In 2021, strong economic growth fueled by fiscal and monetary stimulus allowed risk assets to appreciate significantly. The S&P 500, a good proxy for U.S. stocks, appreciated 11.0% for the 4th quarter and 28.7% for the calendar year. Despite a strong recovery for risk assets in the United States, the rest of the world lagged due to weaker COVID response, vaccine inequities and COVID lockdowns. The U.S. recovery post-COVID led to above-average economic growth, but also spurred worries over the potential for inflation. The Federal Reserve guided investors to inflation forces being “transitory,” or short-term in nature. However, the Fed reversed course in the second half of the year, noting that the threat of inflation may be “structural,” or longer-term in nature. By the end of the year, it became apparent that the Federal Reserve needed to become more hawkish, as evidenced by the reduction in quantitative easing and the possibility of several interest rate hikes in 2022.

The strong upward trajectory of risk assets was not only felt in the U.S. stock market. Real estate witnessed very strong results in 2021, particularly in the Industrials and Multi-Family housing market. Industrials were driven by the continued expansion of e-commerce. Multi-family units also saw strong rent growth due to the tightness of the single-family home market across the country. Furthermore, private companies also witnessed strong appreciation due to the above-average growth they were able to generate.

The bond market had a very different story to tell. For the first time in many years, bonds produced a negative rate of return for 2021. With short-term interest rates at zero, it became apparent that rates could only move in one direction, particularly with the threat of inflation looming. This backdrop resulted in capital depreciation for intermediate-term bonds, in excess of the yield those bonds produce.

The threat of higher inflation also led to strong appreciation in the energy and commodities space. Oil prices spiked throughout the course of the year on stronger demand and tighter supply. Energy companies were able to generate relatively strong rates of return relative to the prior year when the price for oil briefly turned negative.

**Endowment**

The Endowment portfolio generated a 4.6% return for the 4th quarter and a 17.8% return for the calendar year. TSDF’s Investment Committee often ranks its returns against its Endowment & Foundation peers with a similar asset base. The Endowment ranked in the 16th percentile (1 being best, 100 being worst) for the quarter, and in the 14th percentile for the calendar year. Strong recent performance bolstered the returns over three- and five-year periods, resulting in double-digit rates of return. The Endowment continues to outperform its Policy Index over all time horizons.

The Endowment portfolio’s best performance came from its private assets. Private equity, an area we have been building for a number of years, produced a 67.1% rate of return for the calendar year. Private credit, another area we have been building, was up 27.9% for the year. Finally, private real estate produced an annual return of 26.9%.

Other areas of the portfolio were a mixed bag. While U.S. equities did well for the quarter and the year, developed non-U.S. equities and emerging markets equities lagged. U.S. small companies also lagged their larger peers. Fixed income proved to be a detractor for the quarter and the year due to broadly higher interest rates. A position in Emerging Markets debt was also a detractor, largely due to the strength of the U.S. dollar.

Hedge funds added value over their index for the year for the first time in some time, though significantly lagged the broader market. That said, the broad market sell off in the first quarter of 2022 provides evidence as to why hedge funds with low volatility play an important role in an Endowment portfolio. Year-to-date through mid-February, the large majority of our hedge fund managers are flat while the S&P 500 is down over 7%. Should interest rates continue to tick up, hedge funds may play an even more important role in protecting capital, as higher interest rates will likely result in lower bond prices, hence negative returns from bonds.
Non-Endowment

The Long-Term portfolio was up 2.7% for the 4th quarter and 11.6% for the calendar year. The portfolio underperformed its Policy Index during the year, largely as a result of underperformance in non-U.S. equities and underperformance in fixed income. Developed non-U.S. equities were up 7.8% for the year, significantly lagging the U.S. market. One of our developed non-U.S. equities managers carry some exposure to emerging markets, which produced a -2.5% return for 2021. As a result, that manager underperformed.

Hedge funds were up 6.1% for the year, outperforming the hedge fund index but underperforming the S&P 500. We tend to utilize hedge funds that are uncorrelated to the broad market. In January and February 2022 to date, these hedge funds have significantly protected capital in a market where both stocks and bonds have produced negative rates of return.

The Medium-Term portfolio was up 1.5% for the quarter and 4.2% for the year, slightly underperforming its Policy Index. The underperformance was largely due to exposures to non-U.S. equities, including Emerging markets. 65% of this portfolio is invested in fixed income, which produced a negative rate of return for the calendar year.

The Intermediate-Term portfolio completed its first full year of performance. The portfolio was down 1.0% for the year largely due to increases in interest rates. This portfolio invests 100% of its assets in fixed income, a difficult place to be in a rising rate environment.

The Short-Term portfolio was flat for the year. This portfolio is invested 100% in money market funds which are highly correlated with short-term interest rates. With short-term rates at 0%, it may take a few interest rate hikes before this portfolio is again producing a positive rate of return.

The Sustainable Endowment portfolio was up 5.3% for the quarter and 13.5% for the year. The Sustainable Non-Endowment portfolio was up 5.3% for the quarter and 13.1% for the year. Due to the relatively small asset bases of these portfolios, they are only invested in two managers. The global equity manager produced a strong rate of return for both the quarter and the year, resulting in most of the overall outperformance. The fixed income manager was flat for the quarter and down for the year but outperformed its index.