TIFF INSIGHTS

TIFF
THOUGHT LEADERSHIP

Quarterly Commentary

1Q2019

Rebound!

…… not the kind an NCAA coach wants his players to fight for during March Madness, but rather the one investors were rooting for after the vicious end to 2018. Well, we got a big one in Q1 2019. Nervous investors are asking, "So now what are you going to do?" We smile and stay quiet. Success in the investment business is both very hard—and very easy. It's very easy if you can avoid the temptation to make market calls or portfolio decisions based on questions like these. When we go through bouts of volatility, as we did in 2018, it is harder than usual for some investors to ignore the siren song and the urge to do something. Sometimes, these doers get it right; more often they get it wrong. For mental health reasons, we humans are programmed to remember our wins more than our losses, so the errors fade from memory while our correct calls become bolder and more profitable each time they're recalled from memory. Outguessing competing investors who often possess more information than you do is a hard way to outperform the market. In fact, great investors outperform when they take advantage of the decisions that less-well-informed investors make.

Other investors seem less engaged and neither get as nervous as the doers during market declines nor as excited during rallies. These more patient folks keep doing their jobs and only occasionally pay close attention to their accounts. The funny thing is that often these folks will review an account statement after a particularly dramatic market setback and call us with a different question: "Wow, things are down a fair amount from last year. Is this a good time to add?" It's almost as though they are shopping for a new car or furniture. When tangible things are on sale, they buy, and when stocks go on sale, they do the same. Again, we usually smile and say very little, as we ourselves are often busy rebalancing back into stocks.

We generally believe stocks will return more than other asset classes, but we also know they frequently provide a wilder ride. Diversifying assets such as hedge funds and bonds tend to deliver lower returns, in descending order, but with less volatility. The reasons to own diversifiers and bonds are, first, to smooth out volatility so that a distribution doesn't eat up too much of your investment during a bad stretch and, second, so we can rebalance into the weakness of the higher-returning asset. It's a pretty simple but effective game plan. Along the way, this game plan also provides the time to identify and partner with best-in-class investors worldwide. That, of course, doesn't mean TIFF will outperform every year, but over time we like the recipe.

To be fair, after such a poor Q4 2018 for capital markets, we should reflect at least briefly on Q1 2019. In the last quarter of 2018, an elementary portfolio consisting of 60% MSCI All Country World Index (ACWI) and 40% Bloomberg Barclays US Aggregate Bond Index returned -7.11%. In the first quarter of 2019, the same portfolio gained 8.45%. Pretty dramatic moves individually, but ho-hum when the return of the two consecutive quarters is looked at cumulatively. Those two quarters crisply demonstrate how higher volatility, which we had been expecting, cuts both ways. That it did so in such neat quarterly wrappers just makes it easy to highlight. Zeroing in on equity returns just for a minute, ACWI was off -12.75% in

© 2019 TIFF Advisory Services, Inc. and TIFF Endowment Asset Management, LLC. All rights reserved.
May not be reproduced or distributed without permission.

Q4 and rallied 12.18% in Q1 2019. It was important to keep one's cool and not sell out in the heat of the Q4 downdraft. In the fall of 2018, we re-examined our China thesis and sent two members of our team to China for on-the-ground due diligence with our managers and several of our larger portfolio companies. Upon their return, and after incorporating this new information, we decided to maintain our positive long-term view on Chinese equities. At least in the short run, this additional research proved beneficial. As the chart below shows, after losing almost 28% last year (but "only" 12% in Q4 2018) the Shanghai Shenzhen CSI 300 Index rallied more than 31% in Q1 2019 – all measured in USD.

Used with permission of Bloomberg Finance L.P.

Other trends have continued, namely US stocks outperforming non-US developed market and emerging market stocks, and growth besting value. These trends have been headwinds that manager alpha is designed to overcome. Partnering with great managers doesn't make up for these in every environment but over time helps overcome individual factor headwinds. In the near term, we expect market volatility to remain elevated as we face many uncertainties in the next year or two. Brexit is upon us, and as we write, the UK prime minister is asking the European Union for an extension of the EU's April 12 deadline for the UK to decide whether it will go it alone or agree to the EU's divorce terms. The US/China trade negotiations are in overtime, with the March 1 deadline having been extended. An announcement of success or failure could come any day now. All sorts of fractious US political events lie ahead, culminating in a fast-approaching presidential election. In Europe, voting in some country or region is always on the calendar, but this year pivotal European Parliamentary elections arrive on May 23 with first-round balloting and end May 26 with runoffs.

As anticipated, the US Federal Reserve figured out a better way to publicly communicate its views (and stopped raising interest rates), thus becoming a market support. In fact, for those of us who have been in this business for 35 years, that Fed statement represented the first time a Fed chair had announced that short-term interest rates would not be raised for the ensuing nine months. In March, Chairman Powell also announced that the roll-off of the Fed balance sheet would continue to taper and would stop in September. This was quite a turnaround from the harsher language of December, when the Fed was normalizing interest rates and the balance sheet reduction was on auto-pilot. The market could not have hoped for more from the Fed, and investors reacted accordingly. As the chart below demonstrates,

© 2019 TIFF Advisory Services, Inc. and TIFF Endowment Asset Management, LLC. All rights reserved.
May not be reproduced or distributed without permission.

10-year Treasury yields have declined quite a lot from 3.24% in early November to as low as 2.37% at the end March. That is a big drop and led to meaningful price gains of about 8% on a 10-year Treasury note from the peak to quarter-end. Our shorter-duration portfolio has slightly lagged, and as Q1 2019 ended we found ourselves shortening duration slightly into this bond price strength. To justify bond prices at these levels, we would likely need to see some sort of global recession to keep interest rates in Europe negative and drag US rates lower.

Used with permission of Bloomberg Finance L.P.

Lastly, a few new ideas are being floated that could impact markets. In Europe, the idea of creating Europe-wide "Champions" capable of competing on a global scale with Chinese and US companies, is being debated (while Italy is signing Belt and Road deals with China – ugh). The Champions idea is probably a bad one, as over the long term any anointed Champion is still a company domiciled in only one European country. When the going gets tough, these sorts of things usually end badly. Stateside, the big new economic idea is Modern Monetary Theory or MMT. MMT deserves some explanation and its own set of paragraphs to properly capture our thoughts, so here goes.

MMT. With disagreement over exactly how to define MMT coming from both sides of the economic spectrum, we'll first try to summarize the main elements that protagonists seem to agree upon.

The primary tenet of MMT is that if a country prints its own currency, as the US does, then that currency is a public good to be used for the benefit of all. In such a country, debt and deficits don't matter as long as inflation is contained because the government can always print more money to pay interest on its debt. The only constraint on government spending, therefore, is inflation. MMT proponents argue that inflation is primarily the result of excessive pricing power by businesses, not excessive growth, and that the key to keeping inflation low is to break up monopolies and stop banks from making too many loans. MMTers say policymakers should print and spend as much money as necessary to achieve policy goals. They believe the natural rate of interest in a world of fiat money is zero and that anything higher is a giveaway to the investor class, exacerbating inequality.

© 2019 TIFF Advisory Services, Inc. and TIFF Endowment Asset Management, LLC. All rights reserved.
May not be reproduced or distributed without permission.

Much of the underpinning for MMT theories is said to come from John Maynard Keynes, who during the Great Depression coined the term "paradox of thrift," which essentially states that while an individual household can cut spending and save its way back to prosperity if income falls, an entire nation cannot. The experience of the recent Great Recession would seem to support this notion. Accordingly, MMTers generally support a federally funded, locally administered, national job guarantee. Government would pay a $15 per-hour wage, employing more people in slumps than in booms.

MMT rejects the notion that economies should be steered by the central bank raising and lowering interest rates and instead contends that the government, with electronic money being "printed" by the Fed whenever needed, can better manage the economy. MMT advocates do not believe taxes are needed to pay for government spending but would use taxes to both lessen inequalities and to keep inflation under control. By raising taxes just enough, money from consumers and businesses could be siphoned off from the economy so that total spending and inflation would remain contained. Proponents suggest that adopting MMT could help the US finance a Green New Deal, universal basic income, and Medicare for All.

Certainly, a true MMTer or an anti-MMTer would point out many additional facets of MMT. We think we've captured the essence of what MMT proposes. As many of you may find MMT either attractive or unattractive, we expect that any traction this debate receives will be polarizing. To us, the biggest takeaway from all of this is to remain diversified. If MMT becomes more of an issue during the presidential campaign already getting into full swing, it could influence investor behavior both inside the US and beyond our borders. The best place to keep track of any impact is likely in the currency markets, where the value of the US dollar could be affected. Our best guess is that, at least initially, US adoption of MMT would cause the value of the dollar to decline vs. other currencies. That would likely make the dollar value of foreign investments rise and could push US stock prices up and US bond prices down. Why? Because the "global" value of any particular company would remain about the same while the "global" value of a fixed stream of US dollar payments from a bond would decline.

A well-respected major investment firm recently highlighted the value of diversification—in particular geographic diversification—in one of its regular pieces of market intelligence.* They offered powerful conclusions demonstrating that the value of diversification does not always hold over short periods (and hasn't recently for US investors), but they do highlight that even extreme periods of good or poor single-country performance seem to get engulfed over time by the power of diverse return streams.

We appreciate your continued confidence and trust.

* TIFF members wishing to read this research report may contact our Member Services team at memberservices@tiff.org

© 2019 TIFF Advisory Services, Inc. and TIFF Endowment Asset Management, LLC. All rights reserved.
May not be reproduced or distributed without permission.

TIFF INSIGHTS

TIFF THOUGHT LEADERSHIP

Market Index Total Returns (%)

Index	Q1 2019	1 Year Ending 3/31/2019	Five Years Annualized as of 3/31/2019	Category
Russell 1000 Growth	16.1	12.7	13.5	Equity-Oriented Assets
FTSE EPRA/NAREIT Developed	14.9	14.3	7.4	Equity-Oriented Assets
Russell 2000	14.6	2.0	7.1	Equity-Oriented Assets
S&P 500	13.6	9.5	10.9	Equity-Oriented Assets
MSCI All Country World	12.2	2.6	6.5	Equity-Oriented Assets
Russell 1000 Value	11.9	5.7	7.7	Equity-Oriented Assets
MSCI All Country World ex US	10.3	-4.2	2.6	Equity-Oriented Assets
MSCI Emerging Markets	9.9	-7.4	3.7	Equity-Oriented Assets
Bbg Barclays HY 2% Issuer Capped	7.3	5.9	4.7	Equity-Oriented Assets
Bbg Commodity Index Total Return	6.3	-5.3	-8.9	Diversifiers
Merrill Lynch Factor Model	5.0	2.1	3.0	Diversifiers
HFRI Fund of Funds Composite	5.0	0.5	2.3	Diversifiers
Bbg Barclays US Govt. Inflation-Linked Bond	3.3	2.7	2.1	Fixed Income
Citigroup 10-Year Treasury	3.1	5.6	2.6	Fixed Income
Bbg Barclays US Aggregate Bond	2.9	4.5	2.7	Fixed Income
Bbg Barclays US Intermediate Treasury	1.6	3.8	1.7	Fixed Income
2/3 Bbg Interm Treas, 1/3 ML 6-Mo T-Bill	1.3	3.3	1.4	Fixed Income
BofA Merrill Lynch 6-Month US T-Bill	0.7	2.3	0.9	Fixed Income

Notes. All non-US index returns are in US$ unless otherwise noted. One cannot invest directly in an index. Truly passive (indexed) investors cannot earn an index's full return due to custodial, rebalancing (i.e., trading), and administrative costs. HFRI data are preliminary and subject to revision. *Sources:* Bloomberg, BofA Merrill Lynch, Citigroup, Hedge Fund Research Inc., FTSE Russell, Morgan Stanley Capital International, Standard & Poor's.

Index Descriptions

Bloomberg Barclays US Aggregate Bond Index tracks the broad US bond market.
Bbg Barclays US Government Inflation-Linked Bond Index tracks TIPS
Blended CI Fixed Income index consists of 2/3 Bloomberg Barclays US Intermediate Treasury Index and 1/3 BofA Merrill Lynch US 6-Month T-Bill Index.
Bloomberg Barclays US High Yield 2% Issuer Capped Bond Index tracks US high yield bonds.
Bloomberg Barclays US Intermediate Treasury Index tracks Treasuries of 1- to 10-year maturities.
Bloomberg Commodity Index Total Return tracks primarily agricultural and energy commodities, metals, and livestock.
BofA Merrill Lynch US 6-Month T-Bill Index tracks the current 6-month US Treasury bill.
Citigroup 10-Year Treasury Index tracks 10-year US Treasury bonds.
FTSE EPRA/NAREIT Developed Index tracks global real estate investment trusts.
HFRI Fund of Funds Composite Index tracks returns, net of all fees, of over 400 hedge funds of funds.
Merrill Lynch Factor Model seeks to approximate hedge fund beta by tracking the S&P 500, Russell 2000, MSCI EAFE (developed markets in Europe, Australasia, and the Far East), MSCI Emerging Markets, euro-dollar spot exchange rate, and cash, allocated via an algorithm.
MSCI All Country World Index tracks large-capitalization stocks worldwide.
MSCI All Country World ex US Index tracks primarily non-US developed and emerging market stocks.
MSCI Emerging Markets Index tracks freely tradable emerging market stocks.
Russell 1000 Growth Index tracks US large- and mid-cap growth stocks.
Russell 1000 Value Index tracks US large- and mid-cap value stocks.
Russell 2000 Index tracks small-capitalization US stocks.
S&P 500 Index tracks primarily large-capitalization US stocks.

TIFF Advisory Services Inc. • Copyright © 2019 • All rights reserved • This report may not be reproduced or distributed without written permission from its publisher.

All investments involve risk, including possible loss of principal.

Not all strategies are appropriate for all investors. There is no guarantee that any particular asset allocation or mix of strategies will meet your investment objectives. Diversification does not ensure a profit or protect against a loss.

One cannot invest directly in an index, and unmanaged indices do not incur fees and expenses.

This article is being provided for informational purposes only and constitutes neither an offer to sell nor a solicitation of an offer to buy securities. Offerings of securities are only made by delivery of the prospectus or confidential offering materials of the relevant fund or pool, which describe certain risks related to an investment in the securities and which qualify in their entirety the information set forth herein. Statements made herein may be materially different from those in the prospectus or confidential offering materials of a fund or pool.

This article is not investment or tax advice and should not be relied on as such. TIFF Advisory Services, Inc. ("TAS") specifically disclaims any duty to update this article. Opinions expressed herein are those of TAS and are not a recommendation to buy or sell any securities.

This article may contain forward-looking statements relating to future events. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. Although TAS believes the expectations reflected in the forward-looking statements are reasonable, future results cannot be guaranteed. Except where otherwise indicated, all of the information provided herein is based on matters as they exist as of the date of preparation and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof.

© 2019 TIFF Advisory Services, Inc. and TIFF Endowment Asset Management, LLC. All rights reserved.
May not be reproduced or distributed without permission.