The San Diego Foundation
Growing a Vibrant Region

# INVESTMENT NARRATIVE
## QUARTER ENDING SEPTEMBER 30, 2015

Global volatility spiked during the 3rd quarter due to a confluence of economic events. The primary culprit was heavy selling pressure on the Chinese equity market, causing many to question the extent of the slowdown of the Chinese economy. Because China is the world's largest consumer of commodities, commodity prices suffered greater declines, leading to further carnage in the commodity-producing countries that make up a substantial portion of the Emerging Markets.

Volatility in the fixed income market was also prevalent. As the Federal Reserve had indicated a possible interest rate hike in September, the market worried about the potential impact on the currency markets. Higher interest rates in the United States versus the rest of the world could lead to an inflow of capital in search of yield, leading to US dollar strength. US dollar strength could further lead to large U.S. multi-national companies struggling to meet their earnings projections due to the translation of a stronger U.S dollar.

While losses were commonplace for the 3rd quarter, it is important to note that October was the strongest month for the global equity markets in several years. Much of the losses suffered during the 3rd quarter were recovered in the month of October.

## Endowment

The Endowment fund was down 6.4% for the 3rd quarter. Losses were spread across most of the portfolio's asset classes. Within the global equities area, Emerging Markets suffered the greatest decline, though we were able to mitigate some of the losses through manager selection. In June 2014, The San Diego Foundation hired Vontobel Asset Management to manage half of its Emerging Markets exposure. Vontobel tends to avoid commodity-producing countries and focuses more on consumer-oriented stocks. This proved to be the right place to be for the past two years, and the exposure has served us well on a relative basis.

The fixed income portfolio underperformed due to its non-U.S. exposure. Emerging markets fixed income securities declined during the course of the quarter, weighing on our results. High yield fixed income also suffered a correction due to concerns over the credit-worthiness of certain securities tied to commodity-producing companies.

The Endowment fund's hedge fund portfolio was able to minimize losses associated with the 3rd quarter, particularly due to the strength of one manager. Effective October 1st, the Endowment fund will be hiring several new hedge fund managers to help provide further protection to the portfolio during periods of volatility.

## Non-Endowment

Pool C was down 7.4% for the third quarter. Like the Endowment, the pool's hefty weighting to global equities was the primary detractor from absolute performance. Despite weakness out of most asset classes, the pool's allocation to REIT's added positive results for the quarter.

Pool B was down 5.1% for the 3rd quarter.  While the pool has only 30% exposure to global equities, the decline in this segment of the portfolio resulted in much of the losses for the quarter. The pool's 5% exposure to commodities was also a detractor.

Pool A's investment in money market funds yielded a flat return for the quarter. The historically low interest rate environment in the United States has resulted in money market yields close to zero. This is unlikely change even with a modest increase in interest rates in the coming months. If you would like to discuss an alternative investment option, please contact your donor manager.