**IOWA** | Center for Advancement

# The University of Iowa Center for Advancement (UICA) Quarterly Investment Report – December 31, 2024

## Overview

Attached you will find the investment performance report for the period ending December 31, 2024. Calendar year 2024 was very similar to calendar year 2023. Most asset classes were positive for the year, with US public equities leading the way. The S&P 500 once again had returns over 20%, led by mega-cap tech stocks. The Federal Reserve lowered the Federal funds rate three times for a total reduction of 100 basis points. The macroeconomic headwinds of national elections around the globe and geopolitical tensions were largely shrugged off, but potential trade disputes ahead kept the typical December equity rally from happening.

The Long-Term Pool (LTP) returned -0.2 percent for the quarter, 10.1, 4.9, 8.3, and 7.2 percent respectively for the one-, three-, five-, and 10-year periods.

## Global Equity

The global equity composite returned -0.5 percent during the quarter, 12.7 percent over the past year and an annualized 6.5, 11.9, and 10.4 percent over the past three-, five- and 10-year periods.

The "Magnificent 7" stocks of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla continued to dominate public equity market performance, rising 67.3 percent compared to the S&P 500s 25.0 percent. Interestingly, in 2023 those numbers were 75.7 percent and 24.4 percent. The S&P 500 has risen over 20 percent three years in a row just one time in its history. Developed markets outperformed emerging markets in the quarter, but that trend was reversed for the calendar year.

Much has been made about the lack of liquidity from venture capital since 2021. It is true that distributions are down, but they are also down in other private capital strategies. The most recent buyout vintage year with Distribution to Paid-In (DPI) above 1x is 2016, in venture you have to go back to 2013. Our portfolio tells a different story, with DPIs above 1x in nearly all pre-2020 funds. General partners are solving the low DPIs with either continuation vehicles that can create liquidity today or fund extensions which allow more time to create a liquidity event. Continuation vehicles have been a story for several years in larger funds, but we are seeing them more in the lower middle market. There is little data on the performance of continuation vehicles, but the reset economics are biased to the GP. Fund extensions increase a funds' duration, which will likely reduce fund internal rate of returns unless exit multiples are increased.

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**Global Fixed Income**

The global fixed income composite returned 1.2 percent during the quarter and 5.7 percent for the trailing year. Over longer time periods it increased an annualized 3.2, 4.0, and 4.1 percent for the three-, five- and 10-year periods.

The Treasury yield curve normalized in 2024, a combination of falling rates on the short end of the curve and rising rates on the long end. This helped cash outperform core bonds. The role of the fixed income portfolio is to be a source of liquidity and diversify equity risk. One of the fastest growing asset classes is private credit, which is normally housed in the fixed income asset class. Due to the liquidity constraint of our fixed income asset class, we choose to place private credit in the diversifying strategies asset class. Private credit does offer attractive spreads over public credit, but the absolute return of many strategies is below our target return. Some private credit strategies rely on equity to provide higher returns, but we give up diversification to generate those returns.

**Real Assets**

The real assets composite returned 1.3 percent for the quarter, 4.7 percent for the one year, and an annualized -0.3, 3.9, and 4.2 percent over the past three-, five-, and 10-year periods.

The role of real assets in an endowment portfolio is to provide total return and act as an inflation hedge. Private real assets have not provided an inflation hedge in the latest bout of high inflation. Liquid real assets can provide inflation hedges in some scenarios but often lack a sufficient total return to maintain an allocation through a market cycle. There are some real assets strategies that can hedge inflation by generating a total return above our target return, and those are the types of investments we are looking to make.

**Diversifying Strategies**

The diversifying strategies composite returned -0.5 percent for the quarter, 5.0 percent for the one year, and an annualized 2.4, 1.9 and 2.5 percent over the past three-, five-, and 10-year time periods.

Managed futures had a strong start to the calendar year but returns reversed in the last 6 months of the year. Performance has been diversifying away from royalties as more dollars moved into the space, particularly into music royalties. We are deploying capital in private credit that is not lending to private equity backed businesses.

**Conclusion**

For the past two calendar years, markets have been consistently driven by the Magnificent 7 stocks and the hope of interest rate cuts. As the calendar year flipped to 2025, markets and sentiment became less certain as talks of tariffs led to concerns about trade wars. Markets like certainty, but that certainty has been in short supply this year. Increased market volatility is unlikely to help venture unicorns list on the stock market, but it could lead to dislocations elsewhere. We are seeing private capital calls increase, but distributions remain below expectations. Our portfolio remains highly liquid against this backdrop. We feel that the portfolio is positioned appropriately to take advantage of the current market environment and to meet our return objectives into the future.

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Vice President, Chief Investment Officer