Overview

Attached you will find the investment performance report for the period ending December 31, 2023. The recessionary warnings that began the year dissipated as stock markets across the globe increased and inflation decreased during the calendar year. Despite an inverted Treasury yield curve and economic indicators pointing toward a slowdown, the U.S. economy saw real GDP growth of 2.5 percent. Equities and fixed income had positive performance while real assets and diversifying strategies were slightly negative in the calendar year.

The Long-Term Pool (LTP) returned 5.4 percent for the quarter, 12.2, 7.5, 8.5, and 6.7 percent respectively for the one-, three-, five-, and 10-year periods.

Global Equity

The global equity composite returned 8.1 percent during the quarter, 18.9 percent over the past year and an annualized 8.4, 12.9, and 9.5 percent over the past three-, five- and 10-year periods.

Global equity markets around the globe had strong performance. U.S. performance was driven by large cap growth stocks, but even more narrowly the “Magnificent 7” stocks of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla which increased by 75.7 percent while the S&P 500 index increased by 24.4 percent for 2023. Weak economic conditions in China hurt emerging markets performance as they underperformed developed markets.

There have been several headlines around the public equity outperformance over private equity in 2023, but private equity was never designed to outperform over the short term. Private equity is a long-term strategy. Over the past 10 years the S&P 500 has produced annualized returns of nearly 12 percent. While strong, our private equity composite has provided a premium of 380 basis points over the S&P 500. Exit activity slowed across the PE universe in 2023, a trend that is likely to continue until the Federal Reserve starts lowering rates. Fundraising also slowed in 2023 but has roared back in 2024.

Global Fixed Income

The global fixed income composite returned 6.0 percent during the quarter and 9.7 percent for the trailing year. Over longer time periods it increased an annualized 2.7, 3.9, and 3.8 percent for the three-, five- and 10-year periods.

Equity and fixed income correlations remained high in 2023. One of the roles fixed income plays in an endowment portfolio is diversification from equities. Another role fixed income plays is as a
liquidity provider. When interest rates were near zero, investors reached for yield in credit strategies that exhibit strong, positive correlation to equities in times of stress and locked up capital in private strategies. Now that rates are higher, private credit is the hottest asset class around, with direct lending leading the way. While private credit can be a risk reducer, it might not fit the liquidity or diversification needs of investors.

**Real Assets**

The real assets composite returned 0.1 percent for the quarter, -1.1 percent for the one year, and an annualized 11.6, 5.7, and 5.2 percent over the past three-, five-, and 10-year periods.

U.S. oil production reached an all-time high of 13 million barrels per day, surpassing all other countries production. Natural gas and oil prices fell during the year, though crude oil prices were more volatile. Real estate rebounded on the prospect of interest rate cuts in 2024. With nearly $1.5 trillion of U.S. commercial real estate debt refinancing by the end of 2025, office and retail valuations are expected to fall due to higher interest costs. Real assets are supposed to be highly, positively correlated to inflation, but prices seem to be falling faster than inflation is dropping.

**Diversifying Strategies**

The diversifying strategies composite returned -2.8 percent for the quarter, -0.2 percent for the one year, and an annualized 3.6, 1.9 and 2.5 percent over the past three-, five-, and 10-year time periods.

Managed futures returns were down in the quarter, resulting in negative calendar year returns. Falling inflation and the improved economic outlook helped event-driven funds. Royalty performance was mixed as entertainment, health care and natural gas royalties were positive while equipment royalties struggled in the calendar year.

**Conclusion**

In 2022, the traditional 60/40 portfolio of stocks and bonds declined by double digits, in 2023 this same portfolio increased by double digits. While short time periods make headlines, endowments have a long-term time horizon, and one-year returns are not an indication of the success or struggles of a portfolio. The Fed seems to have avoided a recession in their efforts to lower inflation. Interest rates are expected to decrease in 2024, which should help open the logjam of initial public offerings and private equity deal activity. 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.

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