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The University of Iowa Center for Advancement (UICA)
Quarterly Investment Report – June 30, 2024

Overview

Attached you will find the investment performance report for the period ending June 30, 2024. The trends that dominated fiscal year 2023 held steady in fiscal year 2024. The Federal Reserve continued to combat inflation, maintaining interest rates during the fiscal year as inflation fell from a high in the year of 3.5 percent (March) to 3.0 percent in June. Tech stocks dominated US equity markets, while venture capital continued to find fundraising and performance difficult. Economists and traders hope that the Fed can navigate toward a soft landing.

The Long-Term Pool (LTP) returned 1.6 percent for the quarter, 13.0, 5.4, 8.1, and 6.7 percent respectively for the one-, three-, five-, and 10-year periods.

Global Equity

The global equity composite returned 1.8 percent during the quarter, 17.4 percent over the past year and an annualized 6.4, 12.3, and 9.8 percent over the past three-, five- and 10-year periods.

While non-US developed and emerging markets posted strong returns during the year, they were not able to keep up with US large cap, growth, tech stocks. The Magnificent 7 stocks (Apple, Microsoft, Amazon, Alphabet, Nvidia, Tesla, and Meta Platforms) that contributed to most of last fiscal year's returns have been just as dominant, but not all those stocks were up as Tesla fell during the year. The increasing concentration of US equity markets is a growing concern for investors.

The trends in venture capital and buyout funds that existed last fiscal year remained consistent in fiscal year 2024. Fundraising in venture capital and buyout continues to be a struggle. The days of one-and-done closes with short due diligence windows are gone. In venture, large, multi-stage funds have dominated the fundraising in 2024. These funds tend to have longer track records and recent vintage years have been difficult to assess performance as median internal rates of returns (IRR) continue to fall for vintage years 2017-2020 according to Carta. More recent vintage years median IRR remains negative. This all makes fundraising for younger VC managers more difficult. In buyout, performance through 2020 has held up better than VC, but more recent vintage years have similar difficulties. Both buyout and VC also have struggled achieving realizations. Distribution activity remains below expectations. Continuation vehicles, which we mentioned last fiscal year, have lost some of their luster as activity in that space has fallen. We are hopeful that distribution activity volume increases as interest rates fall.

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Global Fixed Income

The global fixed income composite returned 2.2 percent during the quarter and 9.1 percent for the trailing year. Over longer time periods it increased an annualized 2.7, 3.8, and 3.6 percent for the three-, five- and 10-year periods. Cash interest rates remain attractive, though this will likely change as rates fall. The role of fixed income remains to diversify equity risk and provide liquidity when needed. In calendar year 2022 we saw that not all fixed income strategies diversify away from equity risk. While we generally see correlations between credit fixed income strategies and equities increase in times of market stress, historical equity/bond correlations broke down when markets were not under stress. They have since reverted to trend, but it does cause questions about whether some fixed income strategies are playing out the roles we need them to.

Real Assets

The real assets composite returned 0.9 percent for the quarter, -1.0 percent for the one year, and an annualized 3.1, 2.7, and 3.6 percent over the past three-, five-, and 10-year periods. Real asset returns were mixed for the fiscal year. While some commodities rose sharply (cocoa), energy prices generally fell as US oil production remains robust. Public real estate (REITs) was up modestly but did not keep pace with equity markets. At the same time private real assets have struggled at a time when inflation is above Fed targets.

Diversifying Strategies

The diversifying strategies composite returned 0.8 percent for the quarter, 6.4 percent for the one year, and an annualized 4.1, 2.5 and 3.2 percent over the past three-, five-, and 10-year time periods. Managed futures had a solid year on the back of strong calendar year-to-date performance. Private diversifying strategies performance was driven by entertainment royalties.

Conclusion

Equity market performance defined fiscal year returns and resulted in most endowments ending the year with larger allocations to equities. On the public side, S&P 500 all-time highs were driven by large cap tech stocks again. The news wasn't all good in the tech space as venture capital continues to lack distributions and saw performance struggle compared to buyout for the third straight year. Buyout has also disappointed in achieving realizations, but for the most part has seen improving market values. This has resulted in most endowments being overweight to equities, forcing them to dial back future private commitments. It would not be surprising to see fewer new buyout and venture managers until realizations unlock capital and we expect some funds to stop investing amid uncertain futures of their portfolios. We feel that the portfolio is positioned appropriately to take advantage of the current market environment and to meet our return objectives in the future.

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