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The University of Iowa Center for Advancement (UICA)
Quarterly Investment Report – March 31, 2024

Overview

Attached you will find the investment performance report for the period ending March 31, 2024. Financial markets rewarded risk takers in the first quarter of the calendar year. Equity markets across the globe were positive and credit spreads tightened while Treasuries saw declines. There are now three 25 basis point interest rate cuts expected in 2024, down from as many as seven expected cuts early in the quarter.

The Long-Term Pool (LTP) returned 4.6 percent for the quarter, 14.0, 6.9, 8.0, and 6.9 percent respectively for the one-, three-, five-, and 10-year periods.

Global Equity

The global equity composite returned 5.4 percent during the quarter, 20.2 percent over the past year and an annualized 7.9, 12.3, and 10.0 percent over the past three-, five- and 10-year periods.

Global equity performance continued to be driven by US equities, which experienced their best first quarter since 2019. US equities were positive every month of the quarter as the Magnificent 7 of 2023 (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla) was whittled down to the Fab Four (Amazon, Meta, Microsoft, and NVIDIA). While non-US developed and emerging markets posted strong performance, they could not keep up with the 10.5 percent return of the S&P 500. Emerging markets had a headwind from China’s performance, which finished in negative territory after attempting to rebound in February and March.

One of the main contributors to endowment performance for the past decade has been not only private equity returns, but private equity weighting. Over long time periods, endowments with larger exposures to private equity have outperformed endowments with smaller exposures. There are years where public equity performance beats private equity performance, but rarely does that outperformance last more than a year or two. This has led endowments to purposefully increase exposure to private equity. Endowments model private equity allocations based on an expectation of funds realizing investments and receiving distributions. Distributions have largely stopped for the past 18-24 months, causing endowment private equity weightings to increase more than anticipated. Limited partners like endowments have asked their general partners to create liquidity, but the GPs are reluctant to sell assets into the open market with higher interest rates that might not reward them for a portfolio company’s growth. The solutions that GPs have come up with, continuation vehicles and NAV loans, create liquidity, but can lead to misalignment between the two parties. With the prospect of lower rates on the horizon it remains to be seen if these liquidity options continue or if the record amounts of dry powder move the market back toward the normal sales to strategics and larger private equity funds. As we have increased our exposure to private equity, we have committed capital in an effort to not overweight a particular vintage year. As a result, we remain underweight our target which allows us the ability to increase commitments and deploy capital when peers are struggling with too much illiquidity.

Global Fixed Income

The global fixed income composite returned 0.8 percent during the quarter, 8.0 percent for the trailing year and annualized 2.8, 3.7, and 3.6 percent over the past three-, five- and 10-year periods.

The Treasury yield curve, measured by the spread between the 2 and 10-year Treasury notes, has remained inverted for two years. While it remains to be seen if the inverted yield curve correctly predicts a recession, it appears that we are closer to the Fed lowering interest rates. Lower rates will help ease the burden on stressed credits and should benefit other risk assets.

Real Assets

The real assets composite returned 2.1 percent for the quarter, -4.9 percent for the one-year, and an annualized 6.2, 2.5, and 4.1 percent over the past three-, five-, and 10-year periods.

Higher interest rates continue to weigh on real assets. Not only are borrowing costs higher, but income streams are discounted at a higher rate. Cash flows are a benefit to real assets, but they also make real asset prices more sensitive to interest rates. Real assets are growth constrained, as supply grows, prices fall unless demand also rises. While inflation stayed above the Fed's target in the quarter, real asset performance struggled.

Diversifying Strategies

The diversifying strategies composite returned 5.8 percent for the quarter, 7.9 percent for the one-year, and an annualized 5.4, 2.7 and 3.3 percent over the past three-, five-, and 10-year time periods.

Managed futures had strong performance in the quarter. The risk on environment created headwinds for trend strategies. Royalties continue to offer strong performance, led by energy, music, and entertainment strategies.

Conclusion

Fiscal year 2024 has been dominated by equity market performance and talk of the Fed lowering interest rates. Asset valuations remain high in most asset classes, but there is also some stress as office real estate loans come due while vacancies remain high. Fewer realizations in private equity have decreased portfolio liquidity, but our portfolio remains highly liquid. As always, our focus remains on achieving our target returns while lowering the probability of a permanent loss of capital and identifying investment managers that can deliver outperformance while maintaining sufficient liquidity in the 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.

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