TIDEWATER JEWISH FOUNDATION

INVESTMENT OUTLOOK ~ SPRING / 2020

Investments Pooled with the Jewish Community Endowment Pool (JCEP) in Partnership with Combined Jewish Philanthropies (CJP) of Boston
All Data as of March 31, 2020

The first quarter of 2020 ended March 31st with the global Covid-19 pandemic ushering in unprecedented disruption of economic activity and sending global financial markets into steep declines. The Tidewater Jewish Foundation's (TJF's) main investment pool posted a quarterly return* of **-15.0%**, which for the first time in years is also lagging its composite benchmark return, both for the quarter, by 470 basis points (bps), and for several longer periods as shown below. **The one-year return was a -8.6%, compared to the benchmark of -4.5%.**

With this quarter's significant downturn factored in, the JCEP historical performance struggles to meet 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 (returns, price indexes > 1 year annualized)	1st QTR	1 Year	3 Years	5 Years	10 Years
TJF / JCEP	-15.0%	-8.6%	0.4%	1.7%	4.1%
TJF / JCEP Benchmark (a blended composite index corresponding to the TJF / JCEP actual asset allocations)	-10.3%	-4.5%	1.5%	1.8%	3.6%
CPI-U + 5% (JCEP long-term objective)	1.7%	6.6%	7.0%	6.9%	6.8%

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.*

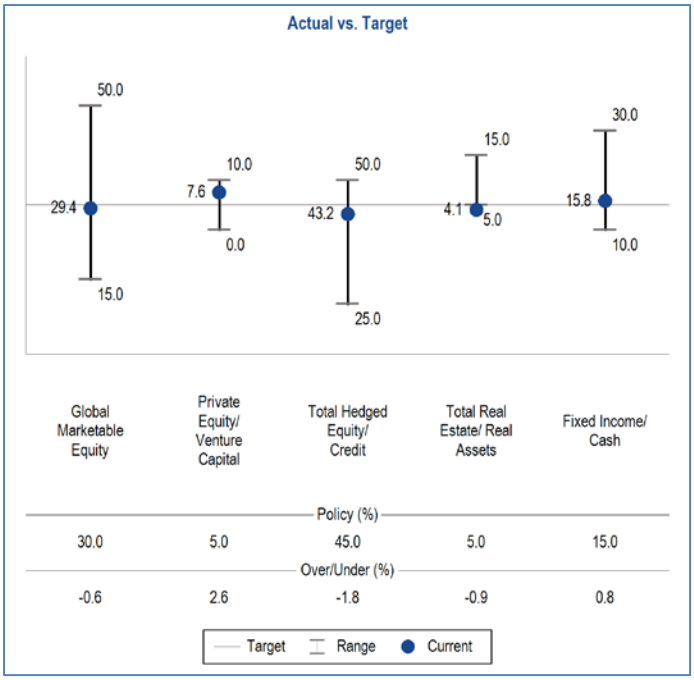
Quarterly Market Performance Recap

The S&P 500 was down 19.6% for the quarter and is now down 7.0% for the one-year period. Growth stocks resumed their dominance in the first quarter, declining 14.1% as compared to value stocks being down 26.7%. Growth stocks have outperformed value by 8.5% per year for the last five years. Small cap stocks had a disastrous quarter, declining 30.6%. Developed stocks were down 22.8% for the quarter, with the strong dollar accounted for about 2% of the decline. Emerging market stocks declined 23.6% for the quarter as Latin America stocks dropped 45.6%. Treasury bond yields declined during the quarter as the 10-year yields dropped 122 bps. Most bond managers lagged the index as treasuries were the only fixed income sector to rise in price. A barrel of oil lost almost 2/3 of its value during quarter as demand collapsed due to the pandemic.

For its fiscal years 2011 through 2019, 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.

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 on the chart below, the portfolio's asset allocation is in compliance with our Investment Policy Statement (IPS) with slight overweight/underweight allocations at the end of the quarter.

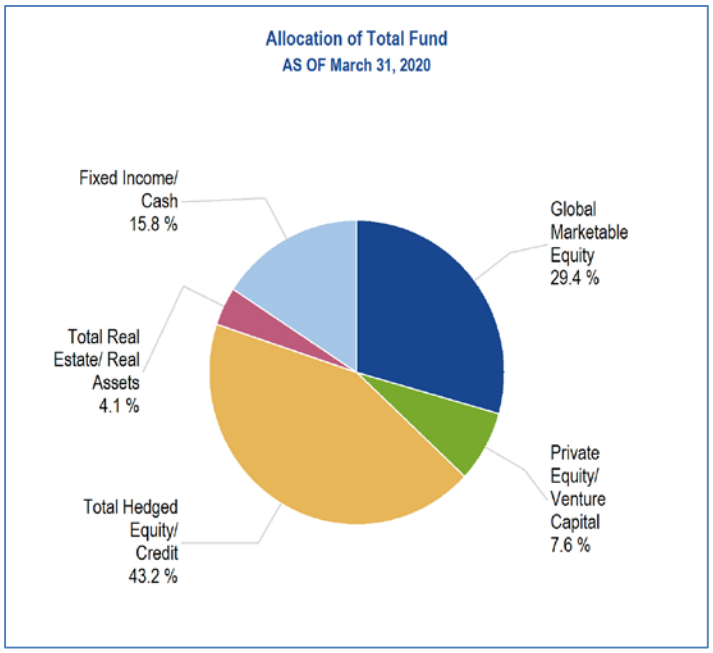


Historically, the composition of the TJF / JCEP Portfolio has allowed it to effectively participate in market rallies while preserving capital well during prior periods of decline. However, this past quarter's downturn impacted all investment allocations negatively and the portfolio's hedging strategies did not provide anticipated downside protection.

The Up Market/Down Market Capture Ratio relative to the Foundation's benchmark still remains favorable: 103% for up market capture over the ten-year period compared to 95% down market capture, but the advantage has declined after the first quarter of 2020.

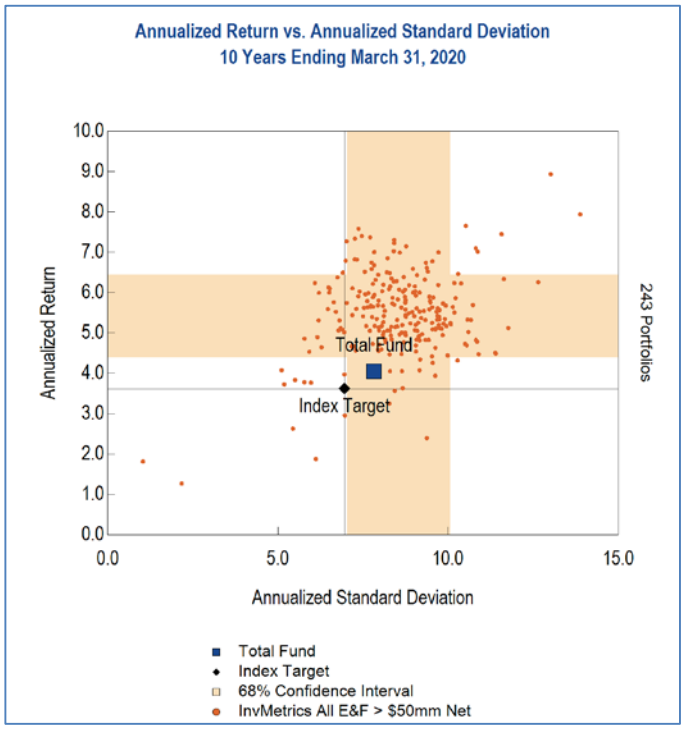
RELATIVE PERFORMANCE

Several hundred endowments and foundations have been monitored over the past several years in the InvMetrics database used by TJF's Investment Consultant to report relative performance. In prior periods, JCEP had



generally demonstrated lower volatility than the comparative group.

However, with the significant dispersion of first quarter returns in hedge fund allocations (90% of the reporting universe Q1 returns ranged between -1.7% and -19.3%), and with the JCEP hedged equity/credit managers underperforming relative to this group, overall **JCEP did not demonstrate lower volatility than peers.** The ten-year annualized returns and standard deviation chart below shows lower returns but average volatility. **The TJF Investment Committee will be monitoring these trends closely.**



QUARTERLY PERFORMANCE ATTRIBUTION

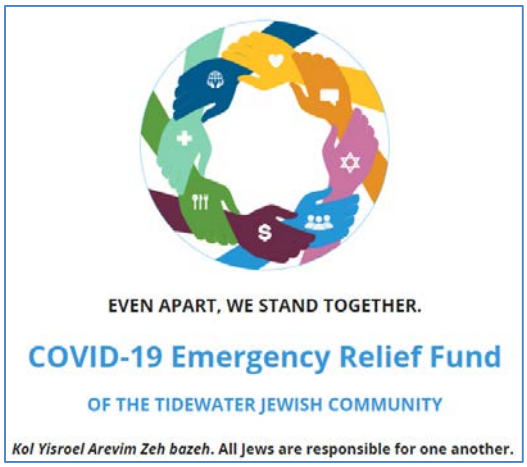
Total portfolio marketable equities were down 24.9% compared to the MSCI ACWI down 21.4%. Global equities ranked in the 84th percentile of the peer universe. Hedged Equity/Credit declined 19.2%, lagging the HFRI index of -10.8%. Performance of hedged equity/credit managers ranked in the bottom quartile of the peer universe. Real Estate did well, up 3.4% compared to the NCREIF Property increasing only 0.7%. Wellington Treasury fixed income allocation increased 1.4% as rates on the entire treasury yield curve declined.

Tidewater Jewish Foundation Responds to Emergency Needs

Endowments represent the capacity and the intent of an organization to function for the long term. The principal of the endowment, obtained through current and deferred giving, is invested and kept whole. An annual distribution, based on an approved spending policy, is used to provide predictable funding to an organization's core programs and services and to specific activities where the mission and the interests of donors intersect. **The TJF Investment Committee and Board recently endorsed continued use of a 4% spending rate calculated on the average of the three prior year's ending balances.**

An organization's governing body (or that of its supporting endowment organization), may feel compelled by the current economic environment to "raid" their endowment and use additional foundation resources to pay for operations, in excess of spending policy. However, TJF's board expressed at its March 31st meeting that **additional use of endowment funds should be resisted and that endowment assets should continue to be managed for the long-term**. There is a fiduciary responsibility to honor gifts that were designed to support the community's agencies in perpetuity. To consider dipping into endowment assets for immediate needs may undermine the confidence of past, current and future donors and could result in a permanent erosion of the endowment.

Nonetheless, TJF functions as a community foundation and has been responsive to our local community agencies in this time of need. TJF is providing expanded access to its Community Impacts Grants Pool as one of many resources available for short-term, immediate access and has committed over $60,000 from its unrestricted funds for local relief programs.



In addition, the **advisors for TJF's donor-advised funds (DAFs) have generously responded to the current pandemic situation**. TJF's DAF's have issued 20% more grants in March and April of 2020 than the same two-month period last year, representing 76% more grant dollars being distributed. This includes over $70,000 thus far specifically for local relief campaigns and programs.

In addition to being responsive to the current emergency situation, Prudent management and investment of the local Jewish community's funds continues to be one of the key services that the Tidewater Jewish Foundation provides to its network of local Affiliate agencies. TJF representatives would be pleased to meet with any of its fund holders and/or Affiliate Leadership to discuss the CJP/JCEP investment partnership and strategy in more detail.

Sincerely,

Randy

Randy Parrish, CPA, AEP®
Interim President & CEO / CFO

TIDEWATER JEWISH FOUNDATION

LIFE & LEGACY®
Assuring JEWISH TOMORROWS
A program of the HAROLD GRINSPOON FOUNDATION

Global Markets

- Global equities were down dramatically in the first quarter with the MSCI ACWI declining 21.4%.
- Domestic equities were little better with large cap stocks declining 19.6% and small caps down 30.6%.
- Non-US developed market equities declined 22.8%. Over 2% of that decline was due to a stronger dollar.
- Emerging markets declined 23.6%. Asian markets tended to do better due to being further along in controlling the virus.
- Interest rates declined in the quarter with the ten-year yield falling 122 bps. However, only treasuries rallied as investment grade corporate spreads increased 179 bps.
- Hedge funds were not immune to the decline, losing 9.4%.* Crude oil prices dropped dramatically from approximately $60 a barrel to $20.

Global Economy

- Year-over-year economic growth will likely decline at the largest rate since the depression due to government mandated shutdowns.
- Business shutdowns have led to a spike in jobless claims. The unemployment rate will likely top 10% in April.
- Fiscal stimulus by Congress and massive central bank interventions have helped to restore liquidity in the global financial system, likely preventing a repeat of the gridlock of 2008-09.
- Retail sales declined 8.7% in March. Larger declines are expected for April.
- The fed funds rate was decreased to effectively 0% during the quarter.
- CPI-U increased 1.5% year-over-year, but is expected to decline further.

Outlook

- Economic growth forecasts range widely. Annual GDP growth could fall over 11% YOY in the second quarter.
- Equity prices have recovered a significant portion of their 1st qtr loss in April. Further increases in the near term likely depend upon the easing of lockdown restrictions.
- Asian economies will likely be the first to emerge from a recession as they are farther along in controlling the virus.
- Epidemiologists have major concerns about a second wave of infections later this year. However, improved surveillance and herd immunity may reduce the severity.
- Valuation declines have made stocks more attractive. The trailing P/E in the US declined from 23.1 to 18.0 as of 3/31.
- The administration has verbally reignited the trade war with China.

Sources: Mercer, Morningstar Direct, Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, and BCA Research, Alpine Macro
* Please note the HFRI is updated a number of times after the end of the quarter. Due to the high dispersion of returns in Q1, changes in returns are magnified.