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.

Equities around the world spent much of the recent quarter embracing the sharp rebound that began at the end of March, as equity markets were universally higher. Recoveries varied in size, and some markets had their best quarter in several years. U.S. shares had the highest quarterly performance since 1998, according to the S&P 500 Index. The combined equity portfolio for the quarter was +20.6%, as U.S. markets, led by smaller cap strategies, outpaced non-U.S. equity markets, with emerging market equity strategies second to U.S. small cap equity.

Bonds performed well for the quarter, as central banks pledged to keep interest rates low and monetary policy stimulative in order to support healing of credit markets. Rates for U.S. Treasuries with the shortest and longest maturities increased during the full quarter, while the rates of those with maturities of 1-to-10 years declined. Emerging and high yield debt did best, as credit spreads continued to narrow from the previous quarter blowouts. The combined fixed income portfolio was +6.3%, as all fixed income strategies contributed to quarterly results.

Non-traditional strategies played a very important role during the period. Successfully managing month-to-month volatility relative to broad equity markets with exposure to hedge funds provided a smoother experience so far in 2020. In other corners of less liquid markets, strategies focused on energy and broader credit markets saw meaningful recovery. This was driven primarily by a rebound in oil and investors stepping back into dislocated corners of credit markets following March’s retreat. The private U.S. commercial real estate portfolio proved resilient. Although reported on a lag, the strategy has broadly avoided and otherwise held reduced exposures to some of the most impacted corners of commercial real estate, such as hotels and retail. We believe private equity and upcoming contributions in the space will be an important tool for deploying capital in this new environment, with the continued focus on long-term return.
risks related to the same factors as well as increased volatility and lower
accepted accounting principles or from economic or political instability
unfavorable fluctuation in currency values, from difference in generally
geometrically linked as of the specific month end.

monthly return streams, geometrically linked. From June 30, 2012
Through June 30, 2012, annual performance is calculated based on
does not guarantee future results.
diversification, can protect against market risk or loss. Past performance
be achieved or will be successful. No investment strategy, including
There are risks involved with investing including loss of principal.
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
managers 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.