Through inclusion of additional asset classes and more sources of return, the Flagship Long-Term Pool seeks a more consistent return stream with lower year-to-year volatility and the greatest long-term impact for a donor. Broadly diversified in traditional asset classes, the pool also includes less traditional exposures to help enhance return and manage risk in a variety of market environments. Approximately 81% of the portfolio is designed to help enhance return and 19% to help manage risk. Additionally, approximately 52% of the portfolio is allocated to traditional stocks, 14% to traditional bonds, and 34% to non-traditional investments to help both enhance return and manage risk. Non-traditional investments may include, but are not limited to, hedge funds, real estate, private equity, distressed debt, and low-beta equity strategies.

The global pandemic caused by COVID-19 resulted in a brutal quarter for all financial assets outside of cash and risk-free sovereign debt – and even high-quality sovereign debt stumbled at points due to severe market dislocations. Equities fell dramatically, bringing year-over-year gains well into negative territory. U.S. small caps were especially hard hit, driven in part by concerns about higher average debt loads. A sharply stronger dollar was an additional headwind for many non-U.S. equities. The combined equity portfolio of funds for the quarter was -22.3%, as higher quality assets were sold to generate cash.

Riskier fixed income classes fared poorly. Interest rates fell dramatically on concerns about suddenly slower growth and a rising risk of deflation, boosting Treasurys (especially longer-dated issues, and the portfolio benefited with a modest position). However, credit spreads widened significantly, ending the quarter at roughly twice their 10-year trailing averages. Even investment-grade credit was not immune, with spreads finishing the quarter nearly three times wider than where they started. The combined fixed income portfolio of funds for the quarter was -4.8%, which provided some relief in a period of extreme volatility.

The sharply stronger dollar and an oil price war between Saudi Arabia and Russia compounded the shock of a sudden, sharp recession on commodities, pushing prices significantly lower. Non-traditional assets were mixed for the period. While the portfolio of hedge funds was down for the quarter, they were -6.3%, which is materially less than equities. Investments in energy detracted noting the aforementioned decline in oil and gas prices and corresponding investments. The real estate portfolio is reported on a quarterly lag and results were positive as of the previous quarter.
Emerging markets involve heightened risk of capital loss from international investments may involve risk of capital loss from other nations. Narrowly focused investments and smaller companies accepted accounting principles or from economic or political instability. Performance quoted is past performance. Past performance does not guarantee future results. Current performance may be higher or lower. The principal value and investment return of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original value. Performance data does not reflect individual account performance but reflects assets in the DCF Flagship Long-Term Pool. For account performance please refer to your individual statement.

Performance prior to client’s transition to SEI was provided to SEI by client’s previous provider (“Prior Performance”). Neither SEI nor its affiliates assume any responsibility for the accuracy or completeness of the Prior Performance, and such information has not been independently verified by SEI.

Performance since client’s inception date with SEI is calculated by SEI and has been linked to the Prior Performance. All Prior Performance is net of fees.

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There are risks involved with investing including loss of principal. There is no assurance that the objectives of any strategy or fund will be achieved or will be successful. No investment strategy, including diversification, can protect against market risk or loss. Past performance does not guarantee future results.

Through June 30, 2012, annual performance is calculated based on monthly return streams, geometrically linked. From June 30, 2012 onward, annual performance is based upon daily return streams, geometrically linked as of the specific month end. In addition to the normal risks associated with equity investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from difference in generally accepted accounting principles or from economic or political instability in other nations. Narrowly focused investments and smaller companies typically exhibit higher volatility. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. These risks may be magnified further with respect to frontier market countries, which are a subset of emerging market countries with even smaller national economies. Real estate and REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations.

Bonds and bond funds will decrease in value as interest rates rise. Investments in high-yield bonds can experience higher volatility and increased credit risk and risk of default or downgrade when compared to other fixed-income instruments. TIPS can provide investors a hedge against inflation as the inflation adjustment feature helps preserve the purchasing power of the investment. Because of this inflation adjustment feature, inflation protected bonds typically have lower yields than conventional fixed rate bonds.

Alternative investments are subject to a complete loss of capital and are only appropriate for parties who can bear that risk and the illiquid nature of such investments. Alternative investments often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds; and often charge high fees.

Alternative, Property and Private Assets performance may be reported on a monthly or quarterly lag. Alternative, Property and Private Assets performance may be reported on a monthly or quarterly lag.

There is no guarantee that risk can be managed successfully nor that diversification will protect against market risk.

Benchmark Composition Definitions:

Bloomberg Barclays U.S. Aggregate Bond Index: Barclays U.S. Aggregate Bond Index (formerly Lehman Brothers U.S. Aggregate Bond Index) is a benchmark index composed of U.S. securities in Treasury, Government-Related, Corporate, and Securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million.

MSCI All Country World ex US Index: MSCI All Country World ex US Index includes both Developed Markets and Emerging Markets countries, excluding the United States.

Russell 3000 Index: Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

NCREIF Property Index (NPI): NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors – the great majority being pension funds. As such, all properties are held in a fiduciary environment.

HFRI Fund of Funds Composite Index: Fund of Funds invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies. The minimum investment in a Fund of Funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers.