THE INVESTMENT FUND FOR FOUNDATIONS

pursuing investment excellence on behalf of endowed non-profits

To: TIFF Members
From: CIO Jay Willoughby and CEO Dick Flannery
Subject: Member Update
February 25, 2016

Having worked closely as partners for a little over four months now, we thought it was time that we offered our members some observations about capital markets today and TIFF's work on your behalf. We will not report here on specific details of any of our investment vehicles. Our quarterly reports will provide you with lots of transparency on each TIFF vehicle, and we encourage you to review them carefully.

As we write, markets around the world are roiled, and continued volatility seems likely. A sense of concern is a normal reaction. But, as the two of us deliberate with others on TIFF's Investment Committee, we are of one mind. We have seen environments like this before; we will see them again. With history as our guide, we can be confident that when markets overreact, they subsequently revert to the mean. In the process, mispriced assets and investment opportunities turn up for investors skilled, determined, and patient enough to identify them. We do not know what is over each horizon; no one does. But, we will continue to work tirelessly to form well-aligned partnerships with money managers around the globe who we believe know how to take advantage of those dislocations. Our predilection at TIFF is to stay even-keeled and keep our focus on the hunt for investment value and skillful investment partners. In our nearly 25 years of investing for non-profits, TIFF has witnessed many periods of volatility and experienced months, quarters, and calendar years of lackluster relative performance or out-of-favor positioning across each of its strategies. Fortunately, our strategies have also outperformed with reasonable frequency and we are proud of our long-term record.

From the Chief Investment Officer. The S&P 500 declined more in January 2016 than in any January since 2009, sparking an urgent debate among investors: can the US economy sustain its tortoise-like growth trajectory of late or will it fall into recession? This murky domestic outlook combined with concerns about a slowdown in China, the dislocation in the energy sector, and even negative interest rates appearing in a few key developed markets make today's investment climate seem even more complicated than usual. As time passes and we look back on this period, it will seem obvious, as the past always does, what should have been done to capitalize on these conditions. As long-term investors, we will be doing what every good practitioner of our craft does: survey the landscape for significant supply and demand imbalances and other market dislocations and try to identify and partner with the best possible managers to achieve a long-term 5% real return.

In terms of investable market dislocations, our team is carefully watching asset pricing in emerging markets, particularly Asia, and in the energy sector, including in the broad private equity marketplace. We are speaking directly with on-the-ground investors to gain insight and assess opportunities globally. On the manager front, we have a strong roster in place. To be sure, we can continue to add quality new managers to TIFF's equity and hedge fund lineups. In fixed income, we will generally emphasize liquidity and quality during this period of low rates and heightened volatility. To borrow from Warren Buffett (and evoke an old TIFF tradition of deploying baseball analogies), we won't swing at every pitch but will wait for the "fat pitches." In doing so, we expect to leverage TIFF's well-honed manager selection capabilities.

On the investment team front, I'm impressed by the energy and dedication of our team. We filled an open slot on the senior investment team by hiring my former Alaska Permanent colleague, Dave Fallace. We were delighted to bring Dave on board to guide TIFF's investment activities in diversifying strategies, which primarily includes hedge funds. Dave and I worked together in Alaska on many matters, including several off-the-beaten path opportunities to compound capital. We look forward to seeing Dave turn over many rocks, large and small, near and far, in his work at TIFF.

We recently reorganized the investment team to sharpen accountability and responsibility – and to enhance TIFF's already considerable research and monitoring capabilities. I'm pleased with the initial result. As noted earlier, Dave will oversee diversifying strategies. Trevor Graham will focus on marketable equity and Stephen Vicinelli on private investments. This is a strong group. While cross-disciplinary work will continue, each team will be more fully immersed in the potential risks and rewards of its portion of the portfolio. Dave, Trevor, and Stephen will work with me on broad manager selection and portfolio construction. Supporting each of them is a corps of dedicated portfolio managers, analysts, and researchers, all focused on ensuring that our manager selection success continues at the highest possible level.

We are also enhancing our risk-management processes to improve further our portfolio management analytics. We are incorporating additional elements of risk assessment to expand our understanding of existing portfolio exposures and so that we can preview the impact of any change we are considering. Additionally, these enhancements will help us explain more clearly exactly where we are, and more precisely how our managers are adding or subtracting value.

From the Chief Executive Officer. CIO transitions are rarely easy or quick, and we understand that we are still in the early innings of the process. No victories are declared early around here. Still, watching Jay come out of the gate with a burst of energy, a positive outlook, intensity, and a clear plan has been exciting. As Jay's summary above makes clear, TIFF's investment team has a full agenda. As we write, Jay, Trevor, and Brad Calder (one of our bright, young analysts who speaks Mandarin) are completing a research trip to China and Korea. Other TIFF investment teams are traveling to Europe and across the U.S. The global search for investment opportunities is a constant one.

Back at the shop, we are upgrading our proprietary research platform, investigating ESG investment opportunities, adding new attribution analyses to our quarterly reports (you'll see that work product soon), planning to refresh our strategic plan, and restructuring our member service teams. All of these activities are part of our continuous improvement goal. We want to get better at everything we do for our members.

As we do so, we continue to receive terrific support and guidance from our board members. In many cases, the manager contacts being pursued today by our staff, particularly in Asia, have come directly from board members. In other cases, our team finds managers on its own (e.g., Jay and Dave bring fresh manager ideas from their former work) and then we debate the merits of those managers with the board members. Both the TIFF Advisory Services (TAS) board and our mutual fund board also recently helped us reshape our asset allocation work leading to the new Constructed Index we rolled out this past fall, and, of course, the TAS board was central in the CIO hiring process.

Flows in and out of TIFF broadly (netting to a modest firm-wide decline for 2015) have been well within the bounds of our expectations and easily managed. We understand that some member organizations will choose to move on given our CIO transition and the recent soft patch in investment performance in some of our strategies. We are delighted that the vast majority of our members understand our long-term approach. We look forward to demonstrating how our new CIO and the entire TIFF investment team working within the time-tested TIFF model can benefit non-profits with long-term horizons.

TIFF serves perpetual-life charities best when we stay the course with diversified portfolios founded on partnerships with smart, well-aligned managers of the highest caliber and integrity. We believe this approach is the best route to achieving CPI + 5%, not over every market cycle but across a majority of them. In the current market environment, achieving “5% real” over short and maybe even medium time periods may be challenging if broad equity markets underperform their historic norms. We do think 5% real remains achievable, however, over long time periods. While it cannot of course be guaranteed, it remains our goal over the long term, and we will continue to pursue investment strategies that we believe maximize the likelihood of achieving that result. We take our stewardship responsibilities with regard to the capital you entrust to us very seriously and we will work relentlessly in the pursuit of investment excellence for our members.