

MEKETA

INVESTMENT GROUP

MARCH 2023 | ISSUE THREE

ENDOWMENT & FOUNDATION annual newsletter



YEAR IN REVIEW

The economy was a major theme during 2022. While supply chain issues in late 2021 were cited as a cause for “transitory” inflation, it became clear during 2022 that high inflation would continue to be a key theme throughout the year. Inflation reached more than 9.1%¹ and negatively impacted consumer spending as we saw double-digit inflation in some sectors like groceries. It caused the worst-ever returns for investment grade bonds, as well as a major equity market pull-back, and a meltdown for previously hot cryptocurrencies (Bitcoin dropped 64% in 2022, and it was a relative outperformer in the space).² World stocks were down almost 18.4%,³ in the worst year for stocks since the global financial crisis of 2008-2009.

While the COVID-19 pandemic is not over, it is now an accepted part of life for most Americans who largely returned to normal activities during 2022. China had been the last holdout on strict COVID policies, but made a sudden policy reversal in early December, ending its “Zero COVID” policy. Governments across the globe have signaled COVID will now be treated as an endemic and a part of normal civic life moving forward.

Politics and policy, both domestic and international, continued to be at the forefront for many endowment and foundation leaders. Geopolitical tensions, as highlighted by the Russian-Ukrainian war, dominated news headlines and conversations while domestically The US Supreme Court overturned the 1973 Roe v. Wade case that conferred the right to an abortion. In a bright spot for judicial politics, the first Black woman in history was selected to serve on the Supreme Court with the confirmation of Ketanji Brown Jackson. In legislative politics, the mid-term elections in November resulted in close elections and recounts or run-offs in several states. Republicans took control of the US House of Representatives and Democrats retained control of the Senate.

The labor markets remained strong throughout the year, but not without their fair share of controversies. Many companies ordered workers to come back to the office, causing significant backlash and put a spotlight on issues like a lack of affordable childcare and flexible work arrangements. More than 50 million Americans voluntarily quit their jobs during 2022, continuing the “Great Resignation” of the past couple of years, and the term “quiet quitting” gained steam. Layoffs started to worry workers by the end of the year, particularly in the tech sector, as Meta and HP announced significant end-of-year layoffs. In October, Elon Musk led news cycles and dominated the conversation across the internet with the \$44 billion acquisition of Twitter and his plan to immediately lay off 50% of Twitter employees.

During 2022, there were 18 weather and climate events with losses over \$1 billion in the United States, including Hurricane Ian in September, which caused over 150 deaths. Environmental, Social, and Governance (ESG) investing gained attention during the year, as politicians in many states introduced anti-ESG legislation. Despite those developments, a widespread energy transition continued. US renewables generated more power than coal and nuclear in 2022, and more than 1/5 of all electricity in the US now comes from hydropower, wind, and solar.

Not all is lost as 2023 started out with expectations for slowing inflation and fewer interest rate hikes by the US Federal Reserve. Let us hope for a stronger year ahead!



¹ Source: <https://www.pbs.org/newshour/economy/u-s-inflation-at-9-1-percent-a-record-high>.

² Source: <https://finance.yahoo.com/video/understanding-bitcoins-64-decline-2022-203743060.html>.

³ Source: MSCI-ACWI, MSCI-ACWI exUS

MARKET COMMENTARY

2022 began ominously with the Cerberus-headed threats of pressing inflation, rising interest rates, and the Russian declared war on Ukraine in the backdrop. Domestic public equity saw a complete reversal of the heights climbed in 2021, with the S&P 500 finishing down 18% in 2022 (versus the previous annual gain of 29%). Domestic fixed income continued its struggles carried over from the prior year, with core bonds suffering an equity-like 13% drop for the 12-month period. The Federal Reserve raised rates seven times, which made bond investing truly tough and made fixed income a less of a ballast for equity exposure.

Correlations between US equity and fixed income continued to remain high throughout the year and played a role in accomplishing the ignominious feat of having both stocks and bonds finish in the red three quarters in a row for the first time in four decades. Thankfully, recoveries in October and November for both asset classes were enough to stave off a four-quarter string of dual losses, but not enough to prevent both from closing out the year in negative territory for the first time in five decades. As a sliver of silver lining, the weakening US dollar bolstered returns for both developed markets (+17.3%) and emerging markets (+9.7%) equity to outpace their domestic counterpart (+7.6%) during the final quarter, which added to the efficacy of diversification.

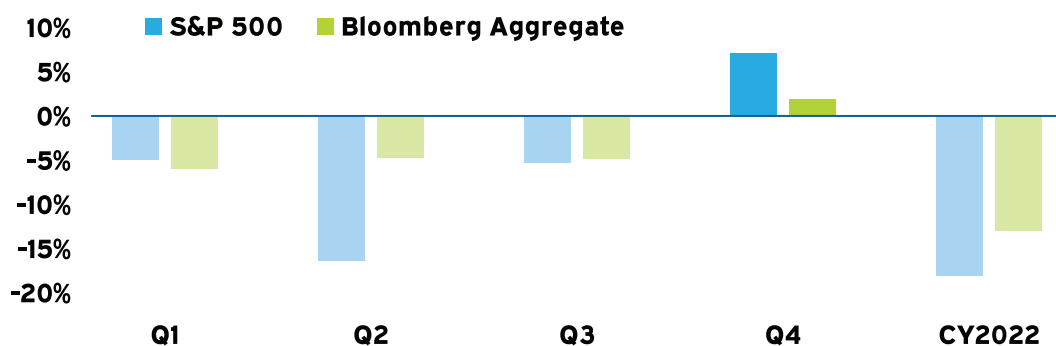


FIGURE 1
2022 Quarterly Returns
Source: Bloomberg. Data is as of December 31, 2022.

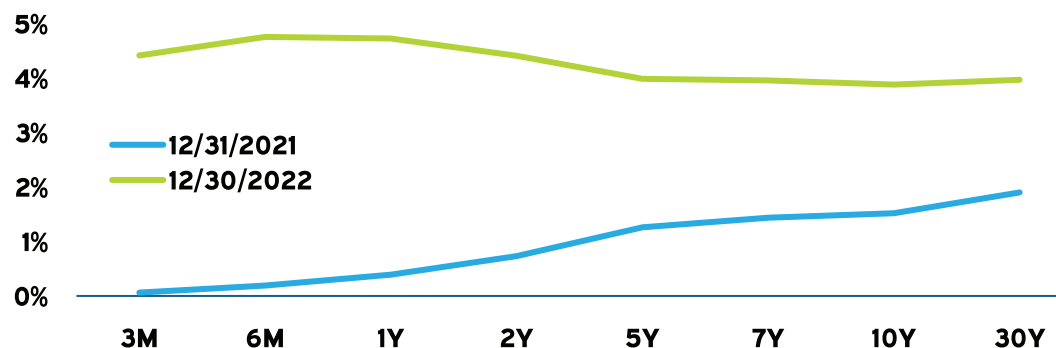


FIGURE 2
2021/2022 US Yield Curve
Source: Bloomberg. Data is as of December 31, 2022.

2022 NACUBO

TIAA STUDY OF ENDOWMENTS

According to the 2022 NACUBO-TIAA Study of Endowments, average investment returns for university endowments were at their lowest levels since the global financial crisis. Driven by lower allocations to public markets, the largest endowments (down 4.5%) held up better than the smallest endowments (down 11.5%). Due to increases in inflation expectation and fees and expenses, target returns have risen by 72 basis points (from 7.51% to 8.23%) over the past two years. Higher yields on fixed income and lower equity valuations should support higher returns in the future.

FIGURE 3
FISCAL YEAR ENDOWMENT RETURNS
Source: 2022 NACUBO-TIAA Study of Endowments.

Year	Average %	Median %
2022	-8.0	-8.7
2021	30.6	30.1
2020	1.8	1.8
2019	2.3	5.1
2018	8.2	8.0
2017	12.2	12.5
2016	-1.9	-2.1
2015	2.4	2.2
2014	15.5	15.8
2013	11.7	11.7
2012	-0.3	-0.5
2011	19.2	19.8

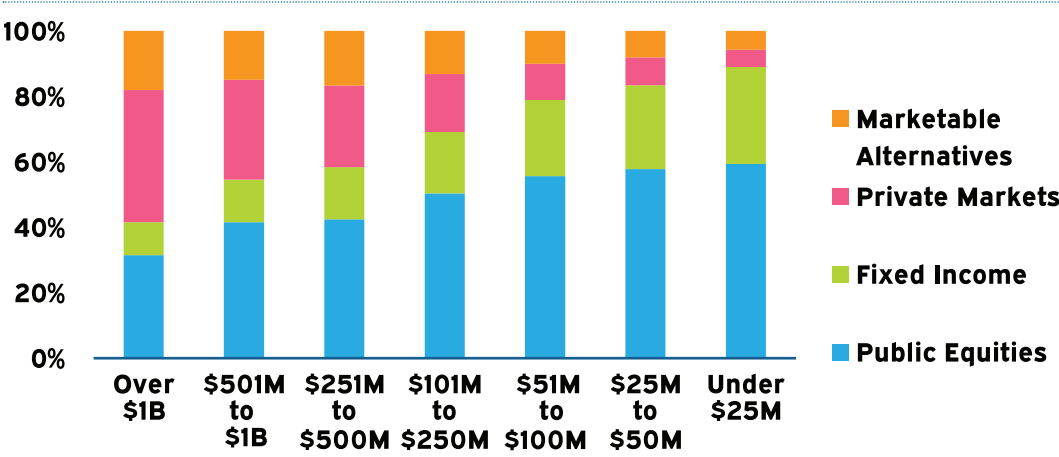


FIGURE 4
ASSET ALLOCATION BY
ENDOWMENT SIZE
Source: 2022 NACUBO-TIAA
Study of Endowments.

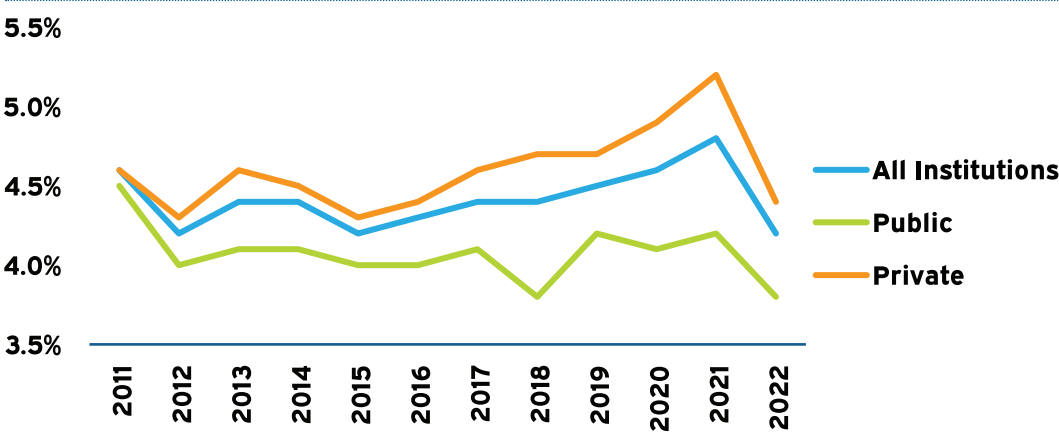


FIGURE 5
AVERAGE ANNUAL
EFFECTIVE SPENDING
RATE
Source: 2022 NACUBO-TIAA
Study of Endowments.

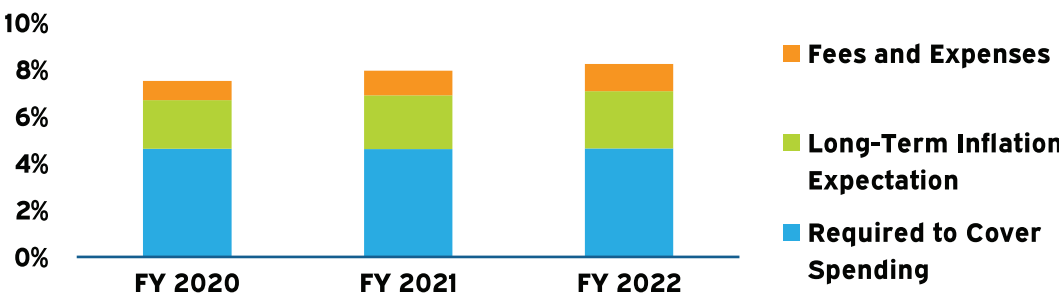


FIGURE 6
TARGET RETURN
COMPONENTS
Source: 2022 NACUBO-TIAA
Study of Endowments.

SURVEY RESULTS

At the end of 2022, we surveyed the endowment and foundation community about their top risks and areas of focus going forward. We received responses from higher education endowments, community foundations and other private foundations, ranging in size from \$50 million to \$10 billion. The top concern (no surprise!) was inflation! 100% of respondents cited it as a concern for their organization.

Looking forward, ESG and DEI received very high response rates for areas of interest, but incorporating MWBDE managers or divestment did not.

- Survey was conducted in December 2022.
- The survey was sent to Meketa's endowment and foundation clients as well as other institutions in the industry.
- Respondents were a mix of higher education endowments, private foundations, community foundations, and other non-profits.
- Fourteen institutions responded.
- Conclusions are based on results from survey answers.
- Not all participants answered every question.
- Charts may not sum to 100% due to rounding.

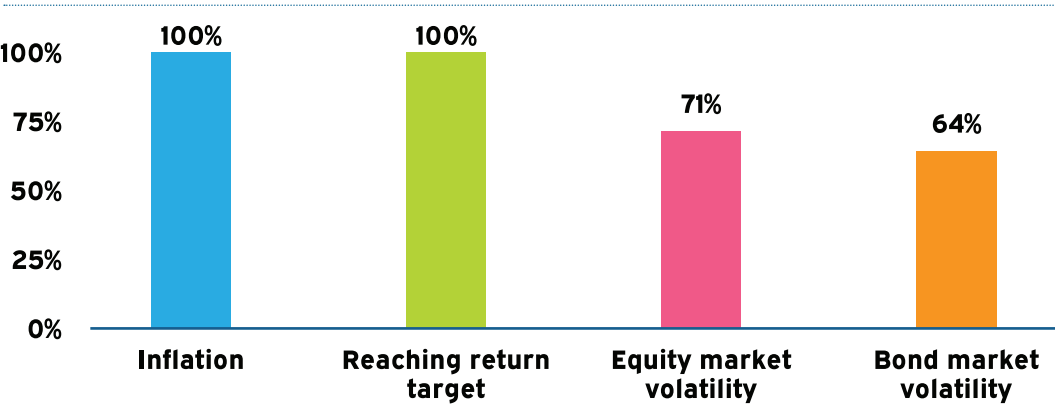


FIGURE 7
AREAS OF TOP CONCERN
Source: Meketa Investment Group 2022 Survey.

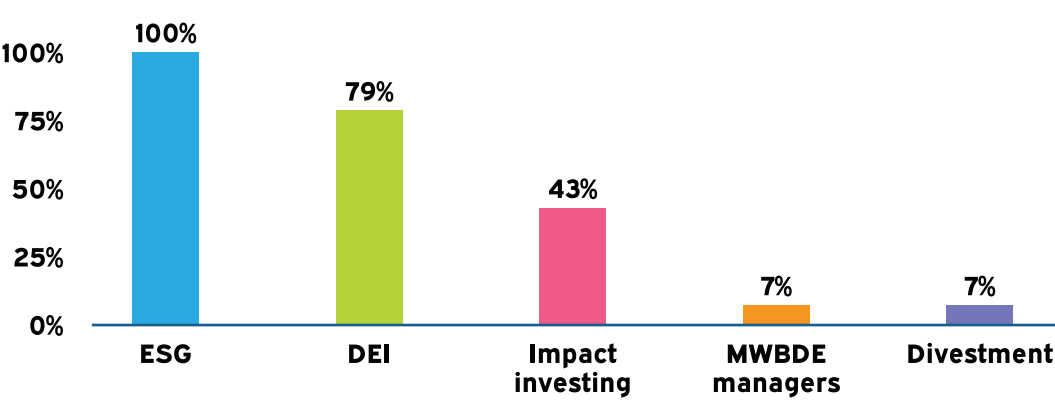


FIGURE 8
INTERESTED IN IMPLEMENTING/ OR CONTINUING MOVING FORWARD
Source: Meketa Investment Group 2022 Survey.

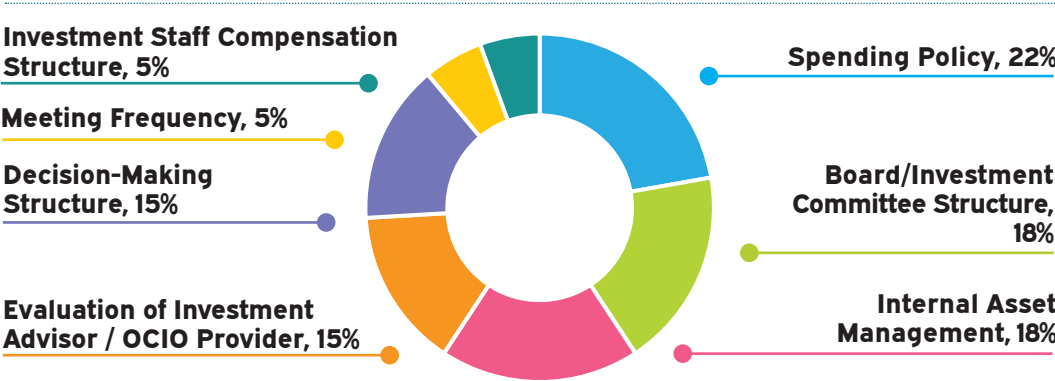


FIGURE 9
FROM AN OPERATIONAL STANDPOINT, THE KEY FOCUS AREAS ACROSS MOST ORGANIZATIONS
Source: Meketa Investment Group 2022 Survey.

Note: Totals do not add to 100 due to rounding.

CLIENT SPOTLIGHT

The Pfaffinger Foundation is a private foundation that honors and supports men and women who have devoted much of their careers to the newspaper industry. Specifically, the Foundation was formed to provide assistance to employees, retirees and families of the former Times Mirror Company who were in need. The 1930s depression was difficult for Times Mirror and the general population, and broad social supports were in their infancy (the Social Security Act was signed into law in 1935) so Frank Pfaffinger, long-time business manager and Treasurer of Times Mirror for over 22 years, established the Foundation in 1936 to provide an additional support system.

The Pfaffinger Foundation is based in Los Angeles, CA and has a lean staff of 8 employees. The Foundation is currently led by CEO Sally Melvin Pick, and CFO Kristal Miranda, who are supported by several case managers who review grant applications and work directly with beneficiaries. The Foundation provides both individual assistance and community grants. Over the years, the Foundation has assisted with rent, home repairs, transportation needs, assisted living and medical expenses, and other forms of support to help families in need. The Foundation began with a gift of approximately \$500,000, and it has not raised any funds beyond that initial contribution. However, it turned out to be the gift that kept on giving. The Foundation has a current value of approximately \$90 million. Since its inception, the Foundation has made over \$99 million in individual grants, \$32 million in community grants, and \$8 million in family self-sufficiency grants.

To capture the storied history of the Pfaffinger Foundation, former CEO Stephen Meier dove into the Times Mirror business records archive to research and chronicle the history of the Foundation. The publication, "A Beautiful Idea", describes the relationship of the Foundation with the company Times Mirror, the early development of the city of Los Angeles, the investment landscape of the 1920's, and the birth of Mr. Pfaffinger's charitable spirit. As the newspaper industry has gone into a steep decline over the past two decades, the need for assistance has only grown. Many people who expected to finish their careers at a newspaper have found themselves with their hours reduced, laid off, or taking early retirement. At inception, Mr. Pfaffinger might never have guessed that the Foundation's greatest need would be eight decades into the future.

One core challenge for the Foundation today stems from the state of the newspaper industry. Pfaffinger Board members have had to reflect on the mission of the organization and Mr. Pfaffinger's original intent. Is the organization expected to operate in perpetuity, and can it operate in perpetuity, given the decline of print media? Thus far, the answer has been yes. The Foundation continues to provide a broad range of support to its constituents and the community each day, gifting approximately \$4 million per year to those in need. Support for those that are impacted by an evolving newspaper industry has never been greater and Mr. Pfaffinger's vision to support the "working poor" remains a noble cause.



IMAGE

FRANK PFAFFINGER



Since the start of our relationship in 2009, Meketa has worked to help the Foundation build a robust portfolio that can succeed in variety of business and economic cycles. We have worked together to introduce new asset classes and enhance the diversification of the portfolio. In continued partnership with the staff and the Audit Committee, we have provided advice regarding their investment policy, spending rates, and environmental, social and governance policies. Meketa's mission is to help solve critical and long-term financial challenges, and we couldn't be more thrilled to continue to help the Pfaffinger Foundation as they move forward in their journey.

MEKETA NEWS

While economic conditions and financial markets were anything but stable during 2022, Meketa continued to experience firm growth and our employees continued to work to deliver our mission of helping our clients solve critical and long-term financial challenges. We added 16 new clients and 9 new employees, bringing our totals to 245 clients and 243 employees. We're grateful that even during turbulent conditions we continued to find opportunities to better serve our clients and community.

Cultivating an atmosphere of diversity, equity, inclusion, and belonging (DEIB) remains a focus for Meketa and is embedded within the fibers of our organization through our values. We continued to dedicate time to training and development across a broad spectrum of DEIB areas. Through a combination of partnerships across our Employee Resource Groups (ERGs), human resources, corporate committees, and external vendors, we were able to deliver over ten employee training and development sessions to encourage an atmosphere of inclusion and belonging.

During the year, our journey of creating a more inclusive organization included exploring the delicate balance that many working parents face, forging forward with advancing our anti-racist training, learning about neurodiversity, diving deeper into the history of our LGBTQIA+ colleagues, and tackling mental health at work. We understand to deliver our best to our clients, having a firm atmosphere that embraces DEIB fully and wholly will only continue to help us in the future. Below is a sample of the training sessions offered to all employees:

**All The Letters
LGBTQIA+**

**Creating an
ANTI-RACIST
Organization**

**PSYCHOLOGY
S A F E T Y**

**Prioritizing and Integrating
Mental Health at Work**

**CREATING A CULTURE
OF DIVERSITY, EQUITY,
AND INCLUSION**

**AUTISM
Acceptance**

**EMOTIONAL
INTELLIGENCE**

**DEI 2.0
TOOLKIT**

**WORK | life
harmony**

Work, Family, Life: Finding Meaning **Giving & Receiving Feedback**

To continue our focus on bettering the communities around us, Meketa provides employees with paid volunteer time to participate in community improvement events, sponsored companywide volunteer opportunities, and financial support to causes that align with our values. Many of our employees gave their time to our bi-coastal Habitat for Humanity build days, participated in our second annual Day of Service where we partnered with the Surfrider Foundation to clean our local beaches, or contributed to their communities by volunteering with organizations of their choice.

IMAGES

MEKETA DAY OF SERVICE AND HABITAT BUILD DAY 2022



THOUGHT LEADERSHIP

Understanding China

Our three-part white paper series, Understanding China, culminated with a webinar focused on rising US-China trade tensions, recent military drills around Taiwan, Xi's total control of the Chinese Communist Party (CCP), and whether investors should reconsider their allocations to Chinese assets. The webinar included Frank Benham, Alison Adams, and Hayley Tran engaged in a lively conversation which included an examination of current and political, policy, economic, and geopolitical headwinds that China is facing as well as the trade-offs between economic gains and policy risks. Also discussed were overall portfolio exposures as well as implementation strategies for China and other emerging markets.

Women Leading: Characteristics and Personal Development Needed for Leadership

Moderated by Meketa's Amy Hsiang, panelists shared their insights as to what they believe are the necessary characteristics to gain leadership roles as women in the investment industry today, what they feel is important from a personal development standpoint, as well as other practical advice and actionable ideas for women who are beginning or continuing their professional journey forward.

2022 Diversity, Equity, and Inclusion Annual Questionnaire Results Summary

Beginning in 2020, Meketa launched a formal initiative to gather data from public and private markets asset managers within our proprietary database. The initiative focused on evaluating asset manager efforts more thoroughly to have a deeper understanding of Diversity, Equity, & Inclusion ("DEI") within their organizations. Our 2022 annual questionnaire results summary was constructed using the responses collected from over 400 investment managers and is divided into three sections: transparency and reporting, policies and initiatives, and employee conduct. We anticipate our 2023 report will be available mid-March.

Private Equity Primer

This primer describes the asset class commonly known as private equity. It attempts to answer the types of questions institutional investors would be likely to ask when considering an investment in this area. Historically, private equity investments have often been grouped in a larger category of investments called alternative investments. Alternative investments have often been defined as any investments other than publicly traded stocks and bonds. In addition to private equity investments, alternatives have often included real estate, infrastructure, natural resources, private debt, and hedge funds.

2022 Emerging and Diverse Manager Discussions

On a semi-annual basis, Meketa hosts Emerging & Diverse Manager Research Days, which allow us to discover new managers and new opportunities for our clients. During our **April** and **October** events, we hosted roundtable discussions that featured endowment and foundation leaders and investment managers. Topics included issues related to identifying investment opportunities as well as successful investment and operational due diligence practices within the emerging and diverse manager space.

Meketa Investment Group
invites you to join our virtual:

**Public and Private Markets
Emerging & Diverse
Manager Research Day &
Roundtable Discussion**

October 26, 2022

**One-On-One
Interviews:**
All day

**Roundtable
Discussion:**
12 pm to 1 pm EST

To register for the event please go to:
<https://meketa.researchnet/r/Ls9WHKS>
Registration closes October 5th



CONTACT US

If you want to learn more, or access Meketa's library of white papers and economic research, please contact us or visit <https://meketa.com/thought-leadership/>.

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