July 2022 Performance Summary

The Federal Open Market Committee (FOMC) enacted its second consecutive 75 basis point rate increase during the month in response to accelerating inflationary pressures. Market participants had been pricing-in this rate increase in the preceding months, which contributed to the broad sell-off in risk assets in June. July also saw weakening economic data which pointed to a slowing global economy, causing market sentiment to shift toward a more dovish policy outlook (i.e. the potential for future rate cuts). This anticipated pivot caused risk assets to rally in July, with global equities (and growth stocks in particular) experiencing strong gains for the month. The markets view of the potential for less aggressive tightening also caused interest rates to fall in July, leading to modest bond returns for the month.

With investors becoming increasingly concerned at the prospects of a global recession, large-cap tech stocks were again the beneficiary of a flight to safety. Investors have tended to favor the near-term comfort of these competitively entrenched mega-sized corporations in recent periods of market stress, which has caused valuations to continue to inflate. While these businesses are safe in many ways, the price one pays will ultimately determine the return one gets, and we view the risk/reward of this subset of widely held large-cap companies to be unfavorable relative to the broader opportunity set. The extraordinary concentration of the broad market indices (S&P 500, Russell 1000 Growth) supports this notion of a market where businesses are valued very, very differently from one another. In that regard, the Foundation's portfolios have less exposure to the large companies at the top of the indices, and are tilted more toward investment managers that are finding less popular businesses that offer a much more favorable risk/return profile (e.g. trading at mid-single-digit P/Es, 10-15% free-cash-flow yields, market prices at or below liquidation value, etc.). This approach may cause the Foundation's portfolio(s) to trail the broad benchmarks over short-term periods, however we strongly believe it best positions the Foundation for long-term success.

In July, the Long-Term Pool gained 4.1%, underperforming the policy benchmark by 50 basis points. For the month, the Pool's exposure to value-oriented strategies detracted form results in a period where growth indices outperformed. Thus far in 2022, the Pool is down 12.1% or 170 basis points behind the benchmark. Returns across growth-oriented sectors in both global equities and hedge funds have led to the shortfall year-to-date.

The Socially Responsible Pool appreciated by 5.2% for the month, outperforming its policy benchmark return by 40 basis points.   Thus far in 2022, the Pool is down 12.0% or 90 basis points behind the benchmark. The pool's exposure to growth stocks contributed to the strong month in July but has detracted from results year-to-date.

The Mid-Term Pool gained 4.1% for the month, trailing its policy benchmark by 30 basis points. Thus far in 2022, the Pool is down 9.0% or 80 basis points above its benchmark. As the Pool is largely invested in index funds, the return difference was primarily driven by cash movement in the Pool that resulted in temporary deviations from policy asset allocation targets.

Produced by Crewcial Partners, LLC
August 25, 2022