

# TIDEWATER JEWISH FOUNDATION

## INVESTMENT OUTLOOK ~ SPRING 2019

**Investments Pooled with the Jewish Community Endowment Pool (JCEP)  
in Partnership with Combined Jewish Philanthropies (CJP) of Boston  
All Data as of March 31, 2019**

The first quarter of 2019 ended March 31<sup>st</sup> with a return\* of 7.4%, exceeding the Tidewater Jewish Foundation's (TJF's) composite benchmark return for the quarter by 130 basis points (bps) as shown below. **The one-year return was 1.3%, also ahead of our benchmark return of 1.2% (by 10 bps) for the past 12 months.** The JCEP historical performance continues to be well ahead of the benchmark target for longer periods of time measured (i.e. business cycles) and has generally **met the overall investment objective of supporting ongoing spending needs for our community programs.** JCEP's primary investment objective is to attain an average annual real total return (defined as a nominal return net of fees and inflation) of at least 5% over the long term (rolling 5 year periods) to support program requirements. It is acknowledged that this objective may not be achieved in all periods.

TJF's Main Pool Performance	1st QTR	1 Year	3 Years	5 Years	10 Years
<b>TJF History</b> (based on JCEP history since 9/09, Chicago and SEI pools prior)	7.4%	1.3%	6.9%	4.1%	7.7%
<b>JCEP History</b>	7.4%	1.3%	6.9%	4.1%	7.7%
<b>TJF Historical Benchmark</b> (a blended composite index corresponding to TJF's history and actual asset allocations)	6.1%	1.2%	5.8%	3.7%	7.1%
<b>CPI-U + 5%</b> (JCEP long-term objective)	2.4%	6.9%	7.3%	6.5%	6.9%

*Cash and cash equivalents held by TJF for fund liquidity needs, local investment-related expenses and fund level capital transactions may result in returns observed within an individual fund that differ from the overall portfolio returns presented above.*

*\* Note: all returns are reported net of investment management expenses*

### Quarterly Market Performance Recap

Global Stocks rebounded strongly, increasing over 12% after the downturn in the prior quarter. Domestic stocks led the way with small caps up the most. The S&P 500 increased 13.6% and the Russell 2000 up over 14%. Growth stocks resumed leadership continuing a remarkable run of outperformance over value stocks. Developed international market stocks rallied strongly, increasing 10% during the quarter. Emerging market stocks were up almost 10% buoyed by fiscal moves in China. Bonds had a strong quarter as yields dropped and corporate spreads tightened. Oil prices rallied strongly, up 30% for the quarter.



For its fiscal years 2011 through 2018, the Tidewater Jewish Foundation has been awarded a certificate of conformance to the Best Practices under the Global Fiduciary Standard of Excellence. The assessment process is built upon the Fiduciary Quality Management System, as established by the Centre for Fiduciary Excellence. In the execution of The Colony Group's four-step assessment process, TJF documents and recordings were reviewed, including: TJF's Investment Policy Statements and Asset Allocation Analyses, Investment Committee Meeting minutes, By-Laws, as well as other investment governance records maintained by TJF.

#### FIDUCIARY PRACTICES REVIEW

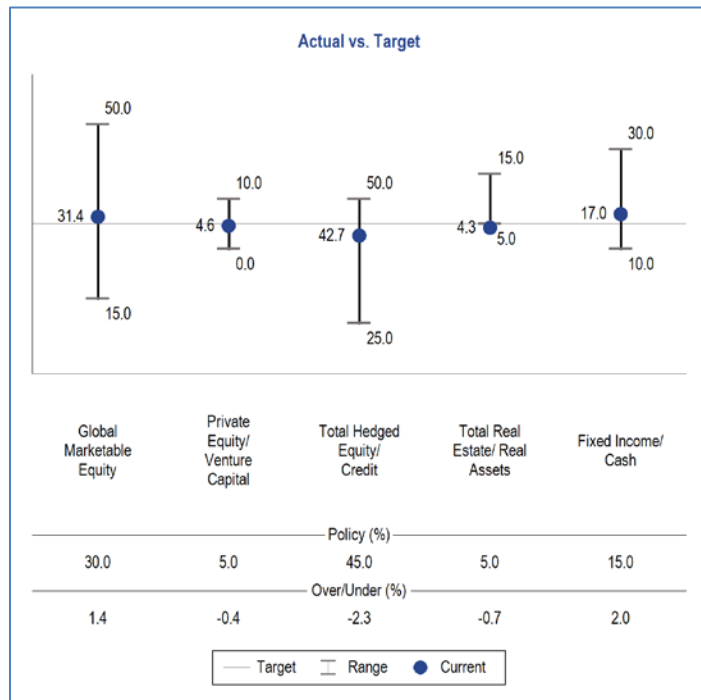
Issued November 2018 to the:  
**TIDEWATER JEWISH FOUNDATION**



for conformance to the Best Practices under the  
**GLOBAL FIDUCIARY STANDARD OF EXCELLENCE**

## COMPOSITION OF THE TJF / JCEP PORTFOLIO

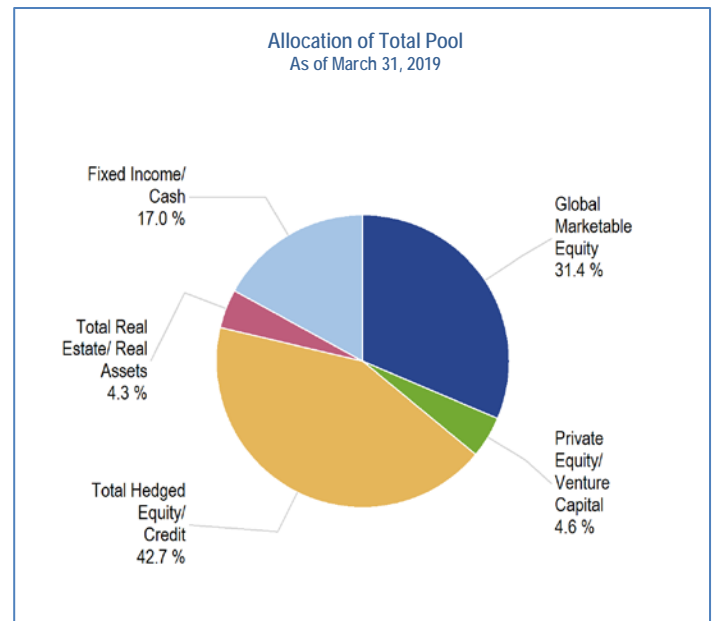
The pie chart to the right reflects the TJF / JCEP portfolio's asset allocation as of the end of the quarter. As shown in the chart below, the portfolio's asset allocation is in compliance with our Investment Policy Statement (IPS) while being slightly overweight to global marketable equity and to cash and fixed income allocations, while being slightly underweight to the private equity/venture capital and to the hedged equity/credit allocations as well as the real estate/real asset segments of the portfolio.



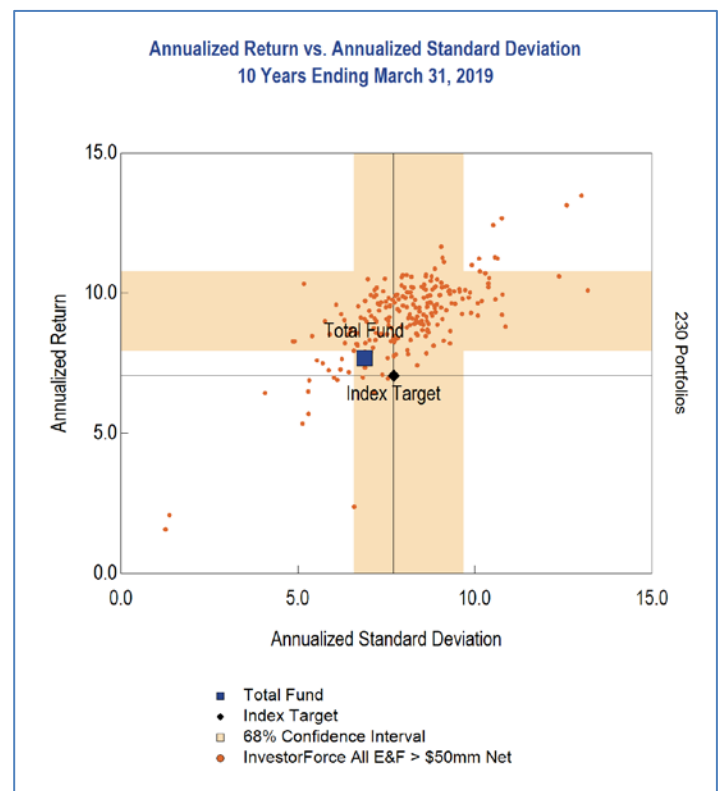
The composition of the TJF / JCEP Portfolio has allowed it to effectively participate in market rallies while preserving capital well during periods of decline. Specifically, **over the past ten year period, the portfolio has captured approximately 97% of the "up market" performance but only 74% of the "down market" performance** relative to the target index.

## RELATIVE PERFORMANCE

Several hundred endowments and foundations have been monitored over the past several years in the InvestorForce database used by TJF's Investment Consultant to report relative performance. Noted in the pie chart on this page, the JCEP allocation to marketable equities was 31% at the end of the quarter. Comparatively, the allocation across the InvestorForce peer database to equities for the period was 56%. During periods of significant volatility in the equity markets, JCEP generally demonstrates lower volatility than the comparative group, neither "peaking" nor "bottoming out" with "bull or bear" markets.



The JCEP returns have demonstrated lower volatility than most of its peer group of the InvestorForce reported endowments/foundations as measured by the annualized standard deviation, generally used as an indicator of risk. The top left or "northwest quadrant" in the volatility chart below is most desirable, indicating higher returns (the vertical axis) achieved with lower risk (the horizontal axis). Other reporting entities are represented by the red scatter points which are mostly to the more volatile "east" of the blue square representing the JCEP portfolio.



## **QUARTERLY PERFORMANCE ATTRIBUTION**

Total JCEP portfolio equities returned a strong 11.4% slightly lagging the MSCI ACWI, the primary global equity index. Absolute Return/Hedged Equity had a strong quarter at up 7.9% leading the index by over 3%. This outperformed 95% of the peer group universe for that allocation. Illiquid credit had a difficult quarter. Several of their smaller, likely legacy, managers suffered big declines. Real estate was up 4%. One manager, Activum, a firm that invests in Spain and Germany was up 43%.

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## **Annual Spending Policy Rate Reduction Recommendation for FY2020**

TJF's primary investment objective has been to achieve a long-term return that supports the ongoing spending needs in our community's programs. TJF's annual Spending Policy analysis considers the long-term expected earnings as well as the anticipated inflation rate and the expenses related to the investment pool and the administration of endowment funds to determine a spending rate that would preserve real purchasing power over time. The earnings/spending balance is intended to achieve "intergenerational equity," a concept that refers to the equal treatment of present and future recipients. To achieve intergenerational equity and achieve an optimal balance of earnings and spending, the Foundation's investment portfolio must take enough risk to generate sufficient long-term returns in order to sustain spending, without taking on so much risk that the corpus is unduly jeopardized.

At its February meeting, TJF's Investment Committee reviewed an analysis that suggested over the past nine full fiscal years during which TJF has been a JCEP partner (FY10-18), **the TJF recommended Spending Policy Rate in effect during those years of 4.25% has proven "sustainable"** and has appropriately balanced the actual average annual investment earnings against the actual inflation and expenses over that timeframe.


However, going forward, the Committee been advised that **a generally lower return environment may be expected in the next several more years.** Recognizing the significant role that annual distributions from endowment funds represents as a component of our Affiliates' annual operating budgets and programming, the TJF Investment Committee has recommended, and, at its March 19<sup>th</sup> meeting the TJF Board of Directors approved, **a reduction in the Annual Spending Policy Rate to 4.0% for FYE 6/30/2020 based on the average of the three prior year ending balances.**

The TJF Spending Policy will be applicable to the following in FY2020: **(a)** TJF's Unrestricted Funds (determines the size of the Unrestricted Grants Pool, augmented by TJF's Sweeps Policy from its approving Donor Advised Funds); **(b)** PACE & LOJE Funds to support the UJFT Annual Campaign; **(c)** TJF's Restricted Funds, generally; and **(d)** TJF's Philanthropic Funds that have adopted the Spending Policy. TJF Affiliates have used the Spending Policy as a guideline for considering the Policy that is most appropriate to that particular Affiliate's endowments. **The TJF Spending Policy is NOT binding on the Affiliates; however, this information is intended to assist with each organization's budgeting process for FY2020.**

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**Development of new endowment assests, along with the prudent management and investment of the local Jewish community's prior endowment gifts, continue to be key services that the Tidewater Jewish Foundation provides to its network of local Affiliate agencies. Our local community is well-served in this regard by its investment partnership with CJP/JCEP.** TJF representatives would be pleased to meet with any of its fund holders and/or Affiliate Leadership to discuss this investment strategy in more detail.

Sincerely,



**Scott Kaplan**  
**President & CEO**



**TIDEWATER JEWISH FOUNDATION**



### Global Markets

Markets rebounded strongly in Q1 reversing much of the damage from 4Q. Global equities were up 12.2%.

US equities were up 14% with the S&P 500 gaining 13.7%. Small cap stock led the way, up 14.6%. Growth stocks led value stocks.

Non-US developed market equities rose almost 10%. In dollar terms, EAFE has gained only 2.8% over the past year.

Emerging markets were up almost 10% also as earnings growth remained solid.

Yields declined in Q1 as the Fed signaled a pause in rate hikes. The aggregate bond index rose 2.9%.

Hedge Funds rose 4.6% as all major strategies posted sound numbers.

### Global Economy

Global growth slowed during the fourth quarter but should remain above trend.

GDP in the US for the 1<sup>st</sup> quarter was surprisingly strong, increasing 3.2%. Much of the strength, however, came from inventory growth.

Job growth slowed but remained strong, averaging about 150,000 new jobs each month. The unemployment rate declined to 3.6% in June.

The Eurozone growth continued to lag the US, as GDP grew only 1.5%.

The FOMC remained on the sidelines for the quarter and is expected to stay there through the first half of the year.

Consumer prices increased 1.9% for the previous year remaining below the Fed target.

### Outlook

Mercer and BCA, economic services used by TJF's Investment Consultant, see global growth weakening as growth becomes less synchronized. However, they expect US growth to remain strong relative to other developed markets.

Risk assets are expected to have a strong year. Emerging markets are expected to lead due to lower valuations and strong earnings.

Rate hikes are expected to remain on hold for several months.

Eurozone and Japanese growth is moderating but is expected to remain positive. Europe may benefit from Chinese stimulus.

Trailing 12 month PE rose during the first quarter but remained below the highs of this cycle.

China and the US have made modest progress in the trade war but this remains as a wild card for equity prices.