INVESTMENT NARRATIVE
QUARTER ENDING JUNE 30, 2019

Solid second quarter performance followed a robust beginning of 2019. A number of secular trends helped to create a supportive environment for U.S. stocks, including technological advances, falling interest rates and lower corporate tax rates. Concerns around trade tensions were eased as President Trump and Xi worked out a "trade truce" in which the U.S. and China agreed to pause any additional tariff rate hikes.

The fixed income markets also produced another strong quarter. U.S. Treasury yields continued to push lower, resulting in appreciation for longer duration bonds. High yield bonds were positively impacted by the decline in interest rates and the low default environment of the past several years. Anticipation of easier interest rate policies, which could potentially lengthen the economic cycle, acted to strengthen market sentiment. The Federal Open Market Committee messaged that it would continue to "act as appropriate to sustain the expansion," which markets viewed positively. Expectations for additional 2019 rate cuts could continue to push fixed income prices upward.

Endowment

In the Endowment Portfolio, all major asset classes delivered positive performance for the second quarter in a row. The portfolio continued its upward trajectory from the first quarter returning 2.8% for the quarter, slightly behind its policy index by 20 basis points. The largest contributor to relative performance was the private real estate asset class, up 2.4% for the quarter versus its index at 0.8%. The largest detractor from relative performance was the private market segment of the portfolio, posting a 2.1% gain for the quarter, compared to 6.5% of the index. While we expect this asset class to be one of the strongest performers in the near future, we are still in the process of constructing the portfolio, which can take several years to reach maturity.

Non-Endowment

The Long-Term Portfolio was up 2.9% for the quarter, slightly outperforming the policy index by 20 basis points. Like the Endowment, all major asset classes posted positive returns. Because the Long-Term Portfolio is invested solely in liquid assets, there was no private market asset class to weigh on performance. The resulting outperformance was driven by strong manager performance in hedge funds and commodities.

The Medium-Term Portfolio was up 2.6% for the quarter, slightly underperforming the policy index by 0.2%. However, following the trend mentioned above, all asset classes had positive performance. Underperformance was primarily driven by exposure to non-U.S. and emerging market stocks, where the portfolio's managers underperformed their respective indices.

The Short-Term Portfolio was up 0.6% during the quarter. Money market rates stayed consistent during the quarter with no change in Federal Reserve policy.