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

Overview

Attached you will find the investment performance report for the period ending September 30, 2021. Volatility returned in the quarter after the Federal Reserve announced that it would begin tapering its asset purchases. Equity markets were flat or negative as inflation continued at an elevated level and business activity showed signs of slowing. Interest rates increased after the Fed's announcement and at least three rate hikes are expected in 2022.

The Long-Term Pool (LTP) returned 0.8 percent for the quarter, 26.1, 8.7, 9.1, and 9.3 percent respectively for the one-, three-, five-, and 10-year periods.

Global Equity

The global equity composite returned -1.0 percent during the quarter, 32.5 percent over the past year and an annualized 14.1, 14.0, and 12.8 percent over the past three-, five- and 10-year periods.

September was the S&P 500 Index's worst month since March 2020, nearly erasing the quarter's gain. Leadership remained in large cap but switched from growth to value after the Fed's September 22 Open Market Committee meeting. A reduction of economic growth projections and continued elevated inflation both contributed to increased volatility. Outside of the US, stocks fell in developed and emerging markets for the month. Longer term, both markets trailed the US over the past one and five years.

While private equity outperformed public equity in the quarter, it wasn't a high bar. Nevertheless, private equity was positive for the quarter and continues to post solid returns in excess of public markets for longer time periods. Capital deployment has been below pacing due to delayed fund raising from existing managers. We entered 2021 expecting 3-4 funds to raise capital but have seen only one of them close fundraising. As a result, we have increased our pipeline of new funds to try to obtain the necessary level of capital deployment that is projected by our pacing model to reach our allocation target. Private equity pacing is not an exact science and can vary year to year; 2021 saw that variability stressed. A completed fundraise does not guarantee capital is called in a timely fashion. Funds routinely start fundraising as early as they can and there can be a significant lag before capital is called. We are fortunate to not be overallocated to private equity. This is primarily because we continue to grow our allocation to private equity, but also because our funds have done a great job realizing investments.

Global Fixed Income

The global fixed income composite returned 0.6 percent during the quarter and 6.9 percent for the trailing year. Over longer time periods it increased an annualized 5.1, 4.8, and 6.1 percent for the three-, five- and 10-year periods.

Interest rate volatility increased during the quarter as the Fed held its annual Economic Policy Symposium and a Federal Open Market Committee meeting. Together these meetings signaled the Fed's belief that inflation was under control and that asset purchasing tapering could begin as soon as November. Rate sensitive strategies were flat for the quarter, but credit strategies had solid returns. Distressed debt posted the strongest returns.

Real Assets

The real assets composite returned 6.6 percent for the quarter, 33.5 percent for the one-year, and an annualized 3.3, 6.2, and 6.9 percent over the past three-, five-, and 10-year periods.

The quarter saw REIT returns slow a bit from strong performance to start the year, but private real estate continued the bounce back from March 2020 lows. Natural resources, both public and private, had solid returns driven by a continued increase in demand for energy and metals. The imbalance of supply and demand that continues to disrupt supply chains has generally benefitted commodities.

Diversifying Strategies

The diversifying strategies composite returned 2.7 percent for the quarter, 18.5 percent for the one-year, and an annualized 1.4, 2.5 and 4.6 percent over the past three-, five-, and 10-year time periods.

Managed futures performed well during the quarter, benefitting from higher volatility and diversification, while event-driven strategies struggled. Royalties continued their strong performance, driven by increased demand in the market both by music listeners and royalty purchasers.

Conclusion

The first quarter of the fiscal year saw a reversal of fiscal year 2021's trend of everything working. While some asset classes were able to post positive returns, they were more muted. Inflation continues to be above the Fed's target, but returns have been able to keep pace with this higher inflation. Fiscal year 2022 spending dollars increase by calendar year 2021 Consumer Price Index, so this heightened inflation has not affected spending yet.

While inflation, rising interest rates and equity valuations remain concerns for all investors, endowments have long time horizons and must remain fully invested at all times. A broadly diversified portfolio is better positioned to weather these potential risks than a concentrated portfolio. 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.

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