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IN THIS ISSUE

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Is China VC Now "Uninvestable"... or Primed for the Intrepid?

Even among the most experienced investors in the Middle Kingdom, recent and dramatic developments in China have left many alarmed and anxious. A wave of new, still ill-defined regulatory/commercial guidelines has washed over significant technology and consumer-facing segments of the Chinese economy, affecting broad areas like data privacy, anti-competitive behavior, after-school tutoring, social media/gaming, and real estate. Didi Global, Inc. (NYSE: DIDI) has just announced, following a data-security investigation by China's cybersecurity authorities, that it will delist its shares in the U.S. and relist in Hong Kong. Rumors this month have also included China possibly banning altogether the U.S. public listings of Chinese companies that utilize a variable interest entity (VIE) structure. (Note: As of this writing, the website for the China Securities Regulatory Commission refutes this rumor.)

These changing "rules of the game" and further signs of a possible capital market decoupling are naturally leading overseas LPs to ask the critical question: **Is China VC now "uninvestable" for foreign capital?** In other words, are the perceived risks in Chinese VC today simply too high for the expected returns?

While acknowledging a non-zero chance that we may be dead wrong, we believe the answer is no. In fact, we would go further and suggest that, for the intrepid, the current vintage of elite China VC funds may be primed for exceptional performance. But first, some background on our view.

In 2005, when Bill Dietrich first spoke with me in hushed and excited tones about what he saw as the emerging opportunity for venture capital investing in China, I told him he was crazy. "The only way to make good money in Chinese VC," I said, "is to invest your money, lose it all, and then write a book about it."

I was wrong, of course. Sixteen years and 40-plus trips to China later, I grew to deeply appreciate the wisdom of Bill's early convictions. Since the genesis of his philanthropic vision in 1996, the assets supporting Bill's namesake Dietrich Foundation have grown from $170 million to $1.85 billion, including charitable distributions. An unconventional ~35% portfolio allocation to China – most of which is directed to VC funds managed by local Chinese teams – has been a significant driver of that asset growth.

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NMS MANAGEMENT

Nancy M. Szigethy
Founder, President and Chief Executive Officer

ABOUT NMS

NMS is a membership-based organization serving as the primary educational resource for the endowment and foundation community through its high caliber meetings. Believing that most successful business ventures are built on trust, and trust can only be developed through relationships, NMS strives to facilitate relationships through its membership platform.

As the chief source of unbiased educational forums, NMS promotes high standards of competence and ethics. As part of its mission, NMS provides its members with access to leading thinkers in the asset management industry through its content rich programming in a non-commercial setting of peers. NMS is the bridge to the latest investment ideas and information applicable to the endowment and foundation community.

Should Institutions Invest in Crypto?

By Leena Bhutta
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With Elon Musk tweets moving the price of Bitcoin and Dogecoin (how do we pronounce that again?), along with the dizzying price movements of cryptocurrency in 2020 and 2021, many institutions rightfully wonder if cryptocurrency is a serious asset class. It is worth exploring the potential reasons for optimism around cryptocurrency, examine some of the shortfalls that still exist and consider potential ways cryptocurrency can be additive to institutional portfolios.

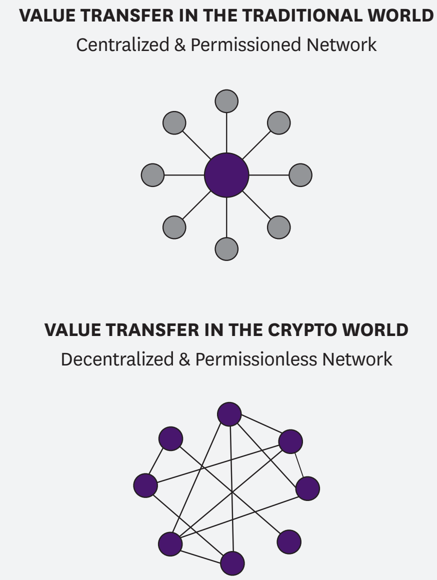
The cryptocurrency universe, once synonymous with Bitcoin, has become larger and more variegated over the four cycles we have seen in the last thirteen years. According to coinmarketcap.com, the total global crypto market cap today is about $2.1 trillion with almost 12,000 listed currencies. Bitcoin alone has a market value that has reached $900B again at the time of writing of this essay.

The genesis of this now sizeable market was a groundbreaking white paper written by Nakamoto (believed to be a pseudonym of an individual or group of individuals) in 2008. The primary idea in the paper was to create a single, distributed database that is accessible to everyone and controlled by no single entity, governmental or otherwise. The idea was to create a distributed ledger that did not require permissions, and could not be gamed or cheated on.

Since then, a staggering number of tokens with associated applications and use cases in the computing world have been introduced while Bitcoin and later Ethereum, a decentralized, open-source blockchain, with smart contract functionality, have continued to be the largest cryptocurrencies.

The investment hypotheses behind allocating to cryptocurrencies are also varied. Arguments in favor include the following:

FIG. 1 Cryptoassets Do To Value What the Internet Did To Information



SOURCE: *Cryptoassets: The Guide to Bitcoin, Blockchain, and Cryptocurrency for Investment Professionals. Matt Hougan and David Lawant (CFA Institute Research Foundation).*

Hedge against fiat currency debasement and inflation: In a world where Central Bankers have shown a limitless appetite to print their way out of woes related to low growth, aging demographics, deflationary forces and recessions, those worrying about the debasement of fiat currency are sure to find certain features of cryptocurrencies appealing. The lack of a central authority controlling the amount of currency and hence ultimately the value is a feature that many point to as a hedge against the deliberate debasement of currencies that is an ailment of the post-2008 era. Bitcoin especially has been touted as "liquid gold" for its characteristics of scarcity and indestructability. With a macroeconomic backdrop where central bankers want to create inflation (and now that it is here in the summer of 2021, insist with confidence that it is only transitory), there is some merit to the argument that a decentralized currency can act as a hedge against inflationary forces.

Uncorrelated asset: Bitcoin, as the dominant cryptocurrency, has shown low correlation characteristics to almost every other asset class. As a result of the low/negative correlations, the potential improvement in Sharpe ratio, even with small amounts of Bitcoin in the portfolio

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Fig. 2 Sharpe Ratio Impact with a small % of Bitcoin

Portfolio	Cum. Return	Annualized Return	Volatility	Sharpe Ratio	Max. Drawdown
Traditional Portfolio	26.22%	3.8%	9.86%	0.31	21.07%
Trad. Portfolio + 1% Bitcoin	33.52%	4.74%	9.87%	0.41	21.32%
Trad. Portfolio + 2.5% Bitcoin	44.91%	6.13%	10.07%	0.54	21.80%
Trad. Portfolio + 5% Bitcoin	65.07%	8.37%	10.83%	0.70	22.76%

Period between January 1, 2014 and March 31, 2020 (assuming quarterly rebalancing) [1]

Investing in Change: Racial Equity in Financial Services

By Carlos Rangel
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W.K. Kellogg Foundation

By Shanelle Brown
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By Neil Graziano
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W.K. Kellogg Foundation

Bold leaders are recognizing the business and social imperatives for transforming their companies to be more racially equitable, diverse and inclusive.

According to recent research[1], for every 10% more racially or ethnically diverse a company's senior team is, earnings before interest and taxes (EBIT) is nearly 1% higher. More broadly, there is also potential for $8 trillion in U.S. GDP growth by 2050 if businesses help close racial equity gaps.[2]

Increasingly, financial services industry and private sector leaders are bringing action-oriented mindsets and strategies to internal and external transformation goals, especially when it comes to advancing racial equity, diversity and inclusion (REDI).

To support this energy and their efforts, the W.K. Kellogg Foundation (WKKF) launched Expanding Equity in 2020 with a cohort of five financial services firms. The program has since expanded to help more than 50 companies – 17 of which are financial services firms – attract, promote and retain diverse talent and ultimately transform workplace cultures, systems and structures for long-term effectiveness.

Definition of Racial Equity:

Racial equity is an aspirational pursuit insisting that all people, regardless of their racial/ethnic group identification, skin color, or physical traits, will have equal opportunity to experience well-being in a just society. Achieving racial equity means that a person's identity would not predict their day-to-day experiences or their life outcomes.

Within companies, racial equity means that all employees have equal opportunities to join, to be developed, to belong, to succeed, to progress, and to be respected in the workplace. It means that the workplace culture, systems and structures enable people from all identity groups to thrive.

SOURCE: *W.K. Kellogg Foundation*

So, what are the realities and opportunities for advancing REDI in the financial services industry?

If you are pursuing your own REDI company strategies, the following analysis and reflections offer insights drawn from the Expanding Equity program and recent research produced in collaboration with McKinsey & Company: Racial Equity in Financial Services and Race in the Workplace: The Black Experience in the U.S. Private Sector. Additional data was also drawn from McKinsey's Women in the Workplace 2021 report.

REALITY: the current state of racial and gender representation in financial services

The proportion of people of color at the entry levels of U.S. financial services firms is in line with their representation in society – around 40%. However, this falls steadily as you approach the C-suite, where it drops 75%. Nine out of 10 executives at the C-Suite level are White. The proportion of White men in the C-suite is 112% higher than at entry level; this proportion is 30% lower for White women, 60% lower for men of color, and 90% lower for women of color. In disaggregating the data for women of color – the least represented group overall – we see that proportional representation at the C-suite falls to 45% for Black Women, 4% for Latina and 14% for Asian. This elevates how the intersectionality of race and gender should be a key consideration for any REDI transformation strategy.

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By Ken Lee
Chief Investment Officer
Children's Health System of Texas

Team Building in Sweatpants: Setting Culture in a World of Remote Work

Covid-19 has brought profound changes to our working lives. Without travel, peer-to-peer exchanges like the in-person NMS conferences, or face-to-face manager meetings, the daily rhythms of institutional non-profit money management are unrecognizable.

A global survey conducted by Gartner, a technology consulting firm, estimated that 88% of business organizations around the world mandated or encouraged work from home in response to Covid-19, with 97% of organizations fully cancelling work-related travel. Since then, corporate policies have varied widely, with some organizations embracing a full return to the office while others have eliminated in-person interactions indefinitely. Many of us might initially have welcomed comfortable sweatpants in place of a "dry clean only" wardrobe, but the longer-term implications are still uncertain. For example, the pandemic has disproportionately affected women, according to the U.S. Department of Labor. Moreover, a reported one in four workers is planning to look for new job opportunities once the threat of the pandemic has subsided, according to a recent Prudential Financial survey. While these statistics highlight only a small portion of Covid-19's unintended consequences on the global workforce, one common theme is a call to action: how to build a strong team culture. During this challenging period of change, culture will be critical to investment organizations' ability to survive and thrive, which in turn will affect the mission-driven organizations that make up the NMS community.

During this challenging period of change, culture will be critical to investment organizations' ability to survive and thrive…

I feel compelled to share some of my experiences because I am part of these trends. In October 2020, I left a team I loved at Carnegie Corporation of New York. I moved to Dallas, Texas to become a first-time Chief Investment Officer at Children's Health, one of the nation's largest pediatric health care providers. All my job interviews were on Zoom, and I did not meet my new boss, my new colleagues, or my investment committee until I had driven down to Texas and completed virtual orientation for my new role. Throughout the past year, against a backdrop of suspended travel, closed offices and a lot of video calls, I have built relationships online that would normally be in person: with colleagues, stakeholders, and external investment partners. I was presented with an incredible opportunity to build something great for an important non-profit mission—to make life better for children—but in addition to the usual goal of making my new role a success, I was also walking into unprecedented management challenges.

The stakes were high because my arrival coincided with bold expansion plans at Children's Health. Prescient thinking before Covid-19 (for example, the development of telemedicine capabilities) led to resilience during a tumultuous 2020. Operating strength, in turn, gave our senior management and our investment committee the resolve to rethink the role of our endowment. The investment staff was tasked with a first for our organization: a recurring payout from the foundation pool—not because we had to, but because we can. The shift in the role of the endowment, from inflows to scheduled outflows, is intended to support an increased level of investment in the health of our community. The health system's missional aspirations align with similarly ambitious goals in a newly in-sourced investment office trying for the first time to institute a staff-led approach after decades of reliance on external consultants.

As I took on this role, I thought back to what I learned at other successful organizations and in business school. My first thought was to the consultant Peter Drucker's tagline that "Culture eats strategy for breakfast." With so much uncertainty and a lack of examples about how to build and maintain working relationships in a remote work environment, I put a lot of thought into the central question of this article: If everyone is out of sight and out of mind, how do we build an investment culture that fosters the investment excellence and staying power that will meet our community's needs?

Through trial and error, I found a handful of key principles that have guided me during the past year. I hope these ideas not only help our similarly situated peers, but also frame career management questions for young professionals whose remote work environment starves them of the mentoring and emotional support they need to meet their potential as the next generation of leaders in the investment industry.

Individuals as Building Blocks

Teams are comprised of individuals, so I started my thought process about team building with a deep focus on the individual. We took personality tests to understand our individual working styles and discussed how those dynamics might be complementary or even at odds, as well as how we could forestall unproductive conflict. Personality types (e.g., Myers Briggs, Enneagram) tend not to change, yet individuals are meant to grow. If the compounding growth of capital is the life's blood of the financial world, why should professional and personal growth be any different? Individuals need a path forward, an outlet to channel their personal and professional growth. I began to think of relationships on the team as partnerships we could structure to align everyone's long-term success. This thought process brings the traditional management principle of decentralization to the individual level. Keeping individual growth trajectories in mind also helped me plan ahead for team dynamics and an organizational structure not as they are today, but over time as individuals grow in their abilities and independence.

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By Kevin A. Edwards
Senior Investment Director
Hartford HealthCare

Mentoring: A Responsibility to the Investment Industry

Let me start with sincere well wishes for all of you and your families. There is no way to overstate the severity and impact of what has been transpiring over the past almost two years. Being able to witness the true heroism of the medical staff and all those responsible for our personal welfare at Hartford HealthCare has been awe inspiring and humbling. Being on a healthcare campus we've witnessed the exhausted determination of those brave souls on the frontline carrying out their responsibilities in fighting this pandemic.

It is through this lens that I choose to write about our responsibilities as investors to the investment industry and thereby improving it. The obvious responsibilities are to promote best practices, ethical behavior, and staying current. I'm thinking about more nuanced responsibilities.

The fact that we have been thrown into a world of working remotely, and virtual travel and meetings has created great opportunities in our office for introspection on our processes, information flow (i.e. intra-office communication) and on continuous improvement (our signature philosophy). We've instituted dedicated blocks where I have been able to spend uninterrupted time with our directors of research, performance, and operations to: 1) ensure we are all working effectively and efficiently as a team, 2) assist in planning and thinking about professional growth, and 3) coordinating and managing projects. Certainly, the expectation is this direct interaction and mentorship will help each of us perform our jobs better and provide better information to our CIO leading to better results for our organization through more robust returns. A more nuanced point, is that (if done properly) it should also keep and attract talent from any background and perhaps even different geographies. It is too early to judge the success, but since writing the initial draft of this piece we have embarked on searches for four analyst level positions which received national responses from highly qualified and diverse individuals. We are fortunately coming to the end of this hiring process with equally strong and diverse results.

It's a responsibility to help each other constantly improve in our knowledge and abilities.

We aren't all in a position to mentor in the way described, however we all lead from wherever we sit. Mentorship can also be informal or peer to peer. You don't need a title to lead or mentor. It's a responsibility to help each other constantly improve in our knowledge and abilities (i.e. knowledge transfer). This includes educating senior team members (in some ways managing up, but not lobbying) where the result is likely to be a better decision or decision making. We all have different skills and comfort zones when it comes to personal interaction and the opportunities available to us.

As this topic centers around outreach, I want to make a distinction here between networking and mentoring. Networking is typically reaching out with the goal of self-improvement and gaining knowledge from those having insights in the area of interest. Mentoring is reaching out to help others improve or gain knowledge. Taking the call from someone actively networking and sharing your knowledge is perhaps the most common and quickest form of mentoring, so we should think of the time involved as an opportunity to improve the profession, rather than time out of our day or doing someone a favor.

There are already great examples at the organizational level of investment offices actively mentoring and developing talent from all walks of life in what is truly working towards filling the funnel. It is almost routine now for college and university investment offices to have internship programs for students. This is obviously a win-win scenario for the offices and the students when it comes to training and recruiting.

Another example of filling the funnel with an eye to diversity is Robert Wood Johnson Foundation's investment office partnering with Sponsors for Educational Opportunity (SEO) in providing internships to students of diverse backgrounds. I would call this a win-win-win scenario as RWJF is reaching outside itself in a way that is not only helpful to the office and SEO participants, but is also aligned with their organizational mission.

Outside the office, I believe we also have a responsibility to attract people into our profession. Along with having internship programs, it is not unusual for members of college and university investment offices to teach a course on investing and so get directly in front of future asset allocators. My personal examples are in this vein and include that I guest lecture in a Masters of Financial Risk Management course at my alma mater the University of Connecticut, and can bring to light what we do in investing at Hartford HealthCare, and how we think about the wide array of risks that the students would not likely see in much of their course work. I also am a member of the advisory board for the MSFRM program as well as for a program that invests part of the UConn Foundation's endowment (Student Managed Funds). Both of these programs attract students who are focused on risk management and investing, and happen to come from a wide variety of backgrounds, ethnicities, and global geographies. These activities provide exposure to areas and aspects of investments that may not have occurred to these new and future investment professionals. I invite my peers to take a moment and explore your own personal avenues for outreach and attracting others into our industry.

You may be thinking, "there is no way I'm getting in front of a class" or that there may not be opportunities to interact with students. That is the beauty of mentorship and also our new truly virtual age. First off, you don't need to be physically nearby as we have all learned with the "zoom" diligence we perform. Second, mentoring can be at any age. Another aspect of the pandemic has been the need of local schools and neighborhoods. Guid-

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By David Schassler
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VanEck

The Inflation Snowball

Inflation has a tendency to snowball. Roll a snowball down a hill. It starts small, but gets bigger and more destructive, quickly. Once that happens, it becomes very hard to control.

That snowball is rolling. Massive coordinated and expansionary monetary and fiscal policies, together with supply chain issues, have caused the largest bout of inflation that many investors have ever experienced. Corporations are sounding their alarms on inflation. In September, 3M CFO Monish Patolawala said: "Input costs, particularly in resins, polypropylene and wood pulp, as well as labor costs, were outstripping price increases over the current quarter." And he is not alone in this regard. According to data from FactSet, supply chain disruptions and costs have been cited by the highest number of companies in the S&P 500® Index to date as factors that either had a negative impact on earnings or revenues in the third quarter, or are expected to have a negative impact on earnings or revenues in future quarters.

As of September, on a year-over-year basis, in the U.S., the Consumer Price Index ("CPI"), Personal Consumption Expenditure Index ("PCE") and the Producers Price Index ("PPI") are all at levels that rival other high inflation periods of the past. The CPI is at 5.4%—the highest level since 2008, the PCE is at 4.3%—the highest level since 1991 and the PPI is at 11.8%—the highest level since 1981!

Many market observers believed that any inflationary forces would be mild and we would not have high inflation. This has not been correct. Now, the case against inflation has pivoted from "high inflation will not occur" to "high inflation is here, but is only temporary"—a significant pivot. Arguing against a risk that occurs infrequently, such as high inflation, is one thing. However, confidently arguing against a risk that is already here is completely different. Frankly, the market's optimism on inflation is frightening.

In addition, there are also signs that economic growth is slowing. Stagnant growth and high inflation open the door to one of the most horrid economic environments—stagflation. It is time to start taking the risk of an extended period of high inflation seriously by adjusting portfolio exposures to include assets that protect against inflation.

Behavioral shifts can happen quickly, and can be dramatic.

Transitory or Not?

U.S. Federal Reserve ("Fed") Chairman Jerome Powell's narrative on "transitory" inflation is being challenged. He recently called inflation "frustrating" and now expects it to run into 2022. The Fed is not in a strong position to directly fight inflation. Instead, it is fighting inflation indirectly through its transitory inflation campaign. Former Fed Chairman Paul Volcker was able to stomp out inflation in 1979 by aggressively raising interest rates. However, at the time, the debt-to-GDP ratio was around 30%, today it is nearly 100%! The U.S. has been able to keep its soaring debt burden manageable through low interest rates. That will reverse if we go into inflation-fighting mode and wreak havoc on the economy.

Behavioral shifts can happen quickly, and can be dramatic. In Fed Chairman Powell's much anticipated Jackson Hole speech, he continued with his hard sell on why inflation is only temporary. Mr. Powell well understands the importance of controlling the psychology of inflation. Two times in his speech Mr. Powell mentioned the importance of inflation expectations. Once consumers believe that inflation is here to stay, it changes consumption patterns and leads to more inflation.

Americans are worried about inflation. Below is a chart of one-year and three-year ahead expected inflation from the latest Survey of Consumer Expectations. Inflation psychology is setting in. And it can become a self-fulfilling prophecy that may be very difficult to stop.

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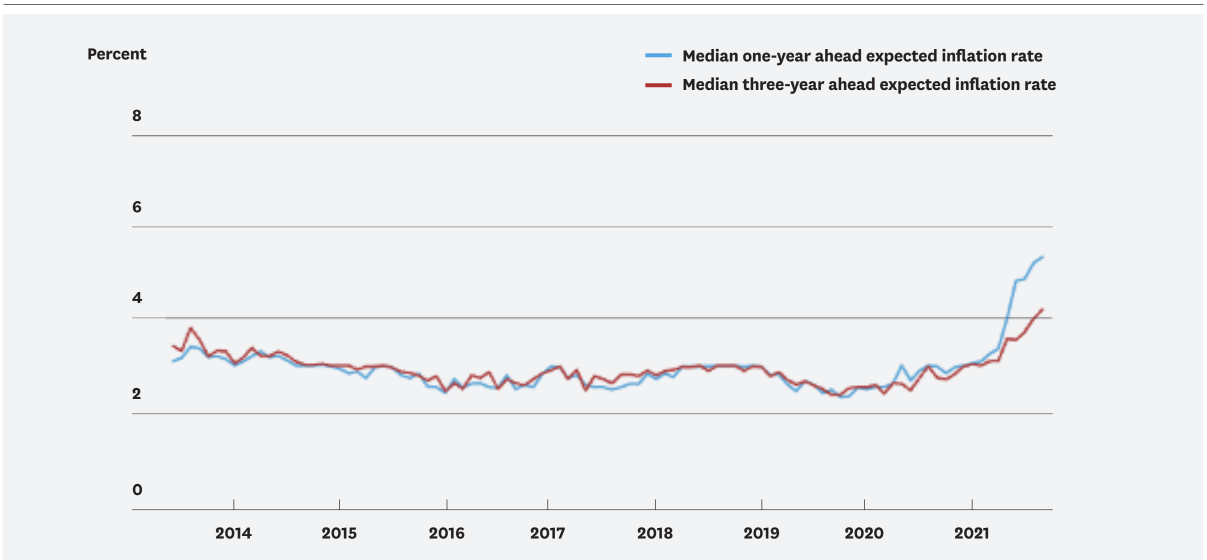
FIG. 1 Consumers' Expectations Show Inflation Concerns



SOURCE: *New York Fed Survey of Consumer Expectations. Data as of July 31, 2021.*

Is China VC Now "Uninvestable"... or Primed for the Intrepid?
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For U.S. limited partners, underwriting private strategy opportunities in China has never been easy. A broad set of challenges and uncertainties – whether rooted in cultural, language, currency, or geopolitical issues – has always confronted and confounded overseas investors. Back in 2005, Bill Dietrich's initial approach to China's nascent private equity markets was simple and pragmatic: he invested relatively small dollars into a dozen carefully selected (but still-inexperienced) Chinese general partners, enabling him to learn a great deal about those particular firms and about China's private markets, generally. By first constructing a "sub-portfolio of options," within a few years Bill was able to build a more concentrated portfolio comprised of a high-conviction subset of those GPs. Along the way, thankfully, the Dietrich portfolio in China navigated successfully through sometimes choppy waters (e.g., periodic suspensions of public listings; shifting fintech regulations; waves of "hot" RMB and USD capital).

Reflecting on his years of investing experience in China, Bill once observed, "You can't invest in China VC without tolerating sharp ups and downs in sentiment, much like the cutting edge of a saw. Just remember - when things look sharply up in China, conditions are never as good as they appear. And when things look sharply down, things are never as bad as they appear. But over time most things are trending upward." Following a careful assessment of recent developments, therefore, we continue to remain bullish on China's VC ecosystem for the medium to long-term.

We understand why others may reach a very different opinion. Due in part to the breadth and remaining ambiguity of China's pronouncements over the past year, some prominent, U.S. institutional investors – and especially their investment committees – are now actively debating whether China has abandoned market-based economic principles altogether. This debate has been fueled, no doubt, by the relatively poor (if not clumsy) communication exhibited by the Chinese government around recent policy moves, adding to investor concern about "where and if it will end." The public market has been full-throated and unambiguous in expressing its view. In the last year, powerful Chinese technology giants like Alibaba, Tencent, Pinduoduo, Meituan, Baidu, and Didi have suffered market value losses exceeding $1 trillion.

Despite the growing size and maturity of China's private markets, U.S. asset allocators appear increasingly resigned to the view that, given the current regulatory turmoil, China is simply too hard to understand, let alone underwrite. Consequently, these investors will seemingly assign, by default, maximum risk (i.e., the risk of the "unknown unknown") to the Chinese VC ecosystem, declaring that they will wait on the sidelines until there is more clarity. Most of these asset allocators will look instead to other, apparently safer geographies. It is an understandable strategy: underweight China to protect the portfolio from perceived "excessive" risks and, frankly, to mitigate career risk.

We would argue for a different perspective. Looking objectively past the headlines and near-term market reaction, one sees that many of China's regulations are actually targeted and purposeful – they do not portend a complete abandonment of private market principles. Many of Beijing's moves instead appear designed to address critical structural/social issues like growing income inequality and harmful monopolistic behavior – issues that are, in fact, at the heart of much rhetoric and proposed legislation in Washington, D.C., Brussels and elsewhere. There is a big difference, to be sure – China's regulators are taking swifter, more radical action than their peers in the West to achieve "common prosperity" and a "more harmonious society." Of course, we cannot fail to note that Beijing's sweeping changes also reflect another of its government's priorities: unequivocally establishing "who's in charge."

But we believe that the bulk of China's regulatory changes are behind us. We believe that the market-based principles at the heart of China's VC ecosystem will continue, albeit with some modifications, to properly reward the inherent risk-taking of venture investing. Our confidence is anchored in the core belief that China's leadership is ultimately aligned in interests with foreign investors. Beijing acutely understands that, for now, its country needs desperately to (1) attract substantial long-term/patient foreign capital and (2) nurture the important innovation that this foreign capital fuels via China's VC ecosystem (see China's 14th Five-Year Plan). Simply put, there is no attractive (or perhaps even conceivable) alternative scenario whereby China's economic growth, developmental security, and, ultimately, societal prosperity can persist without considerable inflows of foreign capital.

If our assumptions are correct, then investment risks in China are not as high as suggested by media headlines and "conventional wisdom." Indeed, we hold firm that the risk-adjusted returns from certain Chinese VC sectors remain very attractive today – and maybe even more than a year ago. If China successfully executes and advances its "common prosperity" objectives with broader, more inclusive economic development, we believe the country can achieve more sustainable growth in which savvy investors can participate. Once again, therefore, we could be entering a period where the institutional "tourist" investors depart China's private markets, while brave, longer-term investors enjoy handsome rewards for tolerating the interim volatility and uncertainty. We hold this perspective for several reasons.

First, today's challenging fundraising environment in China VC could very likely persist, ensuring an increasingly attractive supply-demand of capital dynamic (both for USD and RMB funds) that has historically supported outsized vintage year returns. Second, there is a massive sector expansion underway in the VC landscape in China. After decades of domination by consumer internet companies and innovative business models, its VC ecosystem is now diversifying into new sectors with exciting prospects, such as domestic consumer brands, enterprise/SaaS, "frontier tech" sectors, and innovative healthcare/life sci-

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Is China VC Now "Uninvestable"… or Primed for the Intrepid?

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ences. Third, despite the near-term reduction in supply of USD capital, top-tier China VC platforms continue to mature. Elite VC firms are more strongly resourced than ever with talented investors developing deep domain expertise, creating sustainable, valuable advantages in sourcing and supporting portfolio companies – just like we see in the U.S. VC ecosystem. As a result, generalists in China VC are giving way to these dedicated specialists, who should outperform. Lastly, we can expect regional exit options to continue to expand with the HKSE liberalizing its listing requirements, China increasing depth to its mainland listing options (e.g., the STAR board in 2019 and the Beijing Stock Exchange in 2021), and strategic acquirers becoming more active, all of which should serve to offset the current constraints on U.S. listings.

In sum, we are certainly experiencing a sharp (perhaps historic) decline of sentiment for Chinese VC right now, with geopolitical tensions and regulatory uncertainties likely at a local maximum. Some foreign investors may logically conclude that China is turning its back on market-based principles and that a hard decoupling of China-U.S. supply chains and capital markets is imminent, with far-reaching implications. For these asset allocators, it is the right time to de-risk by pulling back from China.

But intrepid foreign investors, with eyes focused on history instead of headlines, may see things differently. They may see that if China succeeds in reducing inequality/monopolistic behavior, then it will lay the groundwork for a new phase of stronger and more sustainable market-driven development. With effective enforcement of new regulations encouraging greater competition (especially in tech sectors), China's early-stage companies might enjoy a far healthier environment in which to scale. In short, these contrarian investors may see the sharp decline in sentiment among most foreign investors as only a temporary and ultimately healthy re-set for China and its dynamic VC ecosystem – perhaps a great time to be bold and lean in.

Mentoring: A Responsibility to the Investment Industry

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ing and working with pre-college students allowing them to find out about you and your profession and how your organizations impact the community (and by extension the investment office) will perhaps move some of them to consider a future in our field regardless of background and economic circumstance.

Everyone has knowledge and experience to share. There are many avenues by which to do so: communities our organizations serve, educational institutions or within our own offices. The act of knowledge transfer through mentorship in whatever form not only improves the existing industry, but will attract others with their unique and diverse voices.

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can be meaningful. In their paper, "The Case for Crypto in an Institutional Portfolio", Lawant and Hougan analyze the impact of adding a small % of Bitcoin to a traditional 60/40 portfolio. The time period of the analysis is January 1, 2014 through March 31, 2020 and quarterly rebalancing is assumed. The study shows Bitcoin being additive to the portfolio over that time period in 100% of three-year periods since 2014. The effect on Sharpe ratios is significant.

There are some obvious challenges when considering this analysis including the relatively short time period being considered, especially since Bitcoin had a meteoric rise (albeit with some significant drawdowns) over this time. At the start of this analysis, Bitcoin was at $755 and by the end, at $6,479.

Appreciating asset/Store of value: Some institutions view cryptocurrency investing as a speculative investment that has the potential to rise significantly in value as its use case takes off in the "real world". For sure, those institutions who had bought Ethereum at the start of 2019 for $150 and have held it through the volatility and rise of 2020 and 2021, have recognized impressive gains (Ethereum is at over $3,000 today). During that time period, decentralized finance, NFTs (Non-fungible Tokens), gaming applications and many other uses have thrived on the Ethereum protocol. There is an argument to be made that as cryptocurrency usage becomes more widespread, their applications broader, regulations clearer and the custody and security frameworks more robust, the asset values of the established cryptocurrencies can rise significantly.

New wave in technology: One of the reasons to invest in cryptocurrencies that has taken hold in institutional circles, is the reason that venture capitalists have made crypto a serious vertical for investing. Blockchain, the essential building blocks technology of every cryptocurrency, has the potential to usher in a new era of computing. At its most basic, blockchain can be a virtual computer that is allowed to make commitments. The virtual computer is connected to a network of other virtual computers with a consensus mechanism determining the interaction between them. This new era of computing has the potential to be more open, more democratic with data, and with significant next generation value-add applications yet to come.

Crypto-currencies are evolving and nascent.

Financial Inclusion and other equity benefits: For mission-driven organizations like the Doris Duke Charitable Foundation, the potential advances crypto offers related to inclusion and equity are a compelling dynamic to consider. Whether it is the significant majority of the developing world that is unbanked and has an entirely new financial ecosystem that allows them to transact, or Black visual artists who are finding community and access around NFTs, the democratizing forces behind cryptocurrencies are strong. Efforts like relief funds for natural disasters and covid relief that have been based on decentralized finance are great examples of how the global community is finding value in transacting swiftly without the frictions of the traditional banking system.

The challenges behind considering cryptocurrency for an institutional portfolio are also significant:

Non-traditional asset characteristics: Unlike most of the rest of an institutional portfolio, cryptocurrencies are not an asset class where we are underwriting a series of cash flows and the question comes down to the predictability and growth of the cash flows and the appropriate discount rates. The space is nascent and reliable measures of valuation are far from set. Although the negative or low correlation argument for including Bitcoin in one's portfolio seems mathematically compelling, it is important to remember that the time period we are looking at for Bitcoin is a relatively short one to make long term assumptions about correlations.

Volatility: The extreme volatility that cryptocurrencies have shown across the many cycles and even within this past one cycle are a cause for concern. This kind of extreme volatility reduces the arguments for Bitcoin and other currencies to become reliable stores of value. Any asset that has such big swings is hard to lend against, transact in and use like another stable currency.

Risk of a bubble: A related risk to volatility is the risk that the most recent wave of interest in cryptocurrencies and the rise the market has seen across a variety of cryptocurrencies (with one year returns from Bitcoin, Ethereum and Uniswap at 336%, 775% and 640% respectively), is linked to the amount of unprecedented liquidity in the system. The Federal Reserve Balance sheet over that time frame has also gone up by about $1.5 trillion. Ironically then, there is a reasonable argument to be made that the evil of central regulation and currency debasement these currencies are supposed to protect us from, is also what is currently driving them to reach new heights.

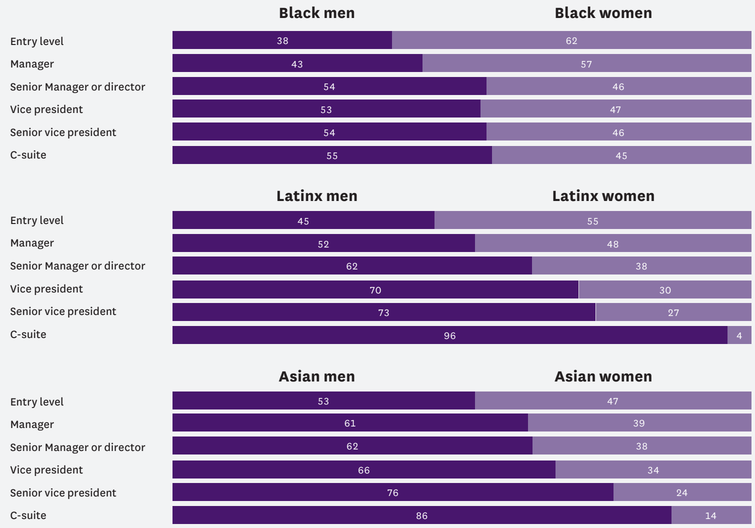
Limitations as an inflation hedge: There are challenges investing in any asset class specifically for inflation-hedging purposes. It is even more challenging to do that in the context of crypto. First of all, since Nakamoto's white paper of 2008, there has not been actual inflationary pressures in the global or domestic economy till a few months ago. So the claim that Bitcoin is an inflation hedge is more of an assumption right now and less of a proven fact. Secondly, whatever inflation we did see this summer, whether transitory or not, was met with a subsequent steep decline in Bitcoin price. The April CPI data released in May, at 4.2% increase from a year ago, when expectations were more around the 3% level, was accompanied by a decline in May in Bitcoin price of more than 35%. That is not ideal performance for a hedge.

Environmental consequences of Bitcoin mining: Responsible investors who are appropriately focused on the importance of the environmental impacts of their investment decisions should give close consideration to the heated debate around cryptocurrencies and their sustainability issues. The consensus mechanism for Bitcoin, Proof of Work, has received widespread attention for its immense amount of energy usage. Briefly, what Proof of Work means is that for every Bitcoin transaction that has to be verified, miners immediately go to work to solve increasingly complex mathematical problems in order to complete the verification process. These calcula-

[Continued on Page 11]

Investing in Change: Racial Equity in Financial Services
[Continued from Page 3]

FIG. 1 Dropoff for Latinx and Asian Women at senior levels is driving the overall drop for women of color



A 60% drop in Black representation between entry level and senior manager is driven by women.

The **proportion of Black women stays consistent** starting at the senior manager level.

A consistent decrease in Latinx representation across the pipeline is **disproportionately skewed due to a decrease of Latinx women.**

Representation of Latinx women falls from ~5% representation at the entry level to ~0% representation in the C-suite.

Asian representation **increases from 17% to 21% between entry level and manager;** afterward it decreases consistently.

Major points of **attrition for Asian women** are at the **beginning and end of the pipeline.**

Underrepresentation of women cannot be explained by attrition. Overall, men and women leave the workplace at similar rates and have similar intentions to stay.

Note: Because of small sample sizes, American Indians, Alaska Natives, Native Hawaiians, and Pacific Islanders were not included in this analysis. Source: Finance Industry Benchmark, W.K. Kellogg Foundation, n=36 companies; *Women in the Workplace 2018*, LeanIn.org and McKinsey

Taking these realties to heart, many companies are making explicit commitments and developing strategies for advancing racial equity, diversity and inclusion.

◆ **REALITY: Employees of color are less likely to be promoted**

Promotion rates are significantly higher for White employees at nearly every level in financial services firms, with Black employees about half as likely to be promoted to manager, senior manager or senior vice president. Latinx employees are 40% as likely to be promoted to the C-suite as White employees. This reality is not lost on employees of color: approximately 40% of Black employees feel their race has made it harder to get a pay increase or a promotion and will make it harder to do so in the future. Approximately 27% of Asian employees and 10% of Latinx employees feel similarly, compared with 3% of White employees.

◆ **REALITY: Employees of color face more negative experiences in the workplace**

In addition to systemic issues overall, professionals of color in financial services face distinct interpersonal challenges in the workplace. Seventy-five percent of Black employees above entry level are "onlys" – someone who almost always finds themselves to be the only person of their racial or ethnic group identity in the room – compared with 40% of Latinx, 31% of Asian, and 4% of White employees. People of color who are onlys are more likely to feel that they are being closely watched and that their personal actions reflect upon the whole of the racial or ethnic group with which they identify.

Moreover, employees of color are much more likely to experience microaggressions, defined as small acts of racism that, whether intentional or not, signal disrespect and lack of belonging. These incidents include having one's judgment questioned unnecessarily, needing to provide more evidence of competence than others, being addressed unprofessionally, being mistaken for someone at a lower level, having contributions ignored, or overhearing demeaning remarks about one's appearance. Women of color face more frequent microaggressions – for example, Black women are four times as likely as White women to be mistaken for someone else of the same race.[3]

◆ **REALITY: Employees of color are more likely to leave their companies**

Inequities that professionals of color in the financial services industry face in representation, promotion and belonging all contribute to feelings of isolation and higher levels of turnover. Overall, turnover rates are higher for people of color than for White employees, with the most pronounced losses occurring early. At the entry level, a Black professional is 1.4 times more likely than their White colleague to leave a financial services firm. This has a disproportionate impact on overall representation, and the cycle repeats.

What can financial services firms do to advance REDI in the industry?

Taking these realties to heart, many companies are making explicit commitments and developing strategies for advancing racial equity, diversity and inclusion. This is necessary for removing barriers and accelerating actions to increase representation and opportunity, and to create deeper connections and a culture of belonging for employees of color. A few recommended next steps might include:

◆ **Improving attraction**

Any effort to attract professionals of color to financial services must rely on a transparent process that expands the talent pool and standardizes criteria for interviewing and hiring. It is critical that all involved in the hiring process are held accountable to follow the protocol and that all candidates understand the selection criteria, so that capable individuals without

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Investing in Change: Racial Equity in Financial Services
[Continued from Page 10]

personal connections are not at a disadvantage. Executive recruiters and hiring managers can build on this practice by offering well-qualified, diverse slates of candidates when conducting searches for more senior positions. Their compensation could be linked to success in doing so. Companies can also reinforce their commitments to REDI by sharing them publicly through their websites and other marketing materials, working with internal and external affinity groups to expand their outreach with communities of color and encouraging employees to refer people of color from their networks.

- **Promoting talent equitably**
  Clear promotion criteria ensure that everyone knows what is expected of them, is evaluated fairly in reviews and understands the skills and capabilities necessary for advancement. Non-biased, standardized matrices that describe what great looks like at each stage of an employee's development can help ensure merit-based promotion discussions, and help supervisors offer honest, objective feedback. Moreover, equitable sponsorship is an important element of any program to ensure fair promotion. For example, research[4] shows that while 87% of participating private sector companies reported having a sponsorship program in place, only 33% of Black employees reported having a sponsor. Sponsors can help employees translate feedback from other leaders, fill development gaps and ensure employees of color are receiving proactive opportunities and access to the relationships they need to advance.

- **Fostering a sense of belonging**
  Belonging – the degree to which employees feel a sense of connection and can build meaningful, authentic relationships with others at work – is essential to retention and inclusion efforts. Employee surveys, focus groups, and other instruments can gather rich insights into the experiences of different racial and ethnic groups, especially if the data can be disaggregated. Leaders across all levels of an organization should be involved in translating these insights into specific actions to improve them. Companies should have dedicated culture strategies that build trust, develop authentic relationships across differences and affirm the inherent value of all people. These actions can have myriad positive effects, such as increasing overall engagement, constructively engaging conflict, improving productivity, and reducing turnover.

If you are interested in learning more about the Expanding Equity program, visit www.ExpandingEquity.com.

1 "Racial Equity in Financial Services", McKinsey & Company and W.K. Kellogg Foundation (September 2020)
2 "Business Case for Racial Equity", W.K. Kellogg Foundation (July 2018)
3 "Women in the Workplace 2021", McKinsey & Company and LeanIn.org (September 2021)
4 "Race in the Workplace", McKinsey & Company (February 2021)

Should Institutions Invest in Crypto?
[Continued from Page 9]

tions are based on complex cryptography which requires vast amount of computing power and subsequently vast amounts of electricity. There are websites tracking the ongoing energy consumption usage by the Bitcoin ecosystem.[2] According to the latest data, the annualized power consumption of Bitcoin mining is equivalent to that of Egypt. Such sustainability concerns have reached the NFT market as well, with some artists choosing to boycott the medium due to its climate effects. Proponents of cryptocurrencies cite the much less energy-intensive Proof of Stake as the future direction of the ecosystem. Proof of Stake is the consensus mechanism that Ethereum is expected to move towards, and many new cryptocrurencies are based on. However, despite the planned transition, Ethereum today is still based on Proof of Work and so the largest two currencies (along with all the applications on the Ethereum protocol) are still extremely energy intensive. For the Doris Duke investment office, this is probably the biggest barrier to making crypto a meaningful allocation in our portfolio in the near term.

So where does one go from here and what are actionable investment steps to take for institutions vis-à-vis cryptocurrency. The answer, not to sound facetious, is that it depends. There are many variables that are institution-specific to consider here. What is the risk tolerance of the portfolio? Is there a venture allocation? Is there an opportunistic hedging allocation? Are there specific values that are either served directly by the cryptocurrency ecosystem or that are at odds with the externalities created? Cryptocurrencies are evolving and nascent. Assigning asset class status and a policy allocation within an institutional framework seems early. However, within a venture capital allocation, making sure to follow the breakthroughs based on blockchain technology, seems like a reasonable way to participate in what could be a significant evolution in computing. Similarly, if a portfolio has an active opportunistic bucket, then considering a liquid crypto manager who is closer to the different tokens seems like a prudent place to begin.

For many sophisticated investors, crypto has been in the portfolio for a few years now. Long term investors able to withstand volatility and hold on to crypto balances have recognized strong mark ups. Others have invested in the earlier venture vintages around crypto and some of those funds have already been marked up significantly. Those of us who are newer to the space have to contend with the heightened valuations, still-significant volatility and all the aforementioned nuances as we try to figure out: what exactly is a Dogecoin?

1 https://static.bitwiseinvestments.com/Research/Bitwise-The-Case-For-Crypto-In-An-Institutional-Portfolio.pdf
2 https://digiconomist.net/bitcoin-energy-consumption

Teambuilding in Sweatpants: Setting Culture in a World of Remote Work
[Continued from Page 4]

Intentionality

I took inspiration from Jim Collins when thinking about how to be deliberate not just about individuals, but for the overall team as well. At a culture-based team retreat, I asked members of the team to synthesize Collins's writings **(Good to Great, Built to Last, Great by Choice, How the Mighty Fail)** into takeaways we could use to establish shared objectives that reflect our strengths as individuals, our opportunities for growth, and our values as a team. We also held a heated discussion about our "duty of care" to one another and the organization as we balance a healthcare-centric Hippocratic mindset ("do no harm") against our risk-taking role as investors. In addition to the retreat dedicated to team culture, we held a separate "infrastructure day" to brainstorm the non-investment resources we could research, develop, and deploy over time to improve our organizational effectiveness over the next decade.

Constant Attention

Over 20 years in investment organizations, I have found that statements of culture and values written on a whiteboard seldom translate into the culture the team experiences. Instead, the market for social capital on teams creates stimulus-response signals that mold individuals' behavior. Culture is a living thing that evolves, requiring constant attention from those trying to shape it. In Bruce Tuckman's model of the stages of team development, he identifies four distinct periods that proceed through "forming, storming, norming and performing." The "forming" and "storming" phases feel the most action-packed, but ironically, the "norming" phase is the hardest work. With external stimuli and ongoing interactions, teams will constantly find new ways to test boundaries, which in turn requires ongoing awareness to ensure healthy norms are reinforced while unhealthy patterns are corrected. Double standards are deadly for culture, making it crucial for leaders to model the behaviors they want to see. If anything, leaders should hold themselves to higher standards than they seek from their teams.

Humility

Of course, not everything we tried worked. We outgrew some of our early experiments, like free-form daily meetings that became more about fellowship than manager research or portfolio management. Some attempts at structure also backfired because they created unnecessary layers of bureaucracy. Realistically, our investment office is at the very beginning of a long journey, and we intend to learn from any mistakes we make. Moreover, we cannot be so arrogant as to assume that everyone needs to work the way we do. It should not be considered a failure if some colleagues, however strong professionally, opt out in search of a culture better aligned with who they are. Humility helps us stay true to the objectives we want to achieve in the years ahead.

What Next?

When I think ahead to the next stage of building a strong team culture, I envision several of the themes I discussed in this article—individual growth, intentionality, and humility—will evolve together organically in the coming year. If we acknowledge no one is perfect and embrace the areas of relative weakness that can be addressed to make each individual stronger, it is only natural for members of the team to help one another grow through mutual support of one another's goals. This approach requires a common sense of self-awareness and maturity among all members of the team. Yet it also makes the most of the team's diversity of backgrounds because it is quite literally a human form of portfolio diversification.

In closing, I hope that sharing our recent experiences with team building and culture setting in the Investment Office at Children's Health is both helpful and thought-provoking for others in the endowment, foundation, and healthcare community. As with parenting or dieting, leadership is not easy. The patience required is an intangible investment in the future, and we hope to see it pay off in a culture, a team, and a portfolio that are worthy of the mission we serve.

[Continued from Page 6]

Demand has surged thanks to the flood of liquidity. However, the supply side continues to be constrained, globally, across many industries. It can take only one break in a supply chain to completely derail production, imbalance supply and demand and send prices higher. And the chains are breaking.

In June, Mr. Powell said: "It turns out it's a heck of a lot easier to create demand than it is to—you know, to bring supply back up to snuff." Many inflation optimists originally called for a quick resolution to the supply issues: easier said than done. It is now a year and a half since the pandemic began. The issues still exist and prices continue to grind higher.

Several forward-looking data points suggest that inflation may not disappear any time soon. On August 31, the S&P/Case-Shiller U.S. National Home Price Index, which measures home prices across the U.S., reported a year-over-year gain of 19.84%. This is key because the September CPI report has only measured the rise in housing costs to be 3.2% on a year-over-year basis. Anyone who has looked for housing lately can tell you that a 3.2% rise in cost from last year just doesn't pass the "sniff test." The rents and rent equivalents typically lag by 12-18 months. Shelter is the largest component of the CPI with a weighting of one third and is expected to create a tailwind for future inflation.

The unemployment situation in the U.S. points to a change in power from employers to employees.

Additionally, the PPI in September increased by 0.5% and brings the trailing 12-month increase to 8.6%. The PPI is considered a leading indicator of CPI because producers are generally expected to eventually pass along price increases to consumers.

There is also a focus on getting the money into the hands of the most financially vulnerable with the highest propensity to spend. President Joe Biden is committed to lowering the income gap through taxation, investments and workers' rights initiatives. We have seen similar social agendas in the past. President Lyndon Johnson's War on Poverty contributed to high inflation in the 1970s.

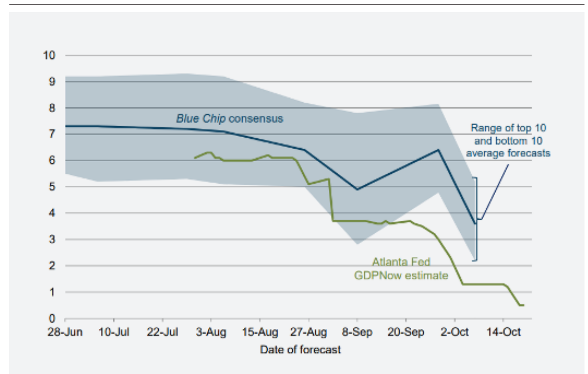
Lastly, the movement towards green energy is creating what has been dubbed by some as "greenflation". The world remains dependent on traditional energy, most notably oil, but investments are being diverted towards clean energy initiatives. This is causing supply and demand mismatches. Additionally, increased demand for renewable energy is putting upward pressure on key minerals, such as copper and lithium.

On September 22, the Fed signaled that it may start to taper its $120 billion in monthly asset purchases in November and half of the Fed officials expect to start raising interest rates, marginally, by 0.50%, by the end of 2022. This translates to a Fed that is seemingly more worried about growth than inflation—and that itself is inflationary.

Stagflation?!?!

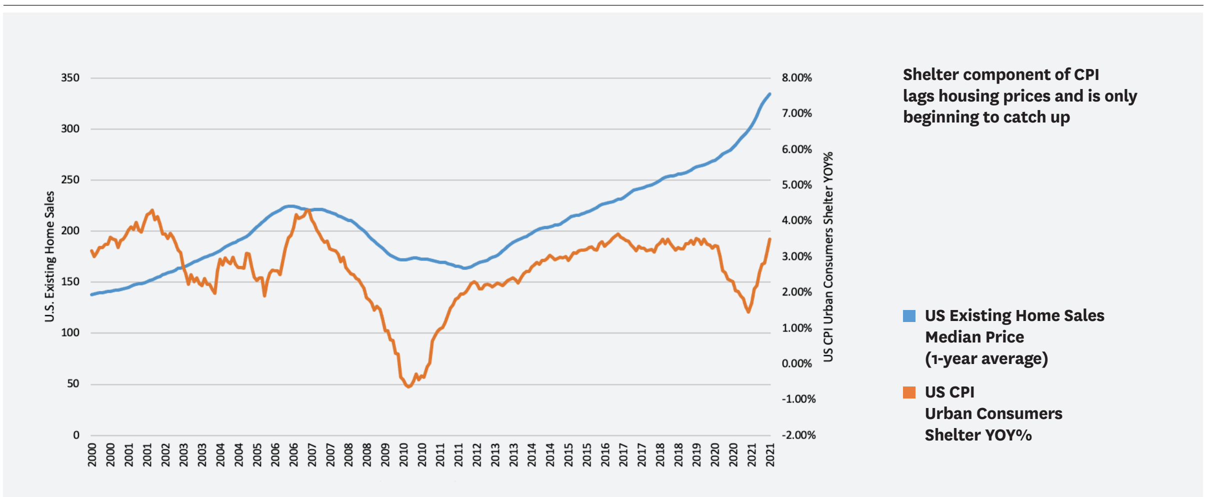
Economic growth may have peaked and is likely slowing. The following chart is the Atlanta Fed's "GDPNow Estimate", which uses a running estimate of real GDP growth based on available economic data.

FIG. 3 Evolution of Atlanta Fed GDPNow real GDP estimate for 2021: Q3



SOURCE: *Federal Reserve Bank of Atlanta, Data as of October 19, 2021.*

FIG.2 U.S. Existing Home Sales Median Price vs. CPI Shelter Component



SOURCE: *Bloomberg, Data as of September 30, 2021.*

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The unemployment situation in the U.S. points to a change in power from employers to employees. There are a record-setting 10.9 million job openings in the U.S. Employers are struggling to attract and retain employees despite higher wages. The September employment report showed that the U.S. economy only created 194,000 jobs in September, which is the weakest monthly jobs gain since December of 2020. Wages are up 4.6%, on a year-over-year basis, as of September.

Corporate profitability is being weighed down by higher prices and supply chain issues. A notable recent example was FedEx. The company's stock was down roughly 10% after missing earnings forecasts due to higher labor costs and it announced plans to raise prices. The PPI data suggests that the cost pressures at FedEx are not the exception. The number of companies warning of price increases seems to be endless and the market should heed these warnings.

Economic growth is also slowing in China. The Evergrande crisis demonstrates the risks of excessive leverage in the Chinese housing market, which has been a major contributor to GDP growth in the country. A slowing property market and an aggressive shift towards common prosperity point to a bumpy road ahead.

Inflation Beneficiaries

Typically, during high inflation, real assets outperform and traditional assets suffer. During the inflation shock of the 1970s, gold and commodities significantly outperformed. Gold prices are de-linked from the inflationary pressures of fiat currencies and commodity prices, as today, respond quickly to changes in supply and demand.

With the explosion in indexation over the past 20 years, we are able to expand our analysis to include a broader universe of real assets. Below are the real returns of assets, based on CPI levels, during the inflationary period of the 2000s. Natural resource equities outperformed the underlying commodities. Infrastructure and real estate companies also provided strong inflation protection because of their ability to "pass through" inflation to consumers.

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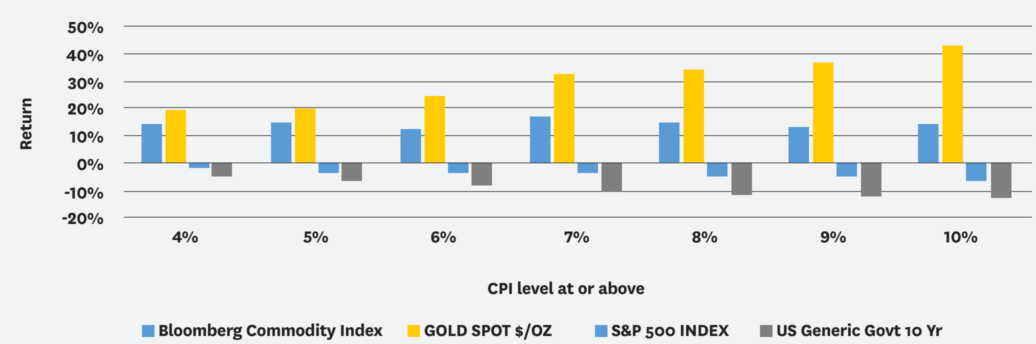
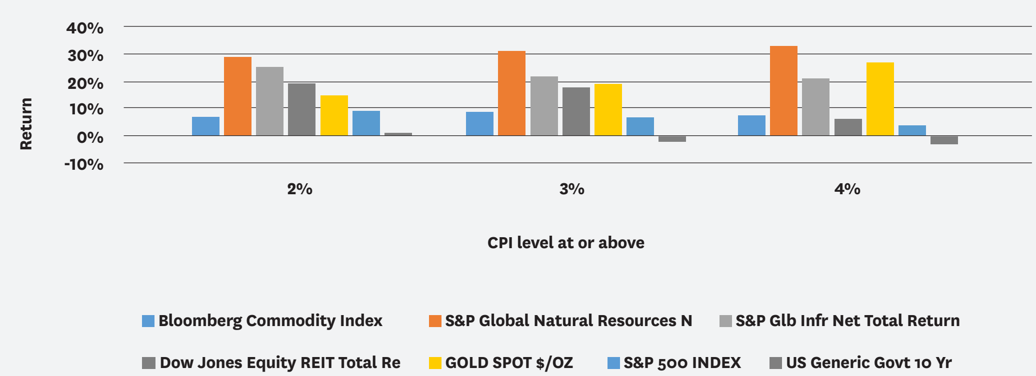
Employers are struggling to attract and retain employees despite higher wages.

FIG.4 Average 12-month real return when CPI is at or above certain levels (1969 – 1981)



SOURCE: *Bloomberg. Past performance is no guarantee of future results.*

FIG.5 Average 12-month real return when CPI is at or above certain levels (2003 – 2007)



SOURCE: *Bloomberg. Past performance is no guarantee of future results.*

The Inflation Snowball
[Continued from Page 14]

Gold: The "Second Half" Team

Commodity and gold prices rose together during the first halves of the high inflation regimes of both the 1970s and mid-2000s. Commodity prices responded to the changing supply and demand dynamics, while gold responded to investors seeking a store of value asset.

FIG. 6 1st Half of the 1970s High Inflation Regime

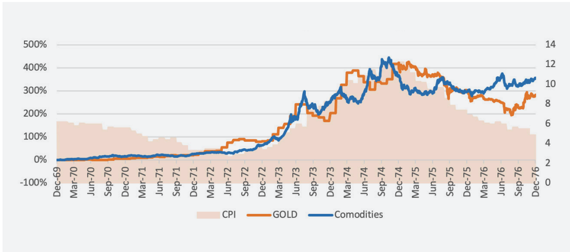
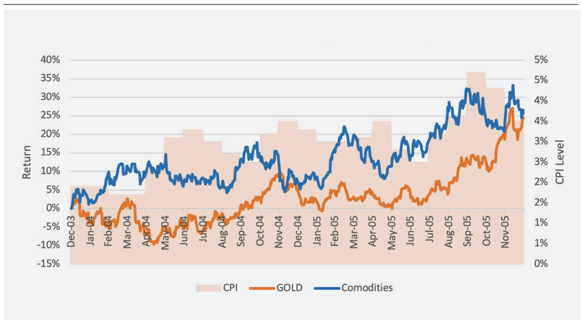


FIG. 7 1st Half of the mid-2000s High Inflation Regime



SOURCE: *Bloomberg. Past performance is no guarantee of future results.*

However, as concerns over inflation intensified in the second halves of these high inflation cycles, gold prices soared and outperformed commodities. The chart below demonstrates that gold was the clear winner in the second half of each high inflation regime.

FIG. 8 2nd Half of the mid-2000s High Inflation Regime

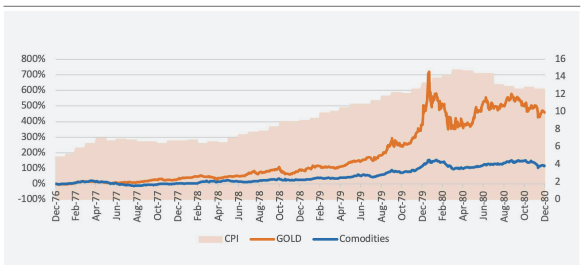
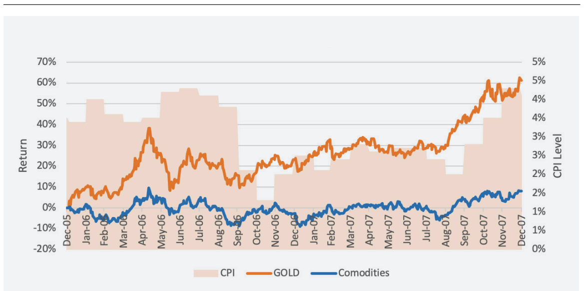


FIG. 9 2nd Half of the mid-2000s High Inflation Regime

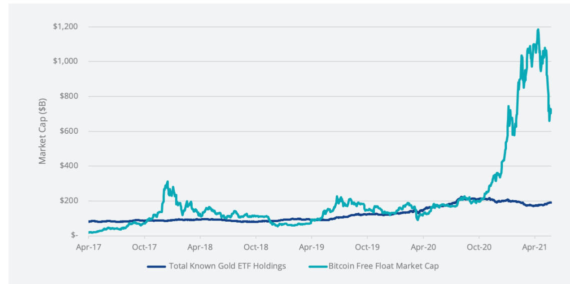


SOURCE: *Bloomberg. Past performance is no guarantee of future results.*

The Prospects for Digital Gold

In the prior inflationary environments, gold was the primary, and most accessible, store of value asset available to retail investors. But things are changing. Bitcoin has been well adopted by both retail and institutional investors. Like gold, it is scarce, cannot be counterfeited and is easily exchangeable. These attributes have created competition between bitcoin and gold. The chart below illustrates the boom in market capitalization of bitcoin relative to gold ETFs (proxy for gold investment demand).

FIG. 10 Market Cap Comparison: Gold ETFs vs. Bitcoin



SOURCE: *Bloomberg. Data as of October 25, 2021.*

The scarcity of bitcoin may make it a viable inflation hedge. There are only 21 million bitcoins that can be mined and there are approximately 19 million bitcoins that have been mined so far. By comparison, gold mining increases the supply of gold by approximately 1.5% per year.

Bitcoin is an evolving asset that needs to be handled with caution, but we do believe that it should be considered as a component in a basket of inflation-fighting assets. The recent volatility and performance of bitcoin highlight both the risk and opportunity of the cryptocurrency. We believe this allows investors to risk a little (1-3% of their portfolios) to potentially gain a lot.

Inflation & Asset Prices Today

Commodities and other real assets have massively underperformed the stock market since the global financial crisis. Since the market bottom, in March 2009, the S&P 500 Index has returned a gain of nearly 750% versus a gain of 2.50% for the Bloomberg Commodity Index!

Commodity prices have finally awoken from their decade plus hibernation and are leading the markets higher. This lost period in commodities has created a situation where, relative to stocks, the prices of commodities and natural resource equities may still be very cheap and have a lot more room to run.

Interestingly, despite strong cash flows and attractive valuations, natural resource equities have been lagging commodities this year. Year-to-date, as of the end of October, commodities are outperforming natural resource equities by about 10%. Gold, down roughly 5% this year, appears to have lost its luster. This is likely due to the belief that inflation is only temporary and, consequently, commodity prices will fall, natural resource equities will

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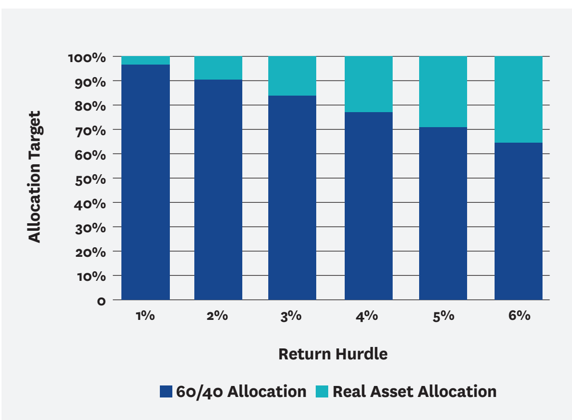
become less profitable and there will be less demand for gold. This logic is, however, debatable. History tells us that these assets will kick into overdrive if high inflation does persist. In fact, this is happening now. Gold prices, interest rates, natural resource equities and commodities are up significantly over the past month as the market begins the process of bracing for potentially higher, more persistent inflation.

Sizing a Portfolio Allocation for Inflation Protection

It has already been established that real assets protect against high inflation. The question now is: how much of a portfolio should be allocated to real assets in order to sustain purchasing power in a period of high inflation? Going back approximately 50 years, the average annualized real return (adjusting for inflation) of a 60/40 portfolio has been 6.00%. However, the average annualized real return for a 60/40 portfolio during the high inflation periods of the 1970s and mid-2000s was just 0.55%. For those same periods, the average annualized return for an inflation protection portfolio (set at 50% commodities and 50% gold: based on data availability and for the sake of simplicity) was 15.97%.

The chart below demonstrates the allocation targets per real return hurdle. This demonstrates that, during periods of high inflation, a minimum allocation of 15% to an inflation protection portfolio is needed to achieve a reasonable real return, which we have defined as 3%. A more diversified inflation protection portfolio, which may include natural resource equities, infrastructure, REITs (and possibly even bitcoin,) would likely provide even better results.

FIG. 11 Allocation Targets per Real Return Hurdle



SOURCE: *Bloomberg. Past performance is no guarantee of future results.*

Conclusion

The inflation snowball is rolling. Inflation is proving to be higher and far stickier than most expected and recent economic data points suggest that growth is slowing. The COVID-19 Delta variant provides us with another humbling reminder of how much control we have over this pandemic.

Do not just hope that inflation will be temporary—protect your portfolio! We believe that an allocation of 15% to a diversified portfolio of assets that provide inflation protection is needed to keep the portfolio generating the returns required of it.

Disclosures

For professional / qualified / institutional clients and investors only.

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Investing in cryptocurrencies comes with a number of risks, including volatile market price swings or flash crashes, market manipulation, and cybersecurity risks. In addition, cryptocurrency markets and exchanges are not regulated with the same controls or customer protections available in equity, option, futures, or foreign exchange investing. There is no assurance that a person who accepts a cryptocurrency as payment today will continue to do so in the future.

All investing is subject to risk, including the possible loss of the money you invest. **As with any investment strategy, there is no guarantee that investment objectives will be met and investors may lose money. Diversification does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future results.**

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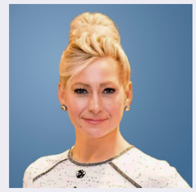
Honoring the 15th Anniversary of Service Provider Member Firms



Angela D. Ruane
Director of Business Development
Insight Investment

John R. Trydahl
Vice President
Institutional Services
Loomis, Sayles & Company

NMS MANAGEMENT

February Member Briefing

FEBRUARY 7, 2022 | 10:00am – 4:30pm EST | VIRTUAL EVENT

DON'T MISS INSIGHTS FROM THE SPEAKER FACULTY

Leena Bhutta
Deputy Chief Investment Officer
Doris Duke Charitable Foundation

Nnamdi Okike
Managing Partner
645 Ventures

Joshua B. Stern
Director, Private Investments
Robert Wood Johnson Foundation

Meir Statman
Glenn Klimek Professor of Finance
Leavey School of Business
Santa Clara University

Keyu Jin
Professor in Economics
London School of Economics

Ian Shepherdson
Founder & Chief U.S. Economist
Pantheon Macroeconomics

Yukon Huang
Senior Fellow Asia Program
Carnegie Endowment for International Peace

Gideon Rachman
Chief Foreign Affairs Commentator
Financial Times

Christopher Hohn
Founder and Portfolio Manager
TCI Fund Management

Mark Your Calendar for Upcoming NMS Management Forums

NMS FORUMS AND ROUNDTABLES FOR THE ENDOWMENT AND FOUNDATION COMMUNITY

NMS Membership Forums

February Member Briefing*
February 7, 2022

Networking Event for Members (NYC)
June 9, 2022

Holiday Forum for Members (NYC)
December 1, 2022

The Fall Forum 2022
(Conrad, Washington D. C.)
October 10 – 12, 2022

The Winter Forum
(Hyatt Regency Huntington Beach, CA)
February 4 – 7, 2023

Roundtable Programs
(By Invitation)

The Hedge Fund Roundtable
April 4 – 6, 2022

CIO Spring Roundtable
June 6 – 7, 2022

The CIO Roundtable (NYC)
November 6 – 8, 2022

* *Please note events which will be held in a virtual format*

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