means manual work, inconsistent numbers, and slow reporting. Data aggregation is no longer optional. Family offices in 2026 are not chasing new technology trends; they are investing in foundational capabilities — clean data, trusted analytics, clear reporting, robust security, and transparent governance — that improve visibility, control, and confidence across investment decisions, cash flows, operations, and governance.

Goldman Sachs and UBS both highlight the analytical complexity of managing a portfolio that combines fast-moving public market data with slower, manager-reported private market data into a single reliable view. The CIO function increasingly requires analytics that model portfolio cash flows, funding requirements, and concentration across both liquid and illiquid assets — capabilities that must be built before capital is committed. Sourcing quality private market opportunities remains a constraint: more than half of family offices plan to increase private market exposure, but cite the lack of relevant deal flow as the binding limitation.

Privacy, security, and cybersecurity remain elevated operational concerns. Family offices guard not only assets but sensitive personal and financial information of family members, requiring strong cybersecurity and confidentiality protocols. Talent acquisition continues to be challenging — family offices compete with larger firms for investment talent and must also find advisors who fit a family's culture. Integrating next-generation members into operations without disrupting current decision-making remains a delicate balance.

## Investment Considerations

Family offices retain more flexibility than nearly any other institutional investor category and continue to behave opportunistically. UBS's 2025 study highlights three secular themes that family offices believe will drive equity markets in the coming decade: artificial intelligence, power and resources, and longevity. American family offices in particular have far more appetite for alternatives than international peers, with allocations essentially reversed — 56 percent traditional and 44 percent alternative for the global average, but inverted in U.S. portfolios.

The 2025 trade environment has driven a tactical reallocation. Some family offices are lifting their weightings in developed market equities and bonds to seek liquid opportunities for capital growth and yield in a volatile environment. Increasingly, family offices have access to secular growth themes —

generative AI, power and resources, longevity — through public equities, where these themes were previously available only through private markets. The shift reflects both the maturation of public equity exposure to growth themes and the reduced attractiveness of leveraged private equity in a higher-rate environment.

Impact and values-based investing remains an ascending consideration, particularly among next-generation family members. Deloitte's most recent global study found that 32 percent of family offices foresee a widespread embrace of sustainable investing and operations in coming years. Many families are explicitly trying to align their wealth with their values, funding projects that reflect philanthropic or environmental goals while still earning competitive returns. Aligning multi-generational views on risk tolerance and impact remains a central governance task — one that increasingly drives the agenda of family councils, retreats, and formal investment committees.

## ENDOWMENTS AND FOUNDATIONS

### Stable Returns, Mounting Pressures

University endowments and private foundations entered 2026 with another year of solid investment returns but with the policy and operational pressure on their institutions intensifying. The 2025 NACUBO-Commonfund Study of Endowments — covering 657 U.S. colleges, universities, and affiliated foundations representing USD 944.3 billion in endowment assets — reports a one-year return of 10.9 percent for fiscal year 2025, modestly below the 11.2 percent return recorded in fiscal 2024 but well above the long-term average. The ten-year average annual return rose to 7.7 percent, up from 6.8 percent the previous year. Five-year average returns reached 10.2 percent.

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| <p><b>USD 944B</b><br/>Total endowment assets (657 institutions)</p> | <p><b>10.9%</b><br/>FY25 average one-year return</p> | <p><b>USD 33.4B</b><br/>Total spending in FY25 (+11.0% YoY)</p> |
|--|--|---|

### Strategic Priorities

The overarching strategic priority for endowments and foundations remains intergenerational equity — earning returns sufficient to cover spending plus inflation so that the fund can support today's and tomorrow's beneficiaries equally. With effective spending rates rising to 4.9 percent in fiscal 2025, up from 4.8 percent the prior year, and inflation persistently elevated, the required return to preserve principal sits firmly in the high single digits. Across institutions surveyed by NACUBO-Commonfund, 31 percent target nominal returns averaging 7.3 percent, while 39 percent target a real return above inflation averaging inflation plus 4.9 percent.

Asset allocation continues to follow the diversified, alternatives-heavy approach pioneered by leading endowments. Among all NACUBO-Commonfund participants on a dollar-weighted basis, private equity is the largest single allocation at 16.8 percent, followed by marketable alternatives at 15.4 percent, U.S. equities at 13.7 percent, venture capital at 12.2 percent, and fixed income at 10.7 percent. As Commonfund Institute Executive Director George Suttles noted, "endowments that are well diversified are better positioned for long-term success in the ever-changing conditions found in global financial markets."

Spending policy management has become a distinct strategic priority. Endowment support reached 15.2 percent of operating budgets on average in fiscal 2025, up from 14.0 percent in fiscal 2024 and 10.9 percent in fiscal 2023. The two largest cohort sizes — endowments between USD 1 billion and USD 5 billion and those above USD 5 billion — contributed 18 to 19 percent of operating budgets. Of total

endowment spending, 47.4 percent funded student financial aid, the single largest category; 17.7 percent supported academic programs and research; and 10.8 percent funded endowed faculty positions.

Liquidity has become a more deliberate strategic concern. Many large endowments turned to credit markets in fiscal 2025 to bolster liquidity buffers amid policy and market uncertainty. Larger institutions are particularly focused on potential reductions in federal grants and contracts, reflecting a combination of funding uncertainty and the higher illiquid asset allocations characteristic of larger pools.

### **Operational Challenges**

Endowments and foundations operate at the intersection of investment complexity and nonprofit oversight. Top concerns vary by institution size in important ways. Smaller institutions are most focused on enrollment and fundraising pressures, which for many have translated into operational strain and, in extreme cases, mergers or closures. Larger institutions are more concerned about potential reductions in federal grants and contracts, while liquidity has become an immediate management priority given higher allocations to illiquid assets.

Federal policy changes — including investment tax increases under recent legislation — have created new operational and budgetary pressures, particularly for the largest endowments. New gifts to endowed funds fell 9.2 percent in fiscal 2025, even as median gifts rose 2.5 percent year over year, suggesting a softer year for large headline gifts supported by a broader base of smaller contributions. Decline in gift-giving is a particular concern for smaller, less-resourced institutions vulnerable to changes in fund flows.

Governance and stakeholder oversight remain persistent operational challenges. Investment committees — often comprising trustees or alumni volunteers — must have the expertise to oversee sophisticated portfolios while managing committee turnover and varying levels of investment knowledge. Many institutions provide trustee education and have formalized investment policy statements to maintain continuity. The OCIO model has continued to grow among endowments under USD 1 billion as institutions weigh the cost of building internal capability against the operational complexity of managing diversified portfolios.

### **Investment Considerations**

Endowments and foundations remain among the longest-horizon institutional investors and continue to lean on illiquidity and equity risk to close the gap between expected returns from conventional portfolios and the high-single-digit returns required to support spending plus inflation. The average institution holds approximately 55 percent in equities (public and private) and 20 percent in real assets and alternatives, leaving roughly 25 percent in fixed income and cash.

Mercer's analysis of the 2025 NACUBO-Commonfund Study highlights that performance dispersion in fiscal 2025 was just 130 basis points between best and worst performers — among the narrowest spreads on record — and that no asset class posted a negative return. Strong public equity returns drove smaller

endowments' outperformance, with the MSCI ACWI delivering 16.2 percent for the year. Marketable alternative and fixed income returns also improved versus recent years. Manager selection within non-public asset classes contributed meaningfully to the largest institutions' relative performance.

Private equity and venture capital remain central to long-term return generation, although endowments are evaluating their pacing of new commitments after the denominator-effect challenges of 2022 — 2023. Inflation is a unique consideration for foundations, many of which have a legal mandate to spend approximately 5 percent of assets annually; if inflation runs hot, that fixed spending rate represents a declining real payout to beneficiaries. Real assets — real estate, infrastructure, TIPS, and commodities — feature in inflation-hedging allocations across most large endowment portfolios.

Mission-related and program-related investing continues to grow as a serious investment consideration, particularly among foundations. Boards are increasingly deciding what proportion of the corpus to dedicate to investments aligned with the institution's charitable mission. Peer benchmarking, while it remains a quiet driver of internal pressure, is being deliberately deemphasized in favor of ten-year performance metrics and progress toward mission-related funding goals.

## CONCLUSION

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### Stewardship in an Age of Structural Change

Across all five categories of asset owner — pension funds, sovereign wealth funds, insurance companies, family offices, and endowments and foundations — the period spanning 2026 and 2027 will be defined less by any single market event than by the cumulative pressure of three structural forces. Public and private markets are converging, eroding the operational lines that have historically separated traditional and alternative asset management. Active management is reasserting itself as the dominant approach, particularly at the largest institutions, in response to concentration risk and structural divergence within asset classes. ***And artificial intelligence has emerged as both the most influential macro variable and the least mature governance domain across the entire institutional landscape.***

Each category of asset owner expresses these forces differently. Pension funds are adopting Total Portfolio Approach frameworks to handle rising complexity. Sovereign wealth funds have moved decisively to active management and private fixed income while navigating geopolitical fragmentation. Insurance companies are restructuring their operating models to absorb a secular shift toward private credit and infrastructure debt. Family offices are professionalizing their governance and analytical infrastructure as the largest wealth transfer in history accelerates. Endowments and foundations are managing the trade-off between intergenerational equity and increasing pressure to support institutional missions in a constrained policy environment.

Common themes are difficult to miss. Operational excellence — particularly in data, analytics, and AI governance — appears to be moving from a competitive advantage toward a baseline expectation; CEM Benchmarking research cited by McKinsey found that fewer than 20 percent of institutional investors surveyed indicated they were ready to incorporate AI and other future technologies into their operating models. Outsourcing and partnership models have become the default for accessing private market expertise, with Mercer's 2025 Barometer finding that only 5 percent of large asset owners surveyed manage their investments entirely in-house. Asset servicers including BNY, State Street, and Northern Trust are repositioning themselves as integrated technology platforms rather than traditional custody utilities. Sustainability has matured, in our view, from a target-setting exercise into a more pragmatic investment discipline focused on tangible projects, particularly in infrastructure and energy transition.

Across every category in this report, evidence suggests governance has emerged as an increasingly binding constraint on asset owners' ability to capitalize on the opportunities now in front of them. The institutions we believe will lead through 2026 and 2027 are those that recognize stewardship is not a passive activity. It requires deliberate technology investment, deliberate governance design, and deliberate clarity about the trade-offs between liquidity, return, and control. The asset owners who internalize this — who treat data as a strategic asset, AI as a governance domain rather than a procurement category, and private

markets as a structural rather than a tactical commitment — are, in our view, more likely to weather the coming dispersion than those who do not. The opportunity is real. So is the operational gap.



*Institutional AI designs the AI operating model architecture that translates strategic intent into operational reality — for the boards, investment committees, CEOs, COOs, CIOs, and business unit leaders of the world's leading asset owners.*

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## ABOUT INSTITUTIONAL AI

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### Not Another Vendor.

Institutional AI is the AI control firm for financial institutions — a category we created because consulting, software, and systems integration do not address what institutions actually need: a control architecture they own permanently and can prove command over.

We work with asset owners — the world's stewards of capital — to design that architecture. Our work begins with the **AI Control Assessment**, a proprietary diagnostic built on the **5×5 Control Matrix** that scores an institution's control posture across five AI ecosystems and five pillars of control. From assessment, we move to architecture: the **Institutional AI Stack™** defines what to build; **OLTAIX™** is the control tower that enforces it. Our methodology integrates scenario planning developed at Oxford's Saïd Business School with two decades of institutional operating experience.

The closest analogy in financial services is a rating agency combined with an architect — proprietary methodology paired with infrastructure the institution owns. Institutional AI does both, for AI control.

### Our Mission

To put every financial institution in command of its AI — not dependent on it.

The institutions that govern their AI with the same precision, purpose, and accountability with which they govern capital, policy, and trust will lead. The ones that do not will operate at the permission of those who do.

*"We built this company because the institutions that shape society deserve to control the AI that shapes their decisions."*

— Rad H. Pasovschi, CEO, Institutional AI

**AI is a given. Control is not. We exist to change that.**

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