Year-End Review and 2023 Outlook

2022 Reflections – A Negative Year with Silver Linings

2022 was a relatively tough year – one at odds with many of our members' objectives. Many of our members are supported by endowed assets meant to exist in perpetuity with a goal of achieving intergenerational fairness. That is, they seek to have their corpus of assets achieve positive and similarly weighted impact today and tomorrow. They do not want to spend all of their assets today as there likely will be mission-related objectives needing support in future years. At the same time, our members know there is need for many of these objectives now and so they spend a portion of their capital today. In general, the vast majority of our clients seek to spend somewhere between 3% to 6% of their total (often rolling) invested assets in any given year, and thus our members try to achieve investment returns of that spend plus inflation. The inflation component allows for future distributions to have similar impact to the current year's distributions, thus achieving some level of intergenerational fairness. Another way to look at this goal is: Our clients seek to leave the world in at least as good a spot for the next generation as our generation found it.

Looking back on 2022, it is hard to say that that goal of intergenerational fairness was achieved in many material ways. For example, we continued to borrow extraordinary sums around the globe. When those sums will need to be repaid, it is hard to say, but that burden will likely fall on some future generation. The silver lining is that the Federal Reserve and the US Congress (and the bond vigilantes in the United Kingdom) have at least intimated some level of discipline on unfettered borrowing from future generations.

Similarly, we suffered in our goal to improve climate dynamics significantly across the globe. While no one can say with certainty which climate model is the most accurate, temperatures are certainly rising globally: To wit, the eight individually hottest years ever recorded were, in order: 2016, 2020, 2019, 2015, 2017, 2021, 2018, 2014.[1] Here, there also may be a silver lining. While the Russia war on Ukraine has led to immense human suffering, it also has led to more realistic (and achievable) energy policies, a reduction in overall energy use, and potentially and hopefully more advances in sustainable energy production. Of course, we all know that these advances need to be achieved in balanced ways which do not unnecessarily increase human misery today. We are hopeful that 2022 represents a year in which politicians and businesspeople engaged in serious discussions about trade-offs and sensible ways forward.

Similar to the climate and energy dilemma, the world saw significant and horrible geopolitical pain, but also observed some potential silver linings emerging. While it is indeed hard to find anything positive in a significant war in Europe and broader saber-rattling globally, 2022 was a year in which democracy was shown to be more united and more resilient than some had previously thought, despite many recent wounds (claims of stolen elections, reductions in free speech, and leaking of Supreme Court rulings, to name a few). Autocratic governments were no longer held up as the singular, preferable governing mode. Perhaps this is one area where, after a few years of setbacks, we all can be hopeful that the world has been set on a more stable and positive path for future generations.

Perhaps the hardest area to observe intergenerational fairness is in 2022 investing markets. In capitalism, it is inevitable that years such as 2022 will occur from time to time, and long-term investors should not overreact. As noted above, however, most members need to spend annually from endowed assets and so seek to earn at least their spending rate plus the rate of inflation. That goal was largely unachievable in an environment where most asset classes were down between 10% and 30% and where global inflation was high single digits. But here again, there is reason for hope. We are hopeful that 2022's difficult markets sowed the seeds for stronger returns going forward. Simple math reveals that equities trading down about 20%, all else equal, can allow for better future returns over the next few years. Government bonds trading off so violently that yields shot up 200 to 400 basis points means that these instruments once again have a chance to deliver positive expected real returns after roughly a decade of failing to do so. Asset management portfolios suffered hits in 2022, but much of the market frothiness – meme stocks, parabolic crypto pricing, negative real yields, ubiquitous unicorn companies – has

[1] "2021 Was World's 6th-Warmest Year on Record," The National Oceanic and Atmospheric Administration, January 13, 2022. NOAA is an agency within the US Department of Commerce.

been eliminated. These eliminations may allow for the markets to once again seek normalized rates of return at reasonable levels of risk. (See TIFF CIO Jay Willoughby's 4th Quarter 2022 CIO Commentary "So Many Moving Pieces" for more on 2023 market expectations and dynamics.)

Investment Highlights

This final 2022 observation is most relevant for TIFF's main mission of providing strong risk-adjusted investment results to help our members to achieve their unique organizational goals. Although the markets were difficult to navigate, we believe our team had a decent year in light of the opportunity set.

- The equity markets were continually buffeted by persistent inflation and an ever-more hawkish Federal Reserve (and other central banks). For example, coming into 2022, the markets and the Fed expected the Fed to raise rates two to three times. In the end, the Fed raised rates a *whopping 17 times*. This dynamic changed the discount rates for equities and led to a roughly 20% drop in global index levels.
- Fixed income was similarly affected by rising rates and saw historic losses of capital. Yields increased dramatically throughout the year on fixed income instruments of all durations and credit quality.
- TIFF had an anomalous year on the investment side in that our active managers fared poorly, while our macroeconomic positioning did well. The strong manager performance of 2020 and 2021 gave way to underperformance, particularly in the first half of 2022, as TIFF's active public equity and diversifying strategies managers were generally below benchmark, detracting from most client portfolios. On the other hand, TIFF reacted reasonably well to the changing macroeconomic environment, whereas the industry's standard portfolio (the "60/40" portfolio) of the past ten years did not do well. TIFF was able to deliver decent macro investment results from being underexposed to fixed income and from some nimble tactical moves throughout the year.
- TIFF's members also benefited from a series of hedges which were designed to protect partially the portfolios if inflation surprised to the upside (as it did do).
- Our private equity portfolios appear to have held up well. We will not know the final performance until approximately May of 2023 when general partners close their books on 2022. However, the sections of the PE market that TIFF favors (earlier stage private equity and middle market growth) appear to be doing comparatively well. Through the first three quarters of 2022, general partners had marked their portfolios notably better than the public market comparables.

- We were able to add some innovative strategies. For example, we initiated exposure to a manager focusing on small cap companies pursuing transformative technologies in transportation, manufacturing, and energy, and we added a highly focused investment in the payments space.
- We continued to expand the range of expertise represented on our Board of Directors and benefited from their discussions of interest rates, inflation, and commodity markets, among other topics. We also were able to leverage Board member relationships to help us access some "closed" venture capital managers.

Service Highlights

As we noted last year, investment results remain our primary mission. However, we also believe that our members greatly value customized advice, proactive service, and a culture that places members first. We have enhanced our ability to provide strong client service. Some highlights include:

- We improved our capital call process and our related investor web-access portal.
- We increased our output of intellectual capital with papers on a range of topics relevant to nonprofits. (You can find papers from 2022 and prior years on the Thought Leadership page of our website).
- We helped a significant number of members update their asset allocation to reflect evolving organizational objectives, and we helped a number of members evaluate their balance sheets to assess overall debt capacity and potential use of debt.
- We built additional tools and processes to meet specific needs of custom clients.
- We further developed our ability to execute customized private equity programs.
- We held a virtual Forum in November. Titled "Measure Twice, Cut Once: Enhancing Certainty in an Uncertain World," this series of consecutive lunchtime sessions featured the best thinking of chief investment officers, TIFF Board members, portfolio managers, and a well-known political strategist. Materials can be found on the Member Portal under the Thought Leadership tab.
- A series of new clients joined TIFF throughout 2022. New clients together with existing clients added more than $900mm, including committed capital, to the assets under TIFF's management. We are excited by the confidence in our team and by the opportunity to help existing and new clients achieve their investment outcomes.

Organizational Highlights

TIFF continued to evolve as an organization to serve our members well and to fortify our culture and stability. We added a number of new talented individuals to our staff and Board. We also focused on re-energizing a series of internal initiatives that we believe position TIFF for the future, which include:

- We returned to the office in both Radnor and Boston and were able to visit many more clients this year in person!
- We added Alyssa Rieder, CIO of CommonSpirit Health, and Rick Slocum, CIO of Harvard Management Company, to our Board. We also welcomed Jennifer Deger, Controller of the Bill and Melinda Gates Foundation, to the TIFF Investment Program (TIP) Board.
- We thanked Peter Holland, former CIO of Columbia University, and Craig Carnaroli, Chief Financial and Administrative Officer at the University of Pennsylvania, for their incredible Board service to TIFF and TIP, respectively, for nearly a decade.
- We also finally were able to find a COVID lull and celebrate Dick Flannery's 17 years as CEO of TIFF, through June 2020, with a live gathering in June 2022!
- We welcomed David Salem back to TIFF as a senior advisor to help consider decentralized finance developments and other industry innovations.
- We added a series of exceptional industry veterans to our Member Strategy team including Elizabeth Warren (formerly of Mercer and Cambridge Associates), Bridget Fraser (formerly of Goldman Sachs), and Amy Paterson (formerly of 3SI Security Systems) and we welcomed Kevin Scott, who joined internally from our Operations team.
- We also welcomed our new head of Private Equity Client Solutions, Carolyn Patton (formerly of Morgan Stanley, Deutsche Bank, and Sustainable Growth Equity, among other firms).
- We hired Melissa Landsmann, an experienced Human Resources leader, to further develop our team and internal processes.
- We continued to have a positive impact on the industry via our hiring practices. In 2022, 88% of our interns were from historically under-represented groups, female, or both.
- We have measured our carbon footprint for the first time and plan to implement solutions to lower and offset our emissions in connection with our internal environmental, social, and governance commitments.

Our Focus in 2023

We remain cautious about 2023's markets due to the uncertainty of inflation and the potential for recession. However, we are optimistic that we will be able to assist our clients in navigating the markets and by delivering strong service. We expect our team to accomplish much in 2023, including:

- Helping our members adjust their portfolios to account for any change in the member's objectives.
- Identifying and accessing talented

third-party managers across equities, hedge funds, and private markets.

- Looking for more opportunities to meet live with our members and across our firm.
- Continuing to strengthen our team and expand incentives for the team.
- Expanding upon our private equity offerings, including potentially adding more focused exposure for those that seek such capabilities.
- Strengthen our ties with our Board, as we position TIFF to bring innovative investment ideas to our members.

Thank you for the opportunity to provide you advice and to manage your capital. We look forward to a collaborative 2023.

Sincerely,

C. Kane Brenan
Chief Executive Officer

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