



From the office of Laurence H. Lebowitz, President and Chief Investment Officer

July 2012

To My Fellow TIFF Members:

As I have interacted with more and more of you since my arrival at TIFF almost two years ago, it has become clear to me that our member communications can be improved.

The financial markets have grown more complex and volatile, with increasing numbers and types of investment options available to endowed charities. While the TIFF investment team has excelled at navigating these waters on your behalf, I believe the Quarterly Report format that has been TIFF's standard since its inception would benefit from a redesign. We can significantly simplify, clarify, and expand our QR's to do a better job of explaining many of the things that are going on in our various vehicles. We are hard at work on a substantial revamp of our QR's, which we will be rolling out to you in the first quarter of 2013.

A number of you have also requested a bit more direct insight into the thinking of the investment team and goings-on at TIFF generally. To be responsive to this request, we are now instituting a semi-annual letter to members from the office of the CIO, of which this letter is the first. Our QR's will remain narrowly focused on specific investment vehicles, while our semi-annual letter will examine the investment landscape – and TIFF generally – from a higher vantage point.

Note that I said “from the office of the CIO” in the prior paragraph, not “from the CIO”. While these semi-annual reports will be more personalized than other TIFF communications have been historically, TIFF members should understand that the management of over \$9.0 billion in endowment assets that you have entrusted to us is most definitely not a one-man effort. TIFF's investment team today is 16-strong and growing, as we add capacity and capabilities to our continuing effort to deliver investment excellence to you in all ways. I am privileged to lead that team, and one of my primary responsibilities as CIO is to make sure that we are putting the best possible team on the field at all times. Recruiting, developing, challenging, and organizing that team is a never-ending process of continuous improvement.

TEAM

Along those lines, let's take a closer look at our investment team. Our CEO, Dick Flannery, and I recently sent you a letter describing the departure of Nina Scherago, the arrival of Trevor

Graham, and a list of some other recent hires. The Nina/Trevor transition maintains the senior investment team at four individuals (Trevor, John Thorndike, Stephen Vicinelli and myself). In addition, we have an investment committee consisting of seven individuals (the four just named plus Dick, John Merrill, and Herbie Bohnet, our investment counsel). This seven-person investment committee construct has been operating smoothly for the past eighteen months and I am very pleased with how it has been functioning. All significant investment decisions flow through this group, with all members of the team having the opportunity to weigh in.

While I chair the group, I do so in a style that is highly delegated. Group processes must not end up sacrificing individual accountability or devolve into confusion or finger-pointing. Another one of my primary responsibilities as CIO is to make sure that our group processes get that balance right.

While we do have one new member of the senior investment team, I'd like to highlight how much continuity remains. At the investment committee level, Stephen and Dick have each been with TIFF for nine years, John Thorndike for eight, John Merrill for seven, and Herbie for four. All of these individuals have been closely involved with TIFF's portfolios during their tenures, and the performance of our vehicles has been the product of all of their efforts. Of course, all TIFF staffers contribute meaningfully to our investment efforts. No TIFF vehicle has been anywhere close to a one-person show, and I intend to ensure that our team approach maintains its consistency, depth and experience.

One exciting recent development is that the entire TIFF US investment team is now based in a single office, in Boston (Cambridge, to be precise). Early in TIFF's existence, because it had limited resources, TIFF allowed several individuals to be based remotely. TIFF no longer needs to operate under that sub-optimal construct, however, and since my arrival – with the full support of the TIFF Boards – I have been working to consolidate our US investment team in a single location. To that end, we have shut down the Palo Alto and Dallas offices, and have now begun the process of shutting down the Bethesda office as well (with staff there either relocating or commuting periodically to Cambridge). I am convinced that by having the entire US investment team based in one office we will have materially improved communications, analysis, and investment decisionmaking. When you find yourself in the Boston area, we encourage you to stop by our office and kick the tires. (And, we of course invite you to do the same in the Philadelphia area, where our Member Services and Operational groups are located.)

PERFORMANCE

The specific investment performance of our various vehicles will be described in greater detail in their respective QR's. Generally speaking, though, I am pleased with how things have been going so far this year.

This certainly includes our Core Endowment strategies – one vehicle providing daily liquidity and another intermediate liquidity. Both vehicles appear to us to be doing well. (As a reminder,

any vehicle with material private investment holdings will typically experience a reporting lag because valuations of underlying portfolio companies take several months to finalize.) These two Core vehicles represent about half of the total assets that we manage. They also tend to represent a larger percentage of the portfolios of each of their various members (hence the "Core" moniker) and so we are pleased that they appear to be off to a good start this year.

The numbers are still preliminary from our hedge fund program, but again we are pleased with what we've seen so far and will be satisfied if we can maintain the pace in the second half of the year. These strategies could easily fall short – perhaps way short. We shall see.

Our private investment (PI) program is harder to evaluate on a short-term basis, and semi-annual certainly qualifies as "short-term" for these purposes. General indications are that our various vehicles seem to be performing pretty well, but the PI QR will be a better guide.

PORTFOLIOS

TIFF's Constructed Index (CI) – described in detail in some of our publications – embodies TIFF's staff and board members' long-term perspective on asset allocation. Over the past few years, this Index has been conservatively positioned, with a healthy weighting to cash and other hedging assets. As an example of how we think about and use the CI, until about nine months ago, staff had tilted the actual allocations in our Core Endowment offerings even more conservatively than the CI. At the time of the S&P downgrade of the US credit rating last fall, we took advantage of market turmoil to increase our risk assets weighting to be neutral in CI terms. Since the CI itself is defensively configured at present, however, this still represents a somewhat conservative posture. We continue to carefully monitor the various convulsions and upheavals that seem to afflict the capital markets daily, to judge whether this posture ought to be changed. For now, neutral (relative to the CI) feels about right to the team with regard to our Core Endowment offerings.

It is worth noting that both of our Core Endowment offerings follow the same Constructed Index. One, however, is structured to take on greater illiquidity in its manager selections, and therefore should offer higher return potential. We think the tradeoff – less liquidity for potentially higher returns – is one worth considering for those eligible members that share this view.

Our hedge fund allocations have changed only incrementally over the past year, but Trevor's arrival has already catalyzed some fresh thinking on this front. We are hard at work evaluating new investment options and I expect a somewhat higher rate of change in the makeup of our hedge fund portfolios over the next 18 months than you have seen over the past 18. Importantly, however, the core investment objective, risk tolerance, and general approach of these offerings are unchanged.

MARKETS

Judging by the number of times I've been asked by members what keeps me awake at night, fitful sleep is apparently a prerequisite for being CIO. I certainly qualify, as I can't remember the last time I slept through the night.

The list of things I worry about while I'm lying there is a long one. Generally working our way from west to east:

- Artificially low interest rates globally, especially in the US
- The as-yet unresolved significant fiscal imbalances in the US budget
- The high level of polarization in our national politics, making it more difficult for Congress to get things done.
- An increasing level of social tension, driven by the growing disparity in individual wealth in the US (the "99%" vs. the "1%")
- The ongoing hollowing out of US manufacturing capacity, and the implications to blue collar employment opportunities for less-skilled workers.
- Major fiscal imbalances in Europe, which threaten not only the Euro, but also many countries' heavily-supported social welfare systems (which appear increasingly unsustainable.) The Eurozone's stability and unity are clearly under great pressure.
- An undercapitalized European banking system, with the attendant risk to debt capital availability for European corporations.
- Ongoing Middle Eastern tension of various sorts – Iran vs. Israel, Saudi Arabia vs. Iran, Syria generally, the upcoming intergenerational leadership transition that Saudi Arabia will need to execute, political unrest in Egypt and the other "Arab Spring" countries – this is a very long, messy list.
- Russian political instability – a never-ending problem.
- Chinese political tensions – a newer problem that will be heavily managed and suppressed by China's leadership, but which is there nonetheless.
- Chinese fiscal imbalances, combined with rising Chinese labor costs, the risk of a significant recession in China, and a potential bubble in Chinese asset prices.
- Serious demographic and fiscal challenges in Japan – a big economy that the global economic system needs to be stable and strong.

I wish we had good visibility at TIFF into how these various risks will play out over time. Alas, we don't. Furthermore, I am skeptical of anyone who claims that they do. One core aspect of TIFF's investment philosophy is to be opportunistic. Because the future is inherently unknowable – especially when it comes to macroeconomic problems of this sort – good investment managers must always be careful not to paint their portfolios into a corner. The relatively defensive posture that we continue to maintain generally across TIFF's core and hedge fund strategies – including meaningful allocations to cash and cash-equivalents that can be rapidly redeployed – allows us to take advantage of these problem scenarios when they become severe. Said another way, we strive always to remain mindful of the thunderclouds

massing on the investment horizon, and to position our portfolios to ride out these various tumults if and when they should grow into hurricanes.

CONCLUSION

I had intended a briefer letter when I sat down to write it, and in the future I hope to do better. I am mindful of Mark Twain's admonition that "anybody can have ideas – the difficulty is to express them without squandering a quire¹ of paper on an idea that ought to be reduced to one glittering paragraph."

Before closing, though, the main thought I'd like to leave you with is my belief that TIFF is extraordinarily well-positioned to serve the needs of the 800-plus members whose varied missions we support. Your investment team – which is only a subset of the broader TIFF team – is passionate in its commitment to the not-for-profit sector and its desire to help all of you do what you do with more resources than you might have otherwise had without our help.

We are intensely focused on investment excellence, which means delivering great investment results, through the efforts of many great people, configured in a great organization, under the oversight of a great set of board members.

We are acutely mindful of the trust you have placed in us by allocating your scarce and valuable endowments to our stewardship, and we pledge to honor that trust in all we do.

Yours sincerely,



Laurence H. Lebowitz
President and Chief Investment Officer

¹ quire (noun) – a set of 24 uniform sheets of paper