IOWA | Center for Advancement

The University of Iowa Center for Advancement (UICA) Quarterly Investment Report – June 30, 2021

Overview

Attached you will find the investment performance report for the period ending June 30, 2021. Inflationary concerns weighed on investors during the quarter, but equity markets still produced record highs. Fixed income returns were buoyed by monthly Fed purchases and shrugged off disappointing economic data. Even real assets performance joined the party, with energy-related sectors and REITs bouncing back from the COVID-19 bottom.

The Long-Term Pool (LTP) returned 6.0 percent for the quarter, 31.9, 9.2, 9.8, and 7.6 percent respectively for the one-, three-, five-, and 10-year periods

Global Equity

The global equity composite returned 6.1 percent during the quarter, 45.0 percent over the past year and an annualized 15.1, 15.6, and 10.5 percent over the past three-, five- and 10-year periods.

Inflation entered the conversation in every asset class, US equities were bolstered by improving consumer spending and sentiment. As of this writing, the S&P 500 has hit a record high 54 times in 2021, with eight all-time highs coming in June alone. Leadership returned to large cap growth stocks in the quarter, but small cap and value won over the fiscal year. Domestic stock performance was a bit choppier in the quarter, with growth stocks posting negative returns in May and value stocks falling in June.

Outside the US, improved vaccination distribution helped equity performance. Both developed and emerging markets saw positive performance in the quarter. During the fiscal year, small cap outperformed large cap in developed and emerging markets. Value outperformed in developed, but growth led the way in emerging markets.

Private equity saw an increase in realizations that significantly helped performance in the fiscal year. After a decade-long pause, UICA began investing in private equity again in 2010. Since that time the portfolio has easily outperformed public markets and the Thomson One All Private Equity Index.

Finding top quartile managers is desirable in every asset class, but in private equity the dispersion between top and bottom quartile is larger than most asset classes. Identifying top quartile managers is made more difficult because the historical persistence in manager performance from one fund to the next has waned as more investors have committed to private equity. Top quartile managers either limit access or grow assets. If they limit access, we cannot invest with them and if they grow assets their ability to outperform can decrease. This led us to see where we thought UICA had an edge in identifying general partners that would outperform. The result was small buyout and growth equity where we had access to top quartile managers, while avoiding venture capital where we did not. In spite of strong performance in our private equity portfolio it was not able to keep up with record-breaking venture returns. While most of the venture returns are unrealized, our managers are selling businesses as fast as they can, helping us realize returns and locking in gains.

Global Fixed Income

The global fixed income composite returned 2.6 percent during the quarter and 8.3 percent for the trailing year. Over longer time periods it increased an annualized 5.2, 5.4, and 5.9 percent for the three-, five- and 10-year periods. At its June meeting, the Fed once again left interest rates unchanged, but also mentioned improving economic conditions. Rate sensitive strategies performed well in the quarter but struggled over the fiscal year. Fortunately, credit strategies had strong performance over both time periods. While the Fed maintains that inflation is transitory, rising wages could lead to prolonged inflation.

Real Assets

The real assets composite returned 10.6 percent for the quarter, 28.4 percent for the one year, and an annualized 2.8, 5.2, and 5.2 percent over the past three-, five-, and 10-year periods. The quarterly returns of US REITs could have been mistaken for annual returns with nearly every property type posting gains. Private real estate also had strong performance but could not keep up with public markets. A similar story played out in natural resources as commodities posted strong performance for the quarter and year, leaving private natural resources behind. Though public markets won in FY21, the long-term performance of private markets remains well above publics. The strong performance of real estate and commodities is indicative of higher inflation in 2021.

Diversifying Strategies

The diversifying strategies composite returned 4.8 percent for the quarter, 19.0 percent for the one year, and an annualized 0.7, 2.2 and 3.6 percent over the past three-, five-, and 10-year time periods. While all areas of the composite had positive performance during the quarter, event-driven managers continue to lead the way. The royalty market continues to become more crowded, but current managers posted strong performance.

Conclusion

Fiscal year 2021 was one of the rare times when everything seemed to work. Even global fixed income was able to overcome low interest rates and meet our target return objective. While some of this was the base effect of coming off a difficult FY20, much of it was due to manager selection. We do not expect that level of manager selection alpha or this type of performance to persist in the future. An outsized return likely means that lower returns are on the horizon. Lower return expectations make finding outperforming managers that we have access to more important than ever. Our goal is not to achieve the highest one-year returns, but to grow the endowment and provide consistent support for the University of Iowa. We feel that the portfolio is positioned appropriately to take advantage of the current market environment and to meet our return objectives into the future.

Please let me know if you have any questions regarding the above information. You can reach me at (800) 648-6973.

JB:kk