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The University of Iowa Center for Advancement (UICA) Quarterly Investment Report – March 31, 2022

Overview

Attached you will find the investment performance report for the period ending March 31, 2022. The combination of multi-decade high inflation, rising interest rates, and Russia's invasion of Ukraine put a stop to the risk-on return environment that has persisted since the COVID-19 lows of March 2020. Volatility in stocks and bonds increased in the quarter as commodities were one of the few assets to enjoy positive returns. The quarter also saw an inversion in spread between the 2-year and 10-year Treasury notes, raising recession fears as the quarter ended.

The Long-Term Pool (LTP) returned -0.9 percent for the quarter, 11.0, 10.2, 8.9, and 8.0 percent respectively for the one-, three-, five-, and 10-year periods.

Global Equity

The global equity composite returned -3.6 percent during the quarter, 7.4 percent over the past year and an annualized 15.2, 12.9, and 10.8 percent over the past three-, five- and 10-year periods.

The new calendar year started with the S&P 500 hitting an all-time high on January 3, but the bull market ended then. Stock market volatility increased around the globe as inflation, geopolitics, and central bank actions weighed on investors. US stocks continued to outperform developed and emerging markets, though part of this was driven by a strengthening US dollar hurting non-US stock returns. Value significantly outperformed growth, and large cap continued to outpace small cap stocks.

Falling public markets affected private markets in the quarter by cutting off the initial public offering as a path to liquidity for investors. This most acutely affected venture capital funds and will likely extend the longevity, and all else equal decrease the internal rate of return, of some funds. The public stock market woes have not changed investors' appetites for private equity, fundraising in venture and buyout remains active. We do expect a prolonged public equity drawdown to decrease purchase prices and lower earnings before interest, taxes, depreciation, and amortization (EBITDA) multiples. EBITDA multiples have been increasing to elevated levels for several years and generally increase as fund sizes increase. In other words, larger funds tend to pay higher EBITDA multiples, a primary reason we avoid large buyout funds. Rising interest rates could also hurt future private equity returns for funds that use high leverage. We prefer general partners that create value through operational improvements rather than financial engineering.

Global Fixed Income

The global fixed income composite returned -2.3 percent during the quarter and 1.3 percent for the trailing year. Over longer time periods it increased an annualized 3.8, 3.9, and 4.9 percent for the three-, five- and 10-year periods. The Federal Reserve increased interest rates 25 basis points in the quarter and has raised them an additional 125 basis points through July 15. As mentioned above, the 2/10-year yield curve inverted, stoking investors recession fears as inflation data indicates further interest rate hikes. Investors are also concerned about a decrease in the Personal Savings Rate below its long-term average, just months removed from all-time highs during COVID-19 lockdowns. There were no safe havens in fixed income markets, with all sectors falling in the quarter. The drawdown was so severe that most major indices are negative for the trailing 12-months.

Real Assets
The real assets composite returned 9.1 percent for the quarter, 35.3 percent for the one-year, and an annualized 8.6, 8.5, and 7.4 percent over the past three-, five-, and 10-year periods. Public real assets were a mixed bag in the quarter. Commodities were one of the best performing strategies available, while REITs lagged as rate increases concerned investors. Sectors that were hit the hardest by COVID lockdowns - lodging, health care and office - were the only REIT sectors to post positive performance. On the commodity front, returns have been so strong that only live cattle futures have negative performance over the trailing 12-months. Private real assets continued to have strong performance.

Diversifying Strategies
The diversifying strategies composite returned 1.4 percent for the quarter, 14 percent for the one-year, and an annualized 3.6, 3.0 and 4.8 percent over the past three-, five-, and 10-year time periods. Public diversifying strategies had strong performance as managed futures easily offset struggling event-driven strategies. Private diversifying strategies were mildly positive during the quarter.

Conclusion
As this report is written inflation is running at a 40-year high and the probability of a 100-basis point interest rate increase at the Fed's July meeting has risen from zero to 30 percent. Investors are experiencing a rare combination of falling equity and fixed income returns. Private markets appear to be holding up for now, but the only safe havens have been in commodities and cash. While the benefits of diversification were limited in the quarter, we expect them to win in the long term. 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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Vice President & Chief Investment Officer

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