THE INVESTMENT FUND FOR FOUNDATIONS
Pursuing investment excellence

Where TIFF's Been and Whither It's Tending
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If the financial system has a defect, it is that it reflects and magnifies what we human beings are like . . . [M]oney amplifies our tendency to overreact, to swing from exuberance when things are going well to deep depression when they go wrong. Booms and busts are products, at root, of our emotional volatility.
— Niall Ferguson in *The Ascent of Money*. Must reading for endowment fiduciaries, we'd suggest.

Preface. Focused as we are here at The Investment Fund for Foundations (TIFF) on bottom-line investment returns, we've spent neither time nor money over the years celebrating milestones measured by either of these metrics — time (i.e., years elapsed since TIFF's founding) or money (i.e., assets under management). And we won't start doing so now. That said, as the oldest of the investment programs bearing the TIFF name approaches its 15th anniversary a few months hence, and as endowed charities eligible for TIFF ponder means of deploying their investable wealth under conditions quite different from those prevailing at TIFF's launch in May 1994, we thought such charities' trustees might find useful this review of where TIFF's been and whither it's tending.[1] As will be seen, although the means we employ in pursuit of our mission have necessarily evolved over the last 15 years and will surely continue doing so, the ends we're pursuing have not. Indeed, we're proud to note that our mission statement (appended hereto) hasn't changed one whit since TIFF's founding board approved it back in the day. Nor has TIFF's *Credo* (also appended hereto) changed since TIFF's formation. Our *Credo* serves as both a point of pride and a goad to action: as keen as we are to perpetuate our track record of sensible stewardship of capital entrusted to us — stewardship that seeks consciously to avoid the human foibles Ferguson flags above — we're even keener to adhere to our *Credo* as we go about such work. Because the challenges investment pros are encountering these days are so dauntingly novel, effective pursuit of TIFF's self-assigned mission presupposes especially faithful adherence to that aspect of our Credo underscoring the importance of humor in the workplace — humor that yours truly has tried to maintain over the years by, among other means, using baseball arcana to illuminate essential truths. Of the many such tidbits tossed into our publications and talks over the past 15 years, my favorite is a compliment that the man who caught most of Bob Gibson's frighteningly fast pitches paid to that Hall of Famer: "Gibson's the luckiest pitcher I've ever seen," Tim McCarver told a reporter more than 40 seasons ago. "He always pitches on days when the other team gets no hits." That's the sort of luck we'd be pleased and proud for TIFF to display. We'll let persons other than those employed by TIFF be the chief judges of whether it has — and whether it's led in a manner that'll enable it to do so moving forward.

[1] This missive is adapted from a longer retrospective prepared by the same author in connection with an academic study launched in early 2009 of TIFF's evolving structure and services.

I. TIFF's Burkean Path, 1994 to Present

Measured Change. Although his remarkable life unfolded long before baseball was invented in the nation whose launch he so courageously supported, the Anglo-Irish statesman Edmund Burke (1729 – 1797) would surely have fancied the sport, which has evolved attractively over the years precisely because its evolution has been measured and gradual rather than unmethodical or abrupt. So too has TIFF's, we'd suggest, which has pursued a decidedly Burkean path favoring evolutionary over revolutionary change. To be sure, the market and regulatory environments in which TIFF pursues its mission have evolved materially since TIFF's founding. But the principal driver of the ever-changing set of investment opportunities and perils confronting TIFF hasn't changed at all over the last 15 years, or indeed since Burke cautioned against change for its own sake, namely human nature. Determined as they are by human beings, prices as distinct from values in the markets in which investment programs bearing the TIFF name invest tend to fluctuate between unjustified extremes. Alas, they do so about as predictably as a well-thrown knuckleball makes its way to the plate, making life interesting indeed for investment professionals of all stripes.

Crisis Reveals Character. Baseball, like investing, being a human endeavor in which human fallibility is constantly and conspicuously on display even when the most skilled practitioners are at work, it's unsurprising that even a Hall of Famer like Jim Rice, who frequently dazzled Boston Red Sox fans, also disappointed them with regularity. During his 15 years in "The Show," the man elected this year to the Hall of Fame on his 15th and last chance to be so honored posted a lifetime batting average of .298. That stat alone hardly qualifies Rice for election to the Hall. But his other achievements as a hitter make him a worthy honoree indeed. The list of relevant stats is impressively long, topped in this lifelong Bosox fan's view by the following: Rice is the only player in Major League history to record over 200 hits while hitting 35 or more HRs for three consecutive years; and he's the **only** player verifiably known to have broken a bat on a check swing without making contact with any object, the ball not excepted. In the disappointment category, Rice also set a Major League single-season record by hitting into 36 double plays in 1984, and was third on the all-time list of double play initiators when he hung up his cleats. We mention these seemingly ignominious stats here to highlight an aspect of TIFF's process for vetting investment talent that, consistent with our Burkean biases, remains unchanged since TIFF's launch: when determining whether a given person or firm merits the honor of stewarding capital on behalf of TIFF's member charities we ponder all relevant evidence rather than the narrower subset thereof that too many fiduciaries focus upon, namely recent returns. We do so not only because context is supremely important — e.g., the fact that Rice had many slow-footed teammates who couldn't reach second base before Rice's hard-hit grounders got fielded and whipped to second and first bases *seriatim* — but because investment pros' handling of past challenges can be a useful means of assessing the probabilities they'll handle unforeseen and indeed unforeseeable challenges in loss-making and/or venal ways. "Past" as just used can mean recent as well as more distant events, the massive decline in risky assets' prices in 2008 having spawned fresh opportunities for investment pros to do character-revealing things.

A Good and Golden Rule. Consistent with the mindset that induced us to rebate fees to member charities even as TIFF was struggling to achieve critical mass (*circa* 1999), we waived recently our right to draw fresh funds from charities for certain investment programs bearing the TIFF name. We did so because, of all the standards this staff employs in vetting external managers, the one that never leads us astray is the proverbial Golden Rule. More specifically, we're redoubling

our efforts to place capital in the hands of managers who behave honorably and ethically during the worst as well as the best of times for whatever form of investing in which they're engaged. Importantly, "honorably" in this context doesn't mean uniformly better than the competition, because markets aren't structured in a manner that makes constant outperformance possible.[2] This frustratingly obvious fact constitutes a boundary condition whose understanding should be a prerequisite for employment by regulatory agencies charged with policing conduct of the sort that has made the fraudulently steady return-generator Bernard Madoff a more disreputable figure in the hedge fund arena than a similarly discredited fellow named Clemens has become in the eyes of folks who both love baseball and are skilled at detecting deception. FWIW, most of TIFF's current investment decision-makers participated in a seminar a few years back aimed at enhancing their capacity to detect deception — an exercise aided by watching a famed American politician testifying about alleged sexual pranks in the workplace: an unusual but useful tool indeed for improving our b.s. meters.

People and Places. As folks who've monitored TIFF's evolution over the years know well, this staff is housed not under one roof, as tends to be the norm for teams of comparable or larger size stewarding endowment wealth, but rather in offices situated in multiple venues in the US plus one outside it (in London). TIFF's unusual geographic profile is decidedly a two-edged sword, giving this staff what it views as a distinct edge in stewarding capital while producing periodically communications challenges nearly as daunting as those many endowment teams arguably confront with greater regularity by failing to employ key investment pros in locales where they can do their best work. The highly respected investment pros who serve as our non-executive board members convene in each of our two largest offices roughly every 12 months, conducting their other quarterly meetings in NYC (typically) or in other financial centers. Importantly, TIFF's investment-related work has evolved over the 15 years it's been undertaken from a board-driven endeavor to a staff-driven endeavor, thus mirroring evolving functional norms at the leading endowments and foundations represented on our board. TIFF also seeks to mirror or perhaps more accurately anticipate state-of-the-art approaches to compensation, employing multi-part pay packages for key personnel that link dollars earned to returns delivered to member charities, with "clawbacks" used to inhibit undue risk-taking. We dare say that if comparable clawbacks had been employed widely on Wall Street for as long as they've been employed by TIFF, the prices of risky assets may not have fallen as dramatically as they did in 2008. They may not have fallen as dramatically because they likely wouldn't have risen to such dizzying heights beforehand, clawbacks being a powerful inducement indeed to act prudently.

II. Investment Policymaking *Circa* 2009

Frequently Asked Questions. Although many investment pros are being bombarded these days with clients' questions they'd rather not field, the questions we're fielding most often these days are ones we truly enjoy pondering. Actually, the queries to which we're alluding — Do policy portfolios still make sense? Do illiquid investments still make sense? Does the Yale model still make sense? — all essentially boil down to one question: does capitalism still make sense? Our questioners seldom wax so philosophic, of course, at least not when seeking guidance from us. But it's hard for us to fashion what we view as sound and sensible answers to the less cosmic questions alluded to above without first forming an opinion — which we're careful to label as

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[2] Nor does "honorably" as used above mean that managers should assent reflexively to a client's request to slow or suspend capital calls. Doing so may serve a specific client's interests but it may not achieve the greatest good for the greatest number of clients nor, obviously, for the manager.

such — about the long-term viability of capitalism in general and democratic capitalism in particular. We're bullish on it, period, while also maintaining a generally bearish stance (elaborated upon in §III below) respecting securities emanating from certain countries that are unarguably capitalist to the core but perhaps too democratic (some would say Democratic) to fashion effective and timely responses to acute geopolitical and economic challenges confronting them at present. Because we're long-term bulls on capitalism, we're bullish too on a notion that's gone from being cherished to derided by some institutional investors faster than Alex Rodriguez's credibility has eroded in light of his recent utterances respecting steroid use. The notion is this: institutions can potentially enhance their risk-adjusted returns by incurring large dollops of illiquidity. Indeed, the frequency with which we're fielding questions about illiquidity these days reinforces arguments that fiduciaries may be duly rewarded in coming years for displaying the patience that investing in illiquid assets presupposes. Leaving aside the nasty question of whether certain endowed charities would be vulnerable to potentially lethal doses of whipsaw (i.e., bailing out of slumping assets at highly inopportune times) if they were **not** in fact "locked up" to the extent that they in fact are, we'll note that this staff has walked the walk as well as talked the talk respecting the judicious use of illiquid assets on our member charities' behalf.

Our Kinda Luck. One Connecticut-based endowment has generally been served well by its willingness to incur large quanta of illiquidity. Indeed, this willingness has served Yale well enough for long enough to justifiably label its longtime endowment head lucky in the same sense that Bob Gibson was lucky. The fact that some in the money management arena have declared "the Yale model" dead in light of its recent apparent failings confirms not their comprehension of Yale's investment policies and practices but rather their confusion about same. The "lucky" head of Yale's investment office **was** a member of TIFF's board when (a) TIFF began stewarding member charities' capital in 1994, and (b) it began investing member charities' capital routinely in illiquid assets via its private investment program (launched in 1996). Although David Swensen rotated off TIFF's board in 2000, he continues to furnish guidance to this staff when called upon, despite or perhaps because of words written about David's justly celebrated book on endowment investing in a review of it that appeared in *Barron's* at the time of this book's initial publication in 2000. Underscoring anew that we at TIFF talk the talk while also walking the walk respecting the judicious use of illiquid assets, consider the following letter to the editor by yours truly published in the November 24, 2008, edition of *Barron's*:

> Your [November 10 2008] cover story on endowment investing was ironic in two respects. First, by hinting that Yale's chief investment officer, David Swensen, has perhaps done a disservice to higher ed by encouraging endowments to pile into alternative investments of the sort that generally have served Yale well throughout his 23-year tenure, you ignored the fact that Swensen cautioned strongly in his path-breaking book on endowment investing against rote mimicry of Yale's evolving endowment exposures. Second, your story ignored an important caution sounded in a review [of the aforementioned book] that *Barron's* ran when the book was published originally in 2000: "Given the increasing ease with which some of the strategies that Swensen has employed at Yale can be parroted," the review warned, "some fiduciaries are likely to read this book and do the opposite of what Swensen advocates: Commit excessive sums to niches whose strong performance has removed the discomfort associated with superior investment opportunities." I remember this book review well, because I wrote it.

Price Matters. The point we're driving at is fundamental to our evolving efforts on behalf of certain investment programs bearing the TIFF name and can be summarized thusly: there's a big and important difference between fiduciaries' willingness to hold illiquid assets and their

determination to do so. The former is generally healthy and potentially very helpful to the maintenance of fund purchasing power for institutions with endowment withdrawal rates north of the historic norm of 5%. The latter — a determination to hold illiquid assets more or less regardless of their price and hence their prospective returns — is unhealthy at best and potentially lethal at worst. The corollary is that savvy fiduciaries should incur illiquidity not invariably over time but **only** when they can reasonably expect to get adequately compensated for doing so. A further corollary, and one that recent market movements have highlighted in spades, is that the attributes which cause illiquid assets to merit that label — e.g., their privately traded status, their longer-term "lock-ups," etc. — do **not** in and of themselves purge such assets of systemic risks inherent in their more liquid analogs. When more readily tradable assets plummet in price, as they did in 2008, illiquid holdings whose worth is rooted in the same eroding fundamentals tend to shed value just as quickly. Why then make an unchanging rule of holding any particular asset class or subclass, illiquid or not, by assigning it a positive weight in an institution's asset mix at all times? We'd counsel against doing so, absent governance arrangements that would otherwise cause fiduciaries who are especially prone to the human tendencies flagged in the *Preface* to subject an institution to excessive whipsaw. We highlight unhappy governance arrangements of this sort because, frankly, some endowed charities with which this staff is very familiar continue to employ them.

III. Looking Ahead

Hits and Misses. Without question, the track record TIFF has compiled since an intrepid band of endowed charities became its founding members 15 years ago would be enhanced if we could claw back certain decisions we've made during my tenure as TIFF's chief investment officer. In all candor, we wouldn't want to **reverse** any truly major investment moves our team has consummated. Rather, if granted a finite quantum of "do-overs" we'd likely apply these to the amplification of bets we actually made, e.g., lightening up on technology-related issues as the Tech Bubble was expanding to egregiously unsustainable dimensions a decade ago. To be sure, I myself have made countless minor mistakes in my capacity as CIO as well as some memorably major ones (*cf.* how badly we got punished by our employment of certain hedge funds as one not employed by it — LTCM — was imploding *circa* 1998). Hopefully, our team has learned enough from reflecting *ex post* upon such errors to prevent them from recurring. Hopefully too, whatever errors we'll be committing henceforth, whether new or recurring, won't be material enough to undermine a track record that continues to magnetize capital — a happy phenomenon indeed in light of the rapidly expanding universe of attractive investment opportunities this staff is uncovering and the growing universe of talented investment pros seeking to join it. Returning to the topic of clawbacks, what I personally would **not** claw back with even an infinite supply of do-overs are any of the words I've written in my capacity as chief scribe of TIFF's external reports and commentaries.

Arguable Assumptions. Indeed, of all the labors I've undertaken for TIFF, the most enjoyable and gratifying have been the work I'm doing at this minute: writing. And the TIFF publication I'm most gratified to have authored is one whose aim was similar to the aim of the document you're now reading: to inspire confidence in this staff's capacity to assess evolving investment opportunities and perils in an informed, intelligent and timely manner. That publication is an essay published at the dawn of the current millennium entitled *A Look Ahead*. (See

http://www.tiff.org/TEF/articles/index.html to read this essay)[3] Like the passages that follow, *A Look Ahead* sought deliberately to provoke — to discuss candidly and for that reason critically "how some of today's most powerful trends in society and markets may pan out." We'll leave it to persons willing to revisit *A Look Ahead* to assess how prescient it was, especially respecting its discussion of Americans' growing avidity for debt-financed purchases of non-durable as well as durable things. And we'll necessarily leave it to future generations of fiduciaries to assess the degree to which the following prognostications hit the mark. We include them here for two reasons: to encourage readers who disagree with what follows to help us elevate our game by letting us know how and why they disagree, and to telegraph to interested parties some of the assumptions or premises underlying our evolving work as endowment stewards. Needless to say, the fearless forecasts that follow could prove inaccurate, perhaps wildly so, and we necessarily reserve the right to flout them if and as market conditions warrant.

Hope vs. Experience. Absolute return (AR) investing as commonly defined constitutes a triumph of hope over experience and will increasingly be regarded as such by investors of all stripes. Indeed, AR-oriented hedge funds have experienced cash outflows even larger than the inflows that caused us to strongly criticize the hedge fund industry as it was ballooning in size earlier this decade. One element of our critique was a cheer for the nascent trend of distinguishing between alphas, or excess returns, on the one hand and betas, or systemic risks, on the other in all aspects of endowment investing, especially fee arrangements. Looking forward rather than backward, though, we'd be inclined to delay any hedge fund obituaries. The massive outflow of capital from hedge funds, coupled with the more sensible fee structures that such waning demand will likely spawn, could produce an attractive landscape for many strategies accessible primarily if not exclusively via hedge funds.

Vigorous Reprobate. Much the same argument can be made respecting private investments. Like AR investing, private investing is declining in popularity at a rate rivaling the rate at which Elliot Spitzer's presidential prospects sagged when his intimate relationship with a woman not his wife was disclosed. Of course, we've seen this movie before, repeatedly — most recently in the opening years of the current decade. We argued in 2003 that investors' then-waning appetite for equities broadly defined caused us to view private equity the same way the sublime scribe Roger Angell viewed his favorite spectator sport and ours at the conclusion of its most recent players' strike: "Although long past its innocent youth and well into what appears to be a disordered and self-destructive middle age, [major league baseball] is a flushed and vigorous reprobate, with astounding recuperative powers." The private equity industry *circa* 2009 **cannot** fairly be described as such, nor can the private realty or resource industries. All remain overstuffed with human as well as financial capital and are burdened additionally by fee structures that enable managers to do very well indeed even if their clients do not. Such structures will crumble soon enough, we predict, to be replaced by arrangements that will enable private investment (PI) managers to earn large incomes only if their clients get adequately compensated for the risks to which such managers subject them, including especially liquidity risk. In other words, look for meaningful "hurdle rates" to become as pervasive in the private equity arena as they were pervasive in the private realty arena back in the day, i.e., before misguided monetary policies caused inflation to soar and in due course realty prices to soar, too, roughly three decades ago.

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[3] The publication entitled *A Look Ahead* was published by the TIFF Education Foundation (TEF), which provides resources aimed at enhancing fiduciaries' knowledge of investing.

Opportunities Abroad. Have we mentioned that we're bullish on TIPS?! We're bullish on TIPS because they seem like a sensible means of hedging against a material debasement of the US dollar over time horizons appropriate to perpetual life charities. This doesn't necessarily mean that we're bullish on fiat currencies other than the US dollar, of course, although some strike us as better potential stores of value than the greenback. (Hint: the countries issuing such currencies are situated closer to TIFF's Palo Alto office than to its offices in the eastern US. Another hint: the currency bloc formed by countries that are as visible if one looks eastward from our London office as Russia is when Sarah Palin looks westward from her home state of Alaska seems doomed to disband, with potentially deleterious consequences for portfolios laden with euros.) Similarly, the stock markets of the Asian nations to which we're alluding — China, India, Korea, the Philippines, Singapore, Vietnam and others — strike us as potentially more fertile fields for equity investors than their developed market counterparts in North America or Europe over the aforementioned time horizons. The reasons underlying this potentially flawed premise are set forth in the almost decade-old essay mentioned above entitled *A Look Ahead*. How can such a dated essay be germane to investment policymaking *circa* 2009? Because the societal trends it highlighted — outside as well as inside America's borders — in defense of decreasingly US-centric investment policies and practices haven't reversed since *A Look Ahead* was published. If anything, they've accelerated. Not, to be sure, Americans' propensity to borrow and spend rather than save: the credit crunch that unfolded in 2008 has reversed this trend, decisively and enduringly. But the US has undeniably fallen further behind in the international competition most germane to wealth generation, namely the worldwide race to educate youngsters under the age of 18.

Sober Assessment. With a new and immensely talented leader heading its national government, the US may regain the status it enjoyed as recently as the 1990s as the world's mightiest **and** most promising economic power. But we're far from convinced that it will — even if America's leaders do immediately what we implored them (as well as China's leaders) to do in a March 2004 commentary entitled *The China Syndrome*: lessen their nation's dependence on fossil fuels by building more nuclear power plants. [See www.tiff.org/TEF/articles/commentary.html][4] Prompted by the contemporaneous shifting of what struck this staff as imprudently large fractions of endowed charities into "China plays," this March 2004 commentary argued that China's "so-called leaders have not come remotely close to taking the steps needed to make direct investments in China by US-based endowments either necessary for achievement of their return objectives or choiceworthy means to that end." Having more than tripled from March 2004 to October 2007, the Shanghai Composite Index of Chinese stocks traded below its March 2004 level as recently as five months ago. We don't think the time has yet arrived to load up the truck with emerging market stocks in general and "China plays" in particular, but we're open-minded to doing so under certain conditions and think the probabilities are high that such conditions will unfold before TIFF marks its 25th anniversary ten years hence.

Troubling Telltales. What clues are at hand to help us peer into the future, if not 25 years out then over time horizons that are shorter but nonetheless meaningful to fiduciaries currently entrusting capital to TIFF or considering doing so? One clue potentially worth examining here — if only to highlight that this staff employs qualitative as well as quantitative methods in assessing investment opportunities and perils — is the current character of public discourse in America. America has had its share of rogues and charlatans in its private as well as public sector, but it's

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[4] The commentary entitled *The China Syndrome* was published by the TIFF Education Foundation (TEF), which provides resources aimed at enhancing fiduciaries' knowledge of investing.

been relatively free of corrupt players and practices and has for this and many other reasons tended to magnetize capital from outside its borders. Alas, in recent years, persons privileged to hold positions of power in both the private and public sectors in the US have in too many cases engaged in acts of omission or commission that have tended to undermine trust. Like the political system that it facilitates and in some respects presupposes, namely representative government, democratic capitalism can't function well over the short term and can't function at all over the long term unless its principal actors are trustworthy. At this writing, an interested but objective observer of American politics might be tempted to conclude that the persons holding leadership positions in the branch of its national government vested with the all-important power to tax and spend aren't being straight with the electorate or indeed America's foreign creditors respecting the true dimension of its entitlements problem.

Hard Choices. However flawed one thinks Lehman Brothers' financial disclosures were in the weeks preceding its collapse, the manner in which Congress accounts for the money it's spending contemporaneously, or is obliging Uncle Sam to disburse in coming years, makes the folks who ran Lehman into the ground look candid and trustworthy. To be sure, the American electorate could demand more candor from Congress respecting this country's rapidly growing entitlements problem, but it seems disinclined to do so. Whether America's foreign creditors will remain similarly disinclined to press for more complete and transparent accounting from Congress is an open question. It's also a supremely important one, because as poorly as holders of US dollar-denominated risky assets have been rewarded in recent years (Treasuries excepted, of course), they could be rewarded even more poorly in coming years if foreigners lose faith in Americans' capacity to not only work hard but to make hard choices. And the hardest choice by far that Americans or more precisely their elected representatives must make is to strike a sustainable and hence reasonably just balance between equality of opportunity and equality of condition. By our lights, the erratic path that the federal government has taken since a slowing economy began nose diving last year is attributable ultimately to our failure as a nation to strike such a balance. We don't see many signs, even nascent ones, that America is any closer to achieving this all-important aim than it was when properly equipped investors could hedge against Uncle Sam's potential default (via credit default swaps) at a cost equal to 0.06% of the face value of obligations being insured. Such hedges were available at that price as recently as April 2008. For reasons that go beyond but surely include the federal government's erratic reactions to economic malaise, investors had to pay roughly 10 times as much to obtain such hedges as of April 1, 2009.

Actual vs. Perceived Risks. Whether that market-clearing price to hedge against the unthinkable is too rich, or dear, is no less difficult to ascertain than the percentage of America's GDP that government outlays will comprise a decade or two hence — or, more to the point, the percentage of America's GDP that government deficits (at all levels) will comprise 10 or 20 years hence. Incentivized as we are, psychologically as well as financially, to seek attractive risk-adjusted returns wherever in the world they happen to be available, we're certainly not biased **against** buying securities of US-domiciled issuers (including Uncle Sam himself) provided the price is right. As a general rule, securities tend to be overpriced when their actual risks exceed their perceived risks. As an even more general rule, the actual risks to long-term investors of maintaining US-centric portfolios exceed the perceived risks. On what do we rest this inherently debatable proposition? We rest it on our own potentially flawed perception that investors as a group aren't focusing sufficient attention on this nation's unwillingness to strike the needed balance described above. To be sure, the US isn't the only nation that's flunking this test. But it's the only nation whose borrowings from foreigners equal around 17% of global GDP, the second biggest debtor-nation by this metric being the UK at present (with external borrowings equal to roughly 15% of global GDP). And the US is the only nation that, barring a miracle, will

likely need to borrow at least another 3% or so of global GDP to finance projected spending in 2010. As for more distant years, don't ask. Actually, if you're entitled to vote in these United States, as most members of this staff consider themselves privileged to be, **do** ask: ask the persons representing you in Congress what America would look like a decade or two hence if they had a free hand in shaping it. If their answers strike you as naïve, or worse, do something about it, please. We'll all be better off for it, "we" meaning all citizens of the world — non-Americans as well as Americans, and the unborn as well as the living.

IV. Conclusion

At Your Service. We noted at the outset of this document this staff's determination to adhere to TIFF's *Credo* as we go about our work in coming years. We're also duty-bound to exert our best efforts to act on the premise articulated by the most entrepreneurially minded man to preside over the university from which America's new president earned his undergraduate degree. "Businesses planned for service," said Nicholas Murray Butler (1862 – 1947), "are apt to succeed; businesses planned for profit are apt to fail." TIFF isn't a business in the conventional sense of that term: after all, the investment advisory firm that lies at its heart (TIFF Advisory Services, Inc.) is an entity that, like many well-functioning enterprises in America and not a few seemingly dysfunctional ones (e.g. a gigantic one based in Sacramento) has no stock and hence no stockholders. But this doesn't mean that it cannot or should not function in a businesslike manner, with businesslike defined in a way that honors Butler's premise. As unwisely as some corporate chieftains defined businesslike during the late great bull market in risky assets, Butler defined it wisely and well. The big bear market in risky assets that's humbled these chieftains will eventually run its course, we believe, tossing up compelling opportunities for long-term investors as it does so. We'll do our utmost to seize such opportunities on behalf of the endowed charities that we're privileged to serve.

End

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Glossary

Alpha represents the amount of a stock's return, on average, independent of the market's return, i.e., the difference between a stock's expected return and the expected return for stocks with comparable market risk.

Beta is an asset's sensitivity to market moves. Roughly speaking, if the market gains 10%, an asset with a beta of 1.0 will, on average, gain 10%. However, such market-related gain may be only part of the asset's total price change; e.g., a positive alpha (see above) would result in a total price change greater than 10%.

The **Shanghai Composite Index** is a commonly used indicator to reflect the market performance of the Shanghai Stock Exchange (SSE). It comprises exclusively stocks listed on the SSE.

Appendix A

TIFF Mission Statement

In 1991, a network of foundations founded a cooperative-style investment organization whose structure and eligibility criteria have evolved over time but whose essential mission has not. Known colloquially as TIFF, this organization seeks to:

- enhance the investment returns of non-profit organizations;
- reduce the investment and administrative expenses of non-profit organizations;
- broaden the universe of investment choices available to non-profit organizations;
- assist non-profit organizations in deploying their assets in a manner that will support charitable expenditures while preserving the purchasing power of their assets;
- help non-profit organizations monitor and evaluate their investment performance; and
- promote within the non-profit community an understanding of investment management.

Appendix B

TIFF Credo

- TIFF requires complete honesty of its staff, board, and vendors.

- No member of TIFF's staff or board shall encourage an organization to purchase a product or service that it does not need.

- TIFF shall be accountable for the actions of its board and staff in the performance of their authorized duties.

- Each member of TIFF's staff shall be accountable for his or her actions.

- TIFF values candor and encourages staff, board, and vendors to disclose complaints, biases, and real or potential conflicts of interest at the earliest possible time.

- Employment, promotion, and compensation decisions shall be based on merit alone.

- The value of members of TIFF's staff shall be measured by the enthusiasm and care with which they perform their assigned duties, not by the character of such duties.

- No member of TIFF's staff is too exalted to perform, when necessary, the duties of the least senior or lowest-paid employee.

- TIFF seeks to maintain a congenial work environment where patience and humor are the norms.