THE INVESTMENT FUND FOR FOUNDATIONS

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

February 2013

Dear TIFF Members and Friends,

I recently celebrated my second anniversary as TIFF's Chief Investment Officer and am pleased to report that we continue to make solid progress across all dimensions of the organization. The transition from my inimitable predecessor, David Salem, is now largely complete. We ended 2012 with a slightly larger asset base than we had at the beginning of the year ($9.8 billion versus $9.6 billion, including committed capital). I would characterize performance across all our investment vehicles as good to very good. Our seasoned investment team is performing well and adapting gracefully to consolidation into a single Cambridge location.

PERFORMANCE HIGHLIGHTS

As always, members can find specific investment performance of TIFF's various vehicles in their respective quarterly reports.

Core Endowment Strategies

Based on what we know at this writing, it seems clear to us that the two investment vehicles making up TIFF's Core Endowment Strategies produced solid results in 2012. We believe the performance of these vehicles – one providing daily liquidity and the other intermediate liquidity – are likely to track one another. We will not know the final results of the vehicle providing intermediate liquidity until mid-2013 because of the typical lag in reporting of its private equity investments.

Further, we think both vehicles' results will compare quite favorably to the Constructed Index (CI), which is the policy portfolio the two vehicles share. The CI is described in detail in the quarterly reports of these vehicles and on TIFF's website. Our current analysis and estimates indicate that the primary contributor to our performance in both vehicles was manager selection, as several of our external managers not engaged in private equity investing beat their benchmarks handily and the few that underperformed did so by margins under 5%. We are pleased, as well, that our 2012 returns for our two core vehicles appear, at this point, to compare favorably to a mix of stocks and bonds consisting of 65% MSCI All Country World Index and 35% Barclays US Aggregate Bond Index. We are particularly satisfied with our preliminary view of core vehicle performance given the large allocation to cash held by both vehicles over the course of the year. The cash allocations might have suggested the vehicles would underperform the 65/35 mix. Considering the risks incurred over the year, our estimated 2012 performance outcome for the core vehicles is gratifying.

The core program started the year with about $4.6 billion of total assets and ended with roughly $5.6 billion. This asset growth was easily manageable, although no vehicle should have unlimited capacity. We are happy to accept new subscriptions to these core vehicles so long as we continue to see opportunity to deliver satisfactory results. However, should circumstances dictate, we will not hesitate to close a fund to new investment. While we do not anticipate closing either core vehicle in the near future, we do want members to be aware that we consider the issue of capacity on a regular basis.

Although the core vehicles share the CI, there are important differences in these funds. One can and does invest substantially more in hedge funds than its sibling and can also participate in private equity while its counterpart cannot. Over the long term, we believe that any vehicle with material allocations to hedge funds and private equity could be expected to outperform a vehicle that does not have such material allocations.

Hedge Fund Program

TIFF's hedge fund program also turned in solid performance for 2012 in our view – I would even venture to characterize it as standout when compared with the performance of the program's T-bills + 5% benchmark. I am delighted with this outcome; it was a healthy performance recovery from the sub-par year for the hedge fund program in 2011. In 2012, the program experienced net outflows. We paid out all redemptions in full in January 2013 (at the December 31, 2012, NAV), less a required 5% audit holdback, and have reconfigured the portfolio for 2013. We went into greater detail about the portfolio on our regular semiannual conference call for members invested in the program. I encourage any such member who missed the February 8, 2013, call to listen to the recording archived on our website.

Private Investments

TIFF's various PI vehicles are difficult to measure on a year-to-year basis. We believe progress is being made consistent with our expectations. Distributions for all TIFF PI funds for 2012 came in ahead of our mid-year forecast. We view feedback from our managers as generally positive. If you are a PI member, I encourage you to review each individual fund's performance in our Private Investments quarterly reports. TIFF raised two new private funds in 2012 – one totaling $33.6 million in member commitments and the other $41.6 million. On a combined basis, 2012 PI fundraising was greater than in 2011. We are cautiously optimistic that interest in Private Investments generally moved off post-2008 lows. We are agnostic about fund sizes, but we have had unused capacity with some of our preferred managers and are eager to have our members take greater advantage of what we believe are attractive opportunities.

About Our Investment Team

Our Cambridge-based investment team is now fully integrated, and I am delighted with our continuing progress. Trevor Graham – our most recent senior hire – is an outstanding addition to our team. Our new analyst program is off to an excellent start, with our three first-year analysts (from

Brown, Middlebury, and Bowdoin) becoming seamless and effective contributors. We have also made offers to two of our 2012 summer interns, each of whom will be graduating from college in June (from Stanford and Williams), and I am pleased to report that both have accepted and will be starting with us in the fall as analysts. This program will ensure a steady inflow of young talent. They will support our more experienced people while learning a great deal about the investment analytics and decision-making process.

As many of you know, our entire US investment team is now headquartered in Cambridge, Massachusetts. Kate Powell has relocated to Cambridge from our now-closed Bethesda office. Lodge Gillespie is commuting to Cambridge, and Tamara Scharlat has left TIFF as of the end of January. Tamara has been a valued contributor, and we are sorry to be losing her but respect her desire not to relocate to Cambridge. We wish her all the best in her post-TIFF life and thank her for her many contributions.

I expect to report on additional investment team hiring in my 2013 mid-year report and hope by later this year to have our investment team fully staffed to meet the complex demands of managing your capital effectively. It is impossible to overstate the importance of continually attracting smart, talented people to TIFF. Talented people are at the core of producing investment excellence, and we are committed to attracting and retaining the very best people in our business.

The value of consolidating our entire US investment team at TIFF's Cambridge location cannot be overstated either. It is indispensable to more effective communication, cross-training, risk management, and overall performance. Since my arrival, I have sought to break down barriers between different parts of the team, and I am pleased with our progress to date. A key advantage of having a single integrated team is that it gives us the flexibility to reallocate individuals to different parts of TIFF's overall portfolio as needs arise. For example, while we expect that the asset base of the hedge fund program will be smaller in 2013, we also expect that our two core endowment vehicles (both of which have hedge fund holdings) will be larger and will require more attention. Our goal is to have all members of our team be cross-functional. Our intent is to reward talent wherever and whenever contributions are made, regardless of the short-term performance of a particular investment vehicle. We have adjusted our compensation systems accordingly.

Looking to the Future

My 2012 mid-year report provided readers with a list of issues that keep me awake at night. Alas, while the composition of that list has changed somewhat over the past six months, the general length of it has not. But there are reasons to feel somewhat optimistic. The US has made it through its quadrennial election saga and the ensuing fiscal cliff negotiations in a tolerable fashion. The "daggers drawn" attitude that the two main political parties share will remain a persistent problem. We are carefully watching the machinations of the denizens of Washington, DC. We believe their rhetoric and their behavior will continue to impact markets even more than usual.

The US economy seems to be recovering gradually. Unemployment has been ticking down slightly, while housing prices appear to have bottomed for now and corporate profits generally remain at levels that suggest continuing capital investment. All of these factors point to a higher risk of inflation in 2013 and 2014. Therefore, you will likely see some modifications to our portfolios over the course of 2013 that constitute inflation hedges.

Europe remains difficult to gauge, especially in light of French Revolution II: The Sequel. The EuroProject requires close Franco-German cooperation, and the two countries seem currently to be on divergent paths. We expect a continued European muddle and are positioned accordingly.

Asia remains an enigma. The KRC (Kleptocratic Republic of China – thanks, Whitney Tilson) continues to face significant internal societal stresses that new Premier Xi Jinping will need to carefully manage. We remain cautious.

Japan faces continuing demographic and budgetary pressures, yet we see a variegated set of corporate opportunities – and thus a rich opportunity set. One of our best-performing managers in 2012 was Japan-focused, and we remain optimistic heading into 2013.

We have increased our exposure to structured credit – particularly in the US RMBS market – in 2012. We are hopeful for solid results there in 2013.

Our equity allocation is roughly unchanged from six months ago. We retain much dry powder to take advantage of dislocations that, as of yet, have not materialized. We are ever vigilant and are learning to live in both hope and fear.

Final Thoughts

My first two years at TIFF would not have gone as smoothly without the strong support, sound judgment, and unfailing good humor of my partner Dick Flannery, TIFF's CEO. Dick has led the Strategic Planning effort over the past year, and you will soon hear from him in greater detail on that topic. In addition, each of the directors who comprise TIFF's various boards continues to offer insights and provide invaluable contributions to our work at TIFF.

On behalf of the investment team, I would like to offer our heartfelt thanks to Dick, to TIFF's 45 non-investment team employees, and to each and every one of our board members. Their help over the past two years has been indispensable. Finally, I would like to thank each of you – the 800-plus TIFF members who have entrusted $10 billion to our stewardship. I can assure you that the entire TIFF organization works proudly and tirelessly to help you fulfill your missions. We are grateful that you continue to give us the opportunity to do so.

Yours sincerely,

Laurence H. Lebowitz
President and Chief Investment Officer