INVESTMENT NARRATIVE
QUARTER ENDING DECEMBER 31, 2017

2017 was a year that offered investors attractive returns across all risk assets combined with historically low volatility and choppiness. Throughout the calendar year, US stock market volatility, as measured by the CBOE Volatility Index ("the VIX") fell to levels that had not been witnessed in decades, if ever. Supportive global monetary policy, little sign of inflation, tight labor markets, and an administration focused on tax cuts and deregulation helped the market reach new highs 70 times through the year, as measured by the Dow Jones Industrial Average.

Non-US stock markets also benefitted from the benign macroeconomic environment, posting gains well in excess of the US markets. The MSCI EAFE Index, a widely used index of non-US developed markets was up 25% for 2017, based on stronger growth and fundamentals but also the decline of the US dollar relative to other developed market currencies. Emerging Markets countries, many growing in excess of 5% as measured by GDP, were up over 37% for the year.

Endowment

The Endowment Portfolio ("Endowment") returned 3.3% for the fourth quarter, underperforming its policy index by 50 basis points (bps). Despite the relative underperformance, the portfolio ranked in the top half of its peer group, largely thanks to it's positioning in non-US stocks, including Emerging Markets. For the year, the Endowment Portfolio was up 15.0%, trailing its policy index by 60 bps but also ranking in the top half of its peer group.

The Endowment has the benefit of being permanent capital, allowing for the portfolio to be more diversified than TSDF's Non-Endowment portfolio. In a year where all risk assets appreciate considerably and volatility is extremely low, those diversifying assets were a drag on relative performance. Nonetheless, we maintain the discipline of searching for diversification, particularly given the age of the current economic cycle and historically high valuations of the US stock market. While high levels of valuation can persist for several years and is not always a catalyst for an economic downturn, it can exacerbate price declines when that event occurs.

The Endowment's diversifying assets, in addition to traditional stocks and bonds, can be summarized in a few broad buckets. The first is real assets, an area containing our exposure to private real estate and commodities. The purpose of this allocation is to serve as a potential hedge to unexpected inflationary powers. While inflation has been benign, the Federal Reserve has now embarked on a tightening policy. Its historical success in delivering a soft landing to higher levels of inflation is mixed. The second area of the portfolio is hedge funds. The term "hedge funds" is really more of a vehicle for delivering exposure than an asset class, but it is fair to say that our investments in hedge funds are to provide diversification and dampen volatility when it occurs. The final area is private capital. Private capital is an area in which we invest in companies that are not public. These companies range from companies in possible bankruptcy or distress, to companies that are growing significantly and need capital to expand. While we expect our private capital portfolio to add value over the public markets, we are still in the "building phase" and require additional time to reap the benefits associated with this investing.

Non-Endowment

The Long-Term Portfolio ("Long-Term") was up 3.4% during the quarter, underperforming its policy index by 30 basis points. For the year, the portfolio was up 16.1%, outperforming its policy index by 70 basis points. All asset classes experienced positive returns for the year, led by emerging markets equities, non-US developed equities, and US equities. The fixed income segment was the largest drag on relative performance, primarily due to an increase in yields at the end of the year and the weakness of the US dollar.

The Medium-Term Portfolio ("Medium-Term") was up 1.9% during the quarter, in line with its policy index. For the year, the portfolio was up 9.2%, outperforming its policy index by 30 basis points. The Medium-Term Portfolio's asset allocation has a heavier allocation to bonds and a lower allocation to stocks overall, but still managed to perform well given the surge in prices of risk assets.

The Short-Term Portfolio increased 0.3% during the quarter and 0.9% for the year. As the Federal Reserve continued its tightening policy in 2017, interest rate hikes resulted in higher yields on money market funds. While there is some discussion around the number of potential rate hikes in 2018, the Federal Reserve seems to be on a course for continued tightening, which should further boost yields throughout the year.