

The S&P 500 returned 4.5 percent during the third quarter of 2017, which was driven by positive macroeconomic data, corporate earnings and weakness in the U.S. dollar. Geopolitical uncertainty increased during the third quarter with the possibility of North Korea escalating to the level of destabilization in the region. However, the market shrugged off geopolitical risks and it continued to set record highs during the quarter.

The Federal Open Market Committee (FOMC) confirmed that it would reduce its balance sheet starting in October and also left the federal funds rate unchanged at its September meeting. The next FOMC will occur in December and the market has placed a high probability that a rate hike will occur by the end of the year.

Endowment

The Endowment's fixed income allocation returned 1.6 percent, in line with its benchmark. Fixed income, measured by the broad Barclays U.S. Aggregate index, was flat during the quarter. The U.S. Treasury curve ended mostly flat for the quarter and returned 0.9%. The 2/10-year Treasury spread tightened by 86 basis points, indicating that some market participants are anticipating a rate increase while other market participants are anticipating lower inflation and lower economic activity. The Endowment's diversified fixed income allocation positioned it well to outperform the broad Barclays U.S. Aggregate index.

Hedge funds underperformed their benchmark. The majority of gains in the broader hedge fund space have been a result of strong global equity markets. TSDF's hedge fund portfolio is designed to reduce equity volatility, and therefore has far less correlation to global equity markets. Private equity managers were also a drag on performance for the quarter. Several recent investments are in the early stages of capital deployment, causing a drag on the rest of the private equity portfolio.

Non-Endowment

The Long-Term Portfolio ("Long-Term") returned 4.2 percent during the quarter and outperformed its policy index by 50 basis points. All asset classes within Long-Term experienced positive investment returns with Emerging Market equities providing a 7.9 percent return. Commodities were also a large contributor and returned 5.9 percent during the quarter. Brent crude saw a 20.1 percent third quarter rally, which was driven by a decrease in U.S. crude inventories coupled with the expectations of global production cuts and increased global demand.

The Medium-Term Portfolio ("Medium-Term") returned 2.3 percent during the quarter and outperformed its policy index by 20 basis points. All assets within Medium-Term experienced positive investment returns with Emerging Market equities providing the largest return at 7.3 percent. Commodities continue to remain in the Medium-Term allocation and returned 2.5 percent during the quarter. As a reminder, Medium-Term's allocation in commodities will be divested upon a significant recovery in commodity prices.

The Short-Term Portfolio ("Short-Term") increased 0.3 percent during the quarter. Interest rates remain at historic lows in the U.S. and have resulted in money market yields remaining close to zero. However, the FOMC has indicated that rates could rise in the future. If you would like to discuss an alternative investment portfolio option, please contact your donor manager.