MARKET & PERFORMANCE UPDATE

4Q 2022 – February 16, 2023

F·E·G®
investment advisors

Together, we flourish.

Community Foundation™
for the Fox Valley Region

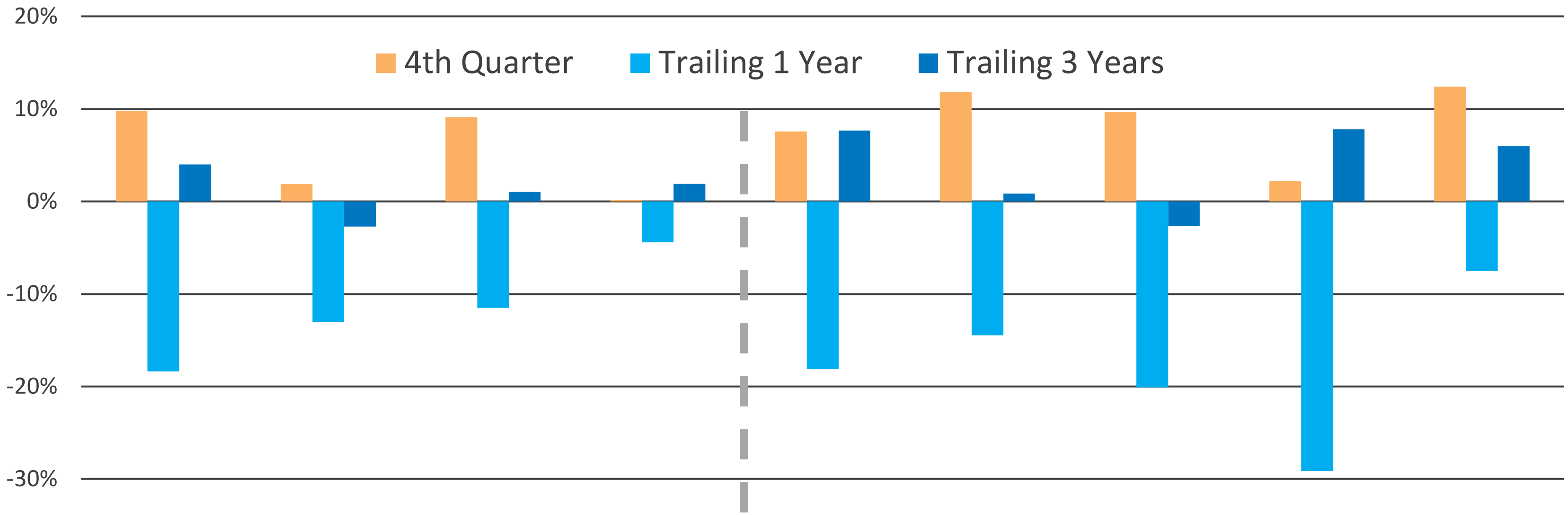
1.

PERFORMANCE

- MARKET RETURNS
- PERFORMANCE
- ATTRIBUTION

MARKET RETURNS

As of December 31, 2022



	BENCHMARK INDICES				SUPPLEMENTARY INDICES				
	MSCI All-Country World	Bloomberg Barclays U.S. Aggregate Bond	S&P Real Assets Equity	HFRX Global Hedge Fund	S&P 500	MSCI EAFE	MSCI Emerging Markets	Russell 1000 Growth	Russell 1000 Value
4th Quarter	9.8%	1.9%	9.1%	0.2%	7.6%	7.6%	9.7%	2.2%	12.4%
Trailing 1 Yr.	-18.4%	-13.0%	-11.5%	-4.4%	-18.1%	-18.1%	-20.1%	-29.1%	7.5%
Trailing 3 Yr.	4.0%	-2.7%	1.0%	1.9%	7.7%	0.9%	-2.7%	7.8%	6.0%

Data sources: Lipper and HedgeFund Research

THE FOUNDATION'S PERFORMANCE (AS OF DECEMBER 31, 2022)

	4Q[2]	1-YEAR	3-YEAR	FEG INCEPTION [3]
Endowment [1]	8.4%	-16.2%	0.9%	9.4%
Target Benchmark	*7.7%*	*-15.9%*	*2.4%*	*9.4%*
Long-Term Portfolio	8.0%	-15.5%	2.4%	9.4%
Intermediate-Term Portfolio	4.7%	-13.2%	0.1%	3.7%
Short-Term Portfolio	0.7%	-2.7%	-0.9%	-1.1%

Data source: FEG.

1 Target Benchmark is currently comprised of: Target Benchmark is 67.5 MSCI ACWI, 19.5% Bloomberg Barclays Aggregate Index, 7.5% S&P Real Assets Equity, 5.0% HFRX Global Hedge Fund Index, and 0.5% U.S. 91-Day Treasury Bills.

2 4Q Performance is being reported excluding Private Capital since 4Q valuation statements are not available at this time.

3 FEG inception 3/2020.

THE FOUNDATION'S PERFORMANCE (BY ASSET CATEGORY, AS OF DECEMBER 31, 2022)

	4Q[2]	1-YEAR	3-YEAR	FEG INCEPTION [1]
Global Equity	10.6%	-19.8%	1.3%	12.6%
MSCI ACWI	*9.8%*	*-18.4%*	*4.0%*	*13.9%*
Global Fixed Income	2.5%	-10.2%	-0.7%	0.8%
Bloomberg Barclays US Aggregate Index	*1.9%*	*-13.0%*	*-2.7%*	*-4.0%*
Real Assets	11.7%	-7.1%	-0.6%	7.3%
S&P Real Assets Equity Total Return Index	*9.1%*	*-11.5%*	*1.0%*	*13.9%*
Diversifying Strategies	2.0%	-1.9%	-0.7%	7.2%
HFRX Global Hedge Fund Index	*0.2%*	*-4.4%*	*1.9%*	*4.8%*

Data source: FEG.

1 4Q Performance is being reported excluding Private Capital since 4Q valuation statements are not available at this time.

2 FEG inception 3/2020.

3Q2022 QUARTER PERFORMANCE VS. PEERS

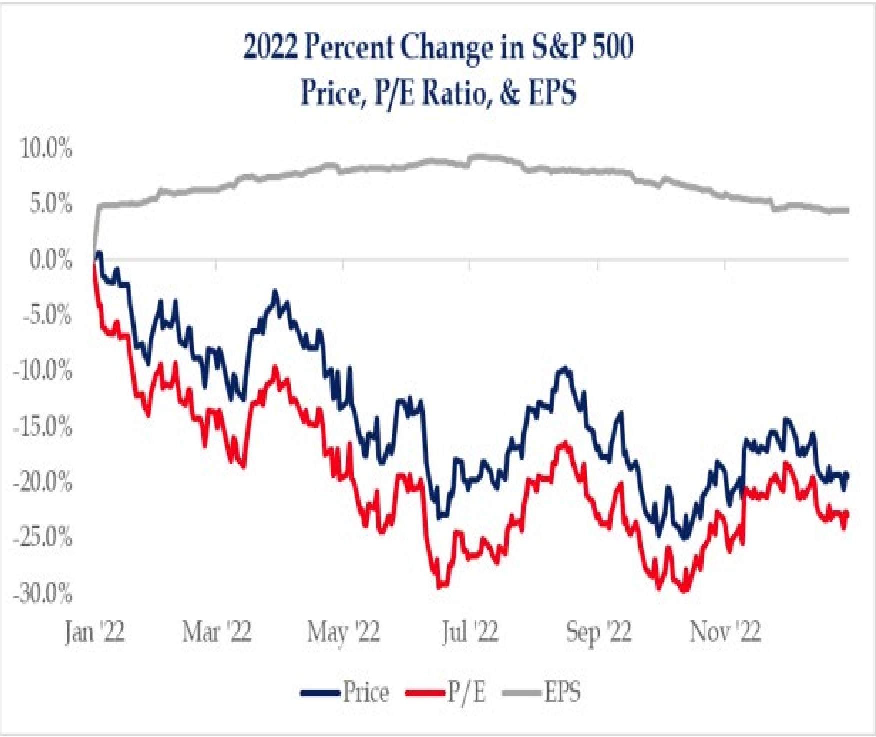
	3Q2022	Latest 1 Year
Total Portfolio	-4.7%	-20.0%
Peers $250.0m to $499.9m [1]	*-4.9%*	*-16.2%*
Target Weighted Benchmark [2]	*-6.2%*	*-17.8%*

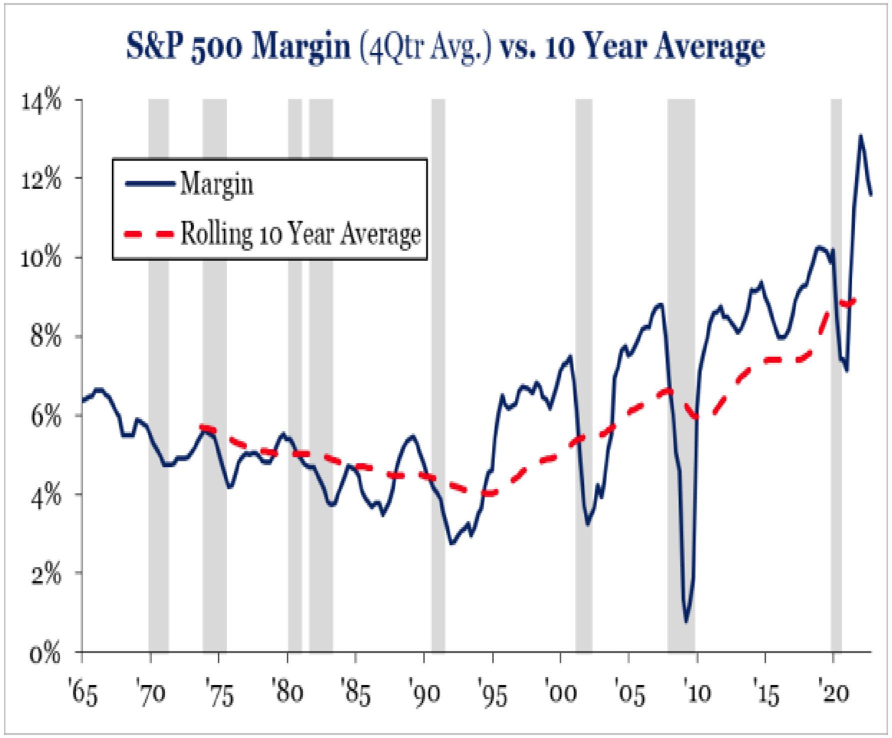
- FAOG-Crewcial does not provide enough data to do a full attributional analysis, although what we can generally observe is that:
  - The Community Foundation has a higher allocation to international and emerging markets strategies than peers, in an environment where the U.S. has outperformed.
  - The Community Foundation's private capital program is at a higher level than peers and much of the allocation is early in the J-Curve.
  - During the trailing one-year, the portfolio's exposure to biotech hurt; however, we are maintaining conviction in biotech and believe that this will be a positive contributor to the portfolio over a longer time period however, we are maintaining conviction in biotech and believe that this will be a positive contributor to the portfolio over a longer time period.
  - Peer comparisons are complicated by the small sample size of the peer group (n=3).

[1] Peer comparison based on FAOG-Crewcial 3Q 2022 Final Community Foundation Results.
[2] Target Weighted Benchmark is comprised of 67.5% MSCI AC World Index, 19.5% Bloomberg Barclays U.S. Aggregate Index, 7.5% S&P Real Assets Equity Total Return Index, 5% HFFX, and 0.5% U.S. 91-Day Treasury Bills, and reflects the actual weights of Global Equity, Global Fixed Income, Real Assets, Diversifying Strategies, and Cash. It is adjusted monthly.

ATTRIBUTION: MULTIPLE COMPRESSION, RESILIENT EARNINGS

- Multiple compression accounts for the entirety of the significant equity sell-off in 2022, while corporate earnings and margins have remained resilient to date.

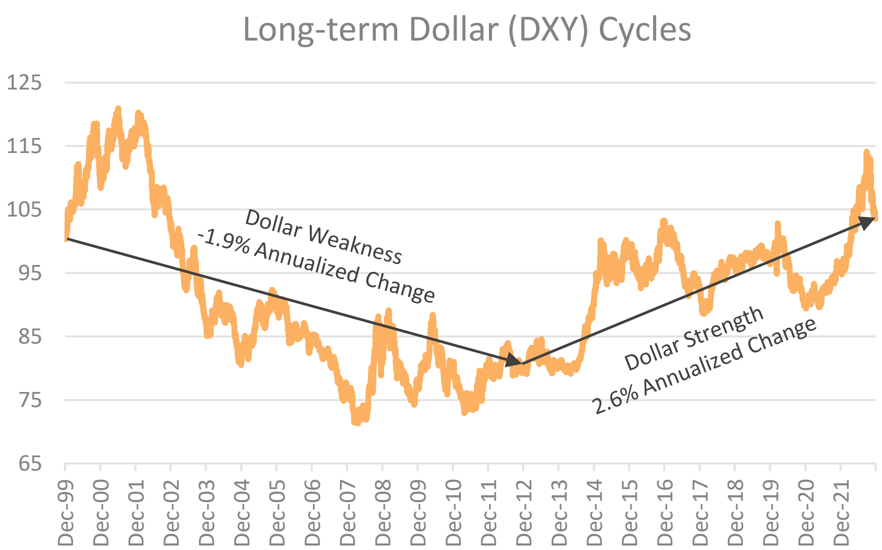


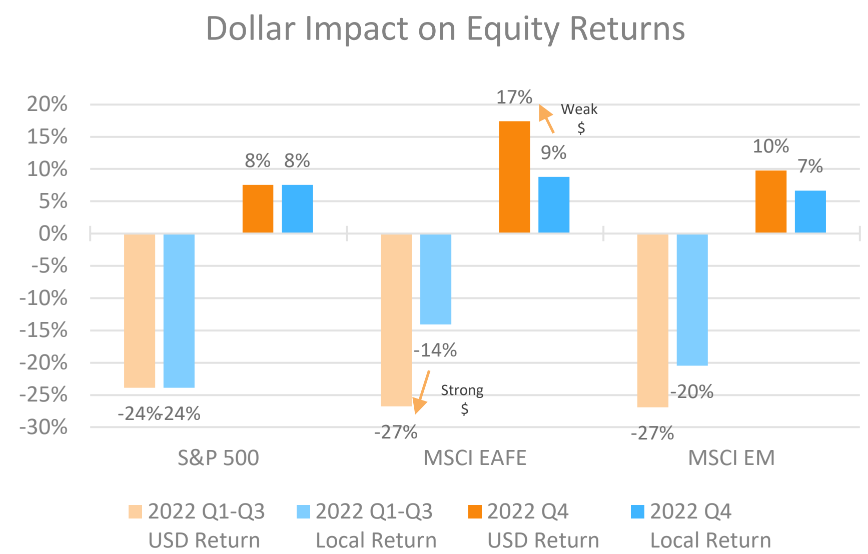


Data Source: Strategas

ATTRIBUTION: GLOBAL DIVERSIFICATION

- Dollar strength over the last decade was a headwind for international (Non-$) equities.
- In 2022, the strong dollar in Q1-Q3 negatively impacted USD returns:
  - In Q4, the dollar weakened, boosting MSCI EAFE returns by 8% for USD investors.
- If the dollar trends lower over the next decade, our portfolios should be well positiioned due to their global bias.

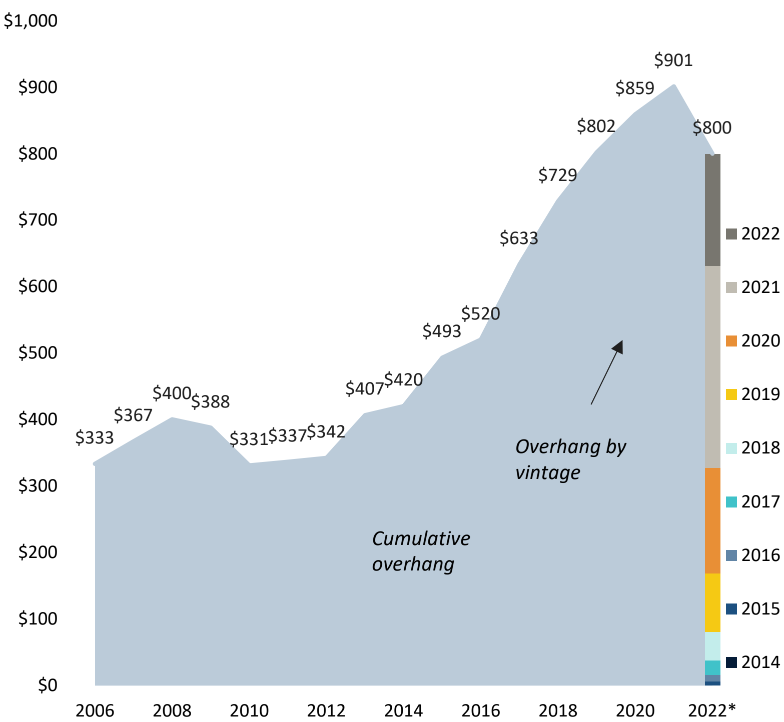




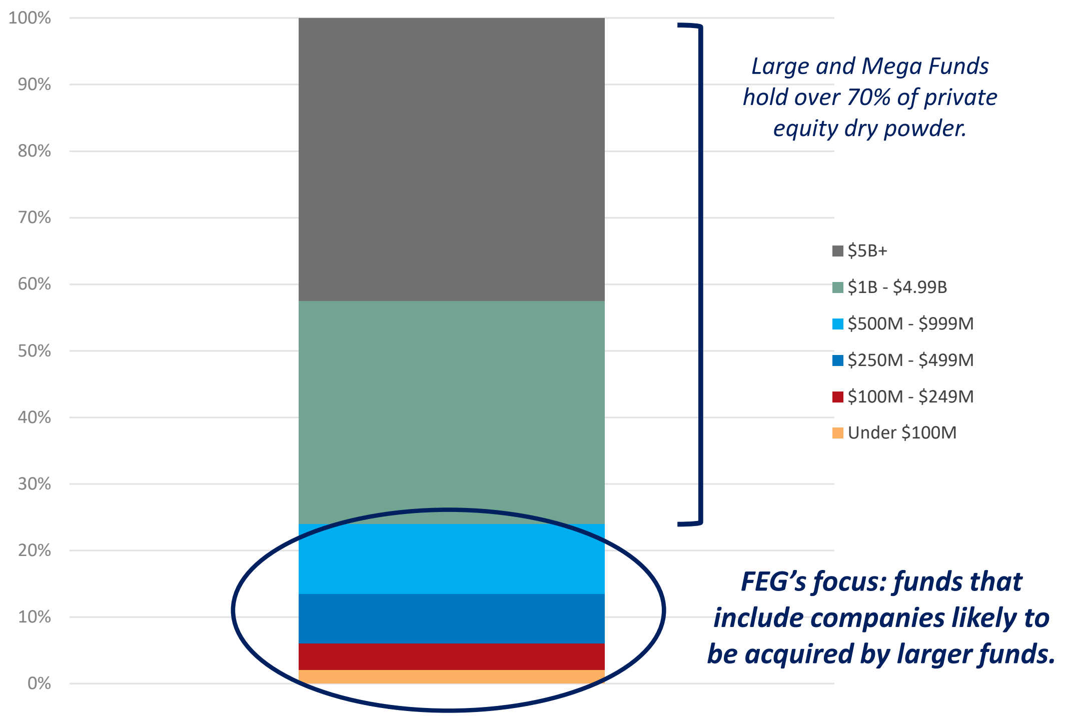
Data source: FactSet

- Private equity provided better returns than public equity for 2022.
- FEG's strategy to focus on the smaller end of the market helps mitigate risk of declines going forward given more exit options, specifically selling upstream to larger funds.

CAPITAL OVERHANG BY AS OF YEAR



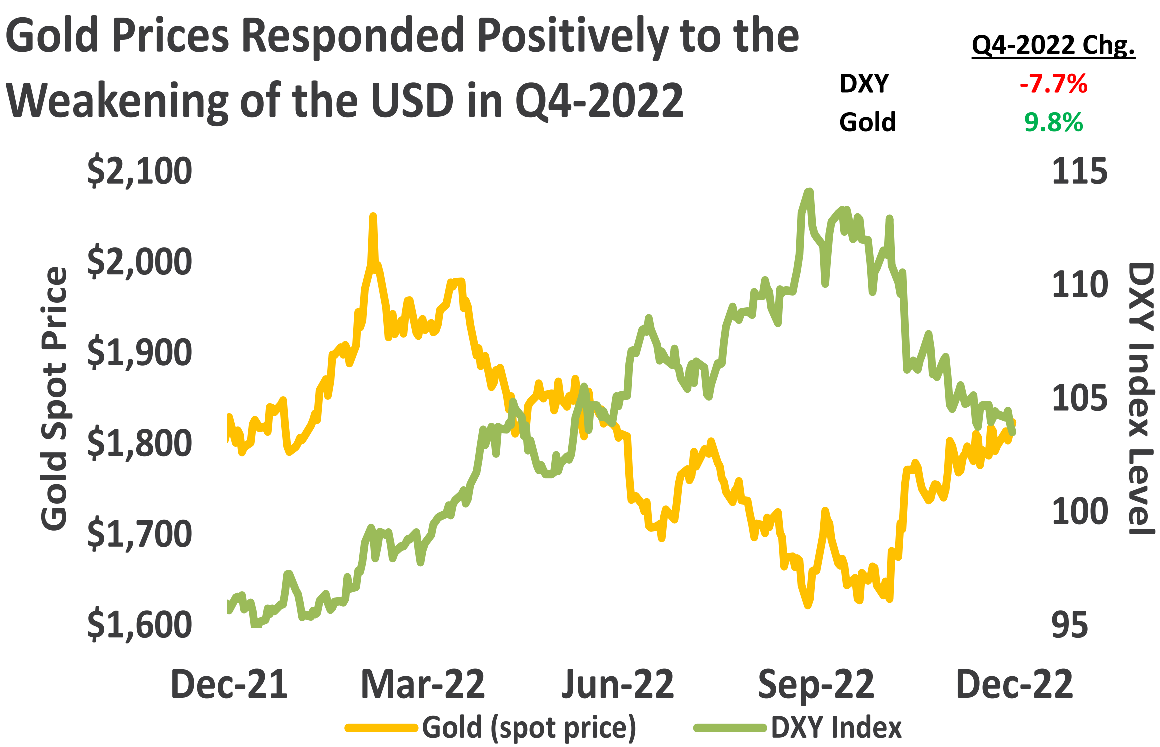
DRY POWDER BY FUND SIZE



* As of September 30, 2022. Data source (both charts): Pitchbook.

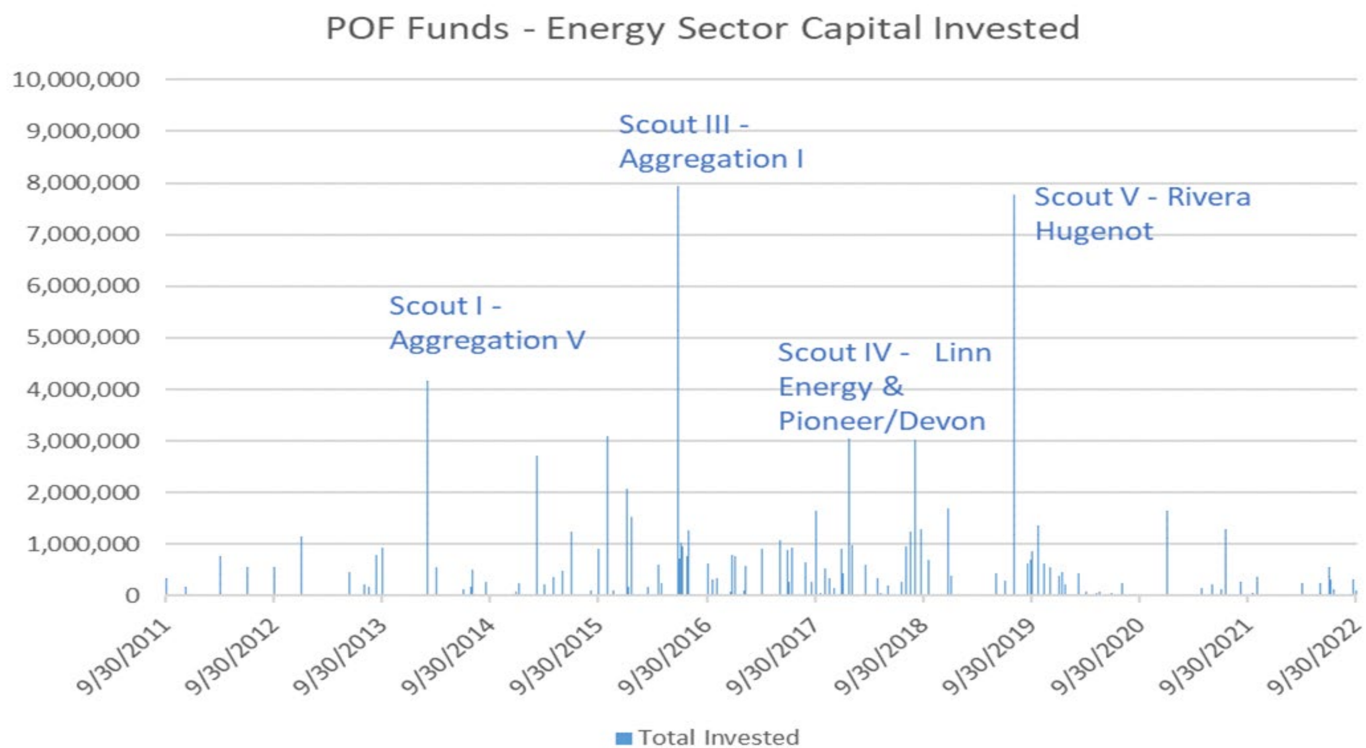
- The growing narrative of peaking inflation and a looming “pause” in Fed tightening campaign helped send real interest rates and the U.S. dollar lower during the quarter.

- The U.S. dollar (DXY) suffered its worst quarterly decline (-7.7%) since 2010, with precious metals spot prices and related mining stocks increasing of late, benefitting the portfolio.



Data source: Bloomberg, L.P.; Data as of 12/31/2022

- POF Funds have opportunistically invested in the energy sector through cycles:
  - E&P has been ~80% of investments
  - Services & Equipment ~20%
- FEG continues to invest with top performers.



Average Annual Price of WTI

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
$ 94.88	$ 94.05	$ 97.98	$ 93.17	$ 48.66	$ 43.29	$ 50.88	$ 64.94	$ 56.99	$ 39.16	$ 67.99	$ 97.66

Data sources: Burgiss, WTI prices www.statistica.com

2.

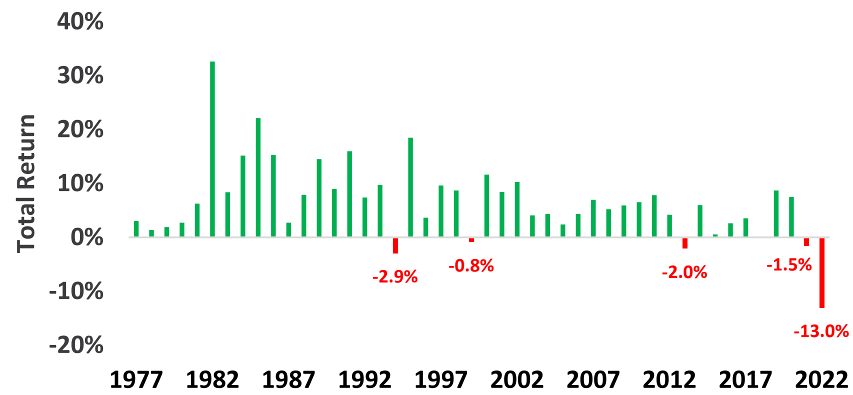
POSITIONING

- CURRENT OUTLOOK
- PORTFOLIO ACTIONS

CURRENT OUTLOOK

- Multi-decade high inflation sparked a sharp rise in rates, leading to the worst calendar year return for bonds on record

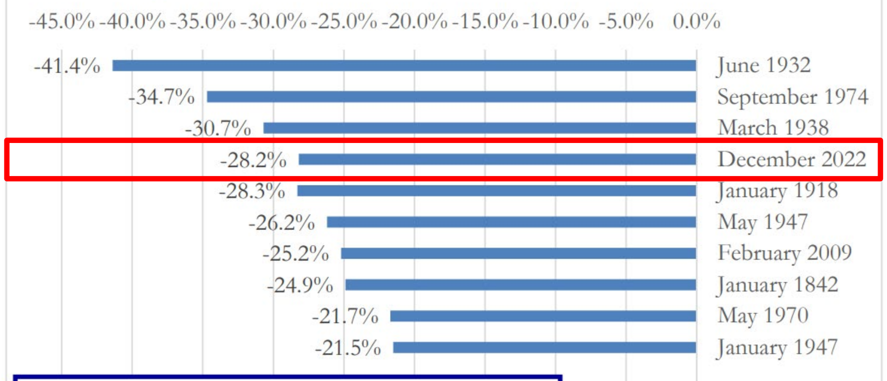
Bloomberg U.S. Aggregate Bond Index Calendar Year Total Returns



Data source: Bloomberg, L.P.; Data as of 12/31/2022

- Equities also declined in 2022, resulting in one of the worst 12-month periods on record for a traditional 60/40 portfolio

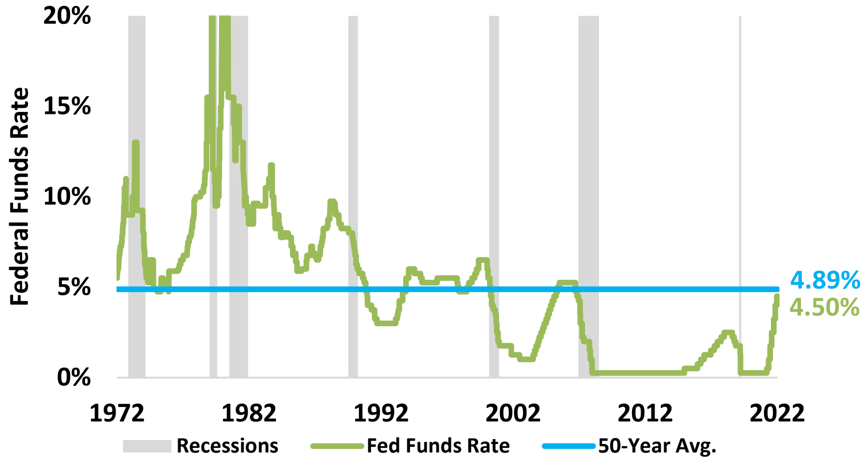
Top 10 Worst 12-Month 60/40 Real Returns



Source: Edward McQuarrie, Santa Clara University

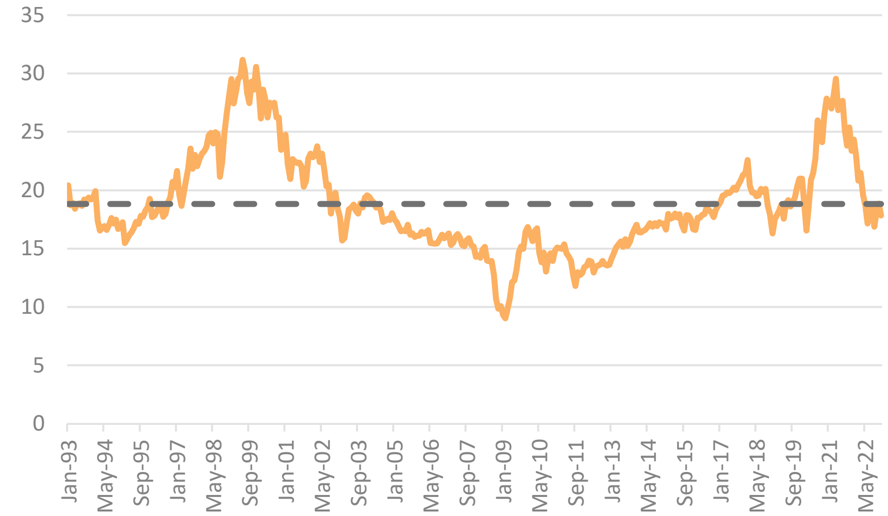
- Stocks and bonds are now close to historic norms for valuation
- Today's 4.5% policy rate is just shy of the 50-year average
- Equity valuations are also close to long-run averages

Fed Has Hiked the Policy Rate to Near the 50-Yr Avg.



Data sources: Bloomberg, L.P., NBER; Data as of 12/31/2022

S&P 500 P/E (TTM)

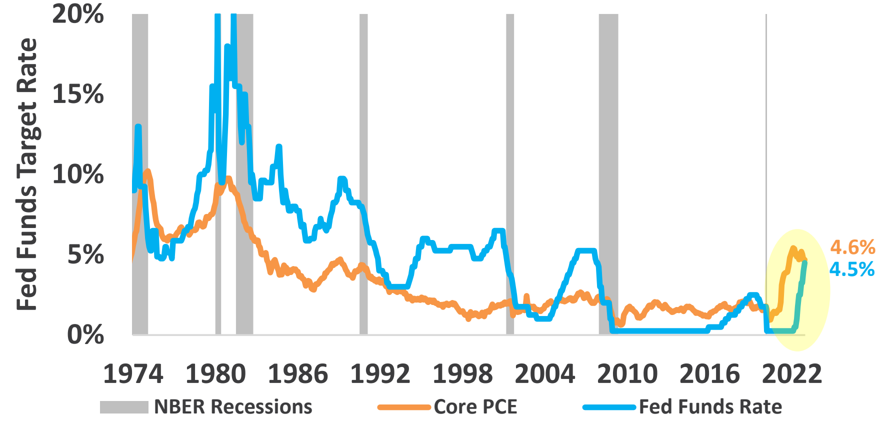


Data Source: FactSet; Data as of 12/31/2022

DON'T FIGHT THE FED

- Inflation soared to multi-decade highs, leading central banks to aggressively tighten monetary conditions

Fed Funds Rate, Core PCE Inflation, & Cycles

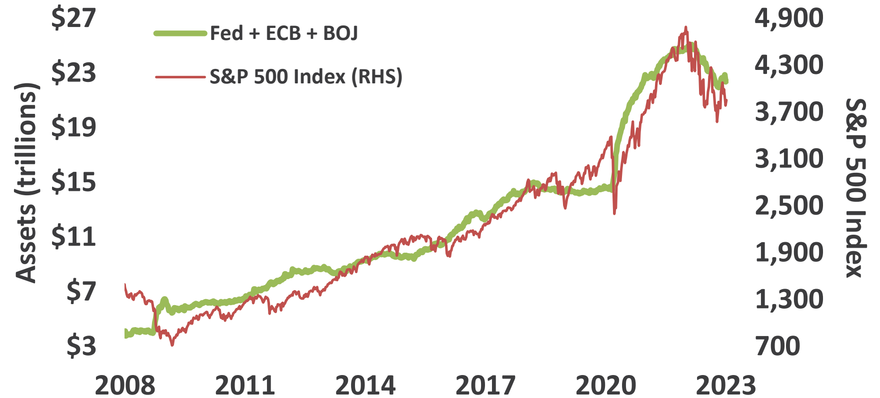


Data sources: BEA, NBER, Bloomberg, L.P.; Core PCE as of November 2022 and Fed Funds Rate as of 12/31/2022

- Sharp reversal in policy stances, from ultra-accommodative to restrictive in 2022, was a key headwind to risk assets

G-3 Balance Sheet Assets & S&P 500

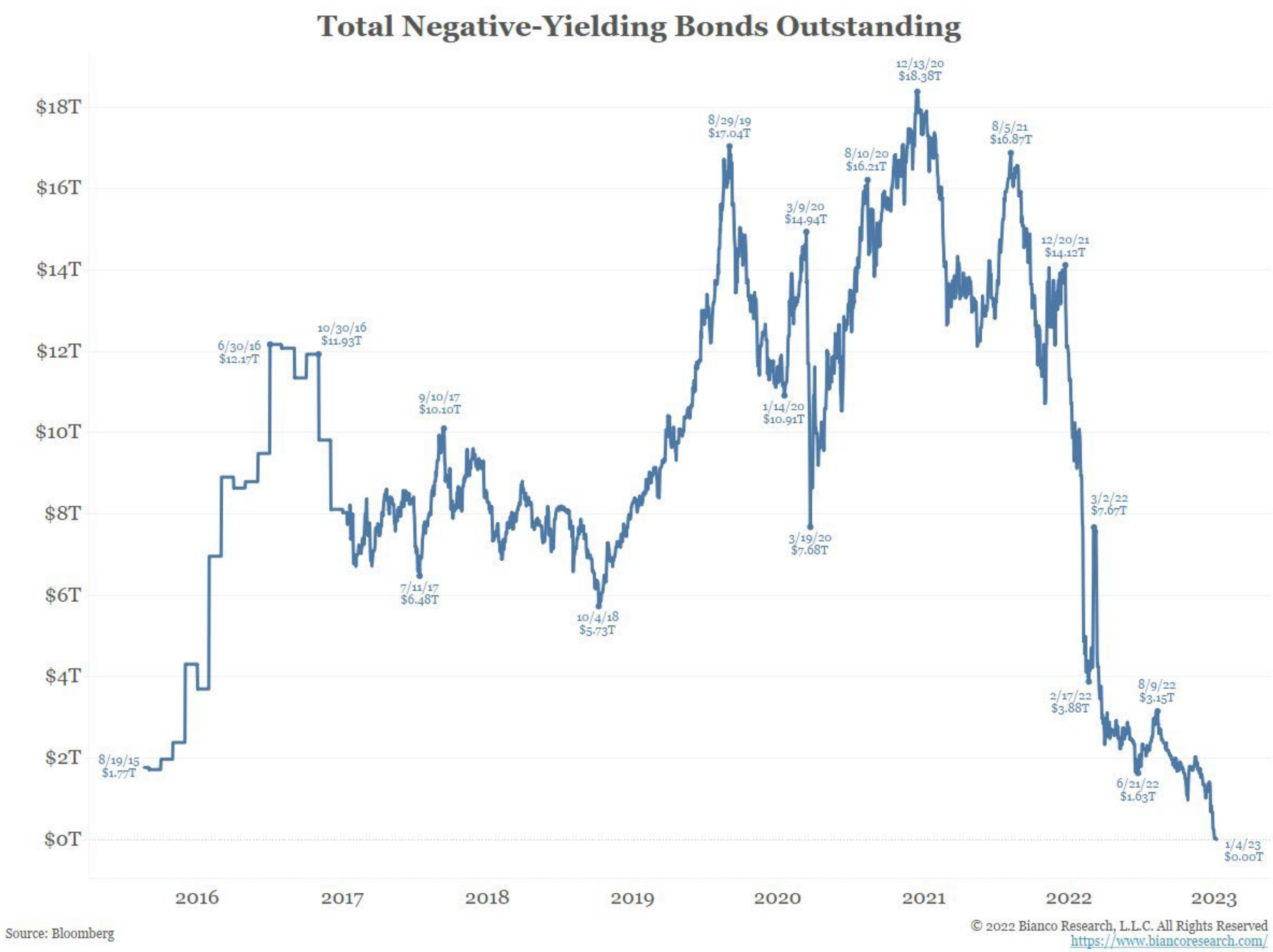
(Fed + ECB + BOJ)



Data sources, Fed, ECB, BOJ, Bloomberg, L.P.; Data as of 1/4/2023

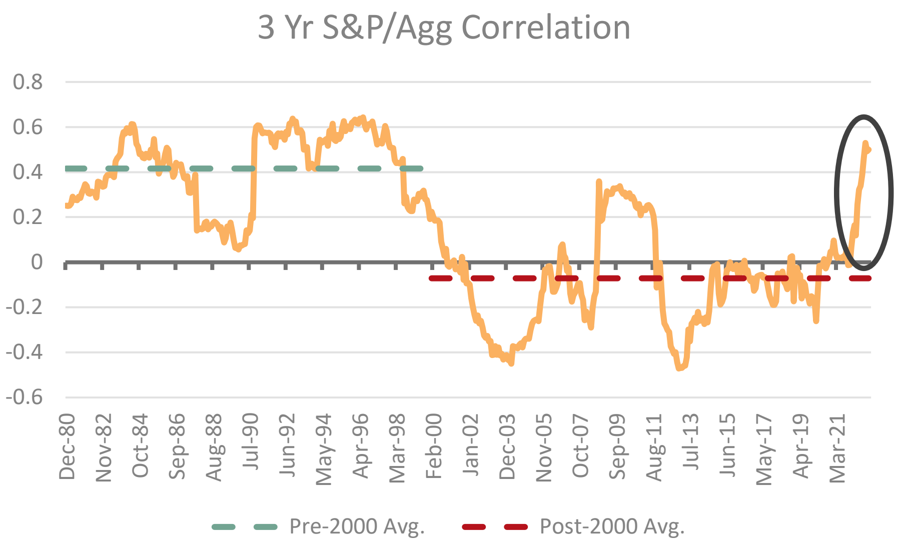
"TINA" NO MORE

- "There Is No Alternative" (TINA) to equities has come to an end
- Bonds trading with a negative yield peaked at over $18 Trillion in 2020 and as of January 4, 2023, there are no bonds trading with a negative yield

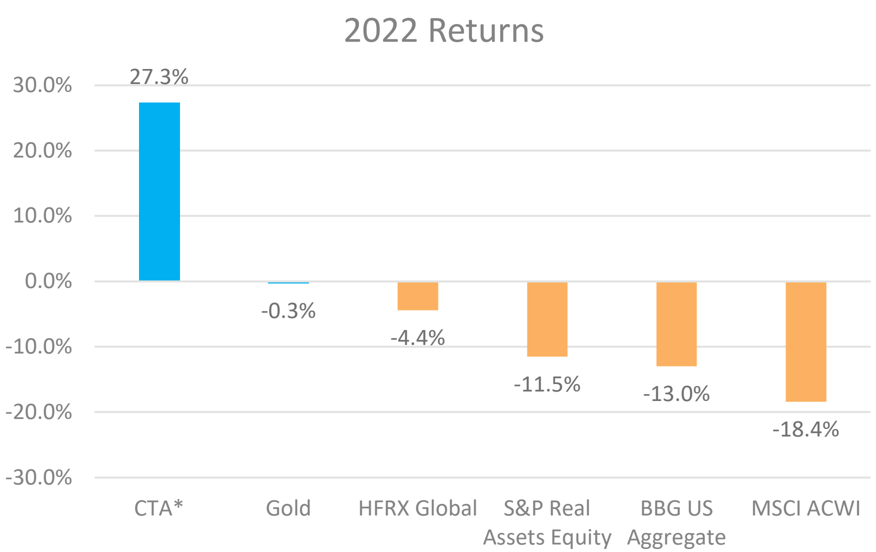


WHAT GOES UP, MUST COME DOWN

- The Federal Reserve's (Fed) removal of liquidity brought many high-flying speculative assets back to reality



- Correlation between stocks and bonds has been mostly negative since the 90s, but the relationship has varied historically



- Importance of diversification outside of stocks and bonds was evident in 2022

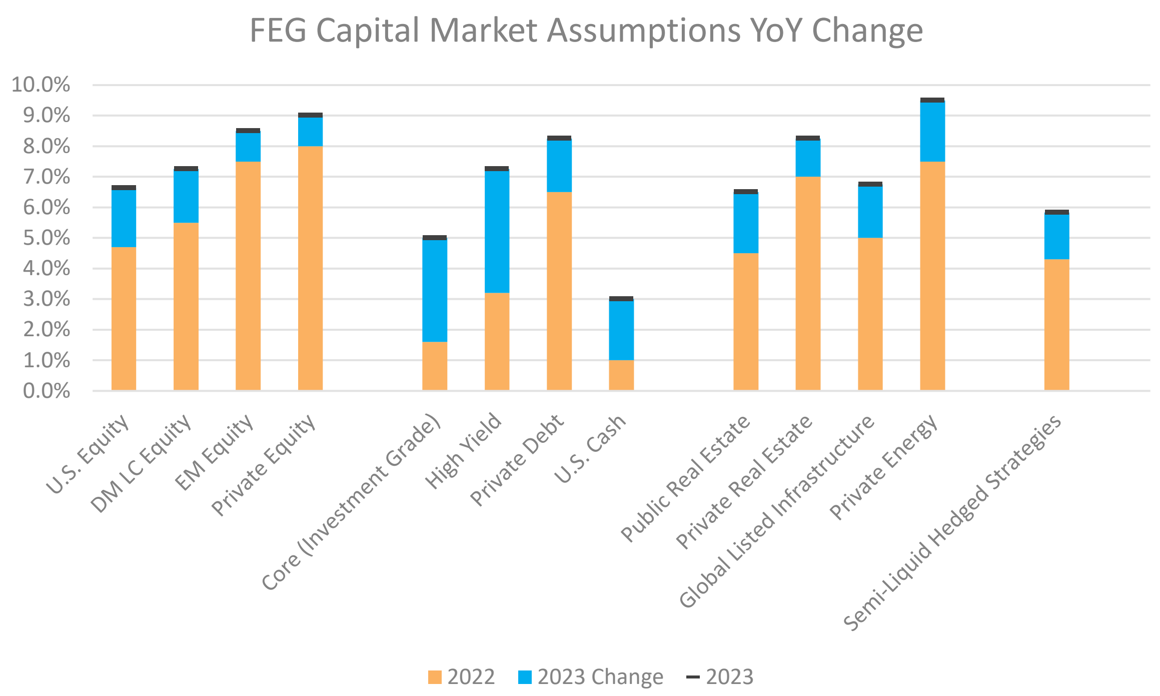
*SG Trend Index

Data Source: FactSet, Lipper; Data as of 12/31/2022

THE BRIGHT SIDE…

- While 2022 was painful across most asset classes and there could be more to come, declining multiples, rising risk premia, and higher interest rates have all led to an improvement in long-term return expectations

- Fixed Income segments have seen the largest year-over-year changes



Source: FEG. FEG Capital Market Assumptions are hypothetical based on asset category. FEG Capital Market Assumptions are updated as of December 31, 2022. Inflation rate is Core CPI. Please refer to Disclosures for full disclosure.

PORTFOLIO ACTIONS

PORTFOLIO ACTIONS: DYNAMIC ASSET ALLOCATION (AS OF 12.31.22)

		CURRENT	IPS TARGETS	
GLOBAL EQUITY	N	68.1%	67.5%	• Underweight due to concern over potential earnings deterioration. Slightly underweight US equities and overweight international market. • Underweight mega/large cap stocks in favor of mid/small cap stocks.
FIXED INCOME	↓	17.7%	20.0%	• Dedicated cash (T-Bill) position as dry powder and quality yield. • Overweight exposure to spread sectors (e.g., non-agency mortgages, emerging market debt, high yield, and bank loans) via active managers.
REAL ASSETS	↑	7.7%	7.5%	• Policy weight, with exposure to infrastructure, REITs, and natural resources. Underweight REITs and overweight gold bullion and mining stocks.
DIV. STRAT.	↑	6.5%	5.0%	• Overweight DS with a focus on best-in-class managers with a board mandate to flexibility deploy capital. Select/opportunistic investments in hedged equity and managed futures.

- After beginning 2022 with overwhelmingly stretched valuations across most major sectors, valuation levels declined closer to long-run averages by the end of the year,
- Despite reasonable valuations, fundamentals in aggregate continue to weaken, leading to cautious positioning until the fundamental backdrop evolves from a headwind to a tailwind ,

FEG OCIO VFS DASHBOARD

		VALUATION			FUNDAMENTAL			SENTIMENT
		Signal	Z-Score	Hist. %-ile	Signal	Z-Score	Hist. %-ile	Signal
GLOBAL EQUITY	U.S. Large Cap	Yellow	1.01	63%	Yellow	-0.13	60%	Red
GLOBAL EQUITY	U.S. Large Cap (Value)	Yellow	0.66	61%	Green	-0.05	68%	Yellow
GLOBAL EQUITY	U.S. Large Cap (Growth)	Yellow	0.78	46%	Yellow	-0.37	40%	Red
GLOBAL EQUITY	U.S. Mid Cap	Yellow	1.00	66%	Yellow	-0.41	48%	Red
GLOBAL EQUITY	U.S. Small Cap	Yellow	-0.14	58%	Yellow	-0.40	46%	Red
GLOBAL EQUITY	U.S. Micro Cap	Yellow	-0.80	39%	Yellow	-0.61	37%	Red
GLOBAL EQUITY	International Developed	Yellow	0.41	60%	Yellow	-0.13	60%	Green
GLOBAL EQUITY	Emerging Markets	Green	-0.94	24%	Yellow	-0.55	35%	Yellow
FIXED INCOME	Interest Rate Sensitive (Core)	Yellow	-0.22	66%	Yellow	0.91	-	Red
FIXED INCOME	Credit Sensitive (High Yield)	Red	0.25	89%	Yellow	-0.22	51%	Yellow
FIXED INCOME	TIPS	Yellow	-0.77	34%	Green	1.16	84%	Red
REAL ASSETS	Real Estate (U.S. REITs)	Red	0.14	73%	Yellow	0.17	53%	Red
REAL ASSETS	Commodities	Yellow	-0.13	59%	Green	0.50	75%	Red
REAL ASSETS	Global Listed Infrastructure	Red	1.28	81%	Yellow	-0.29	38%	Red

Data as of 12/31/2022

Note: Red signal = Valuation composite in top third of historical range/Fundamental composite in bottom third of historical range
Yellow signal = Valuation and Fundamental composites in middle third of historical range
Green signal = Valuation composite in bottom third of historical range/Fundamental composite in top third of historical range

2022 PORTFOLIO CHANGES

APRIL

- Reduced allocation to Steadfast and allocated to iShares Core S&P 500 (IVV), such that public equities now fall at policy target.
- Implemented a slight overweight to diversifying strategies via the addition of ASG Managed Futures (ASFYX) and another commitment to Elliott International.
- Increased the overweight to real assets via the addition of resource equity focused strategy GMO Resources (GEACX).
- We believe that these actions further diversify active risk in portfolios and are appropriate given an economic environment marked by sustained inflation and several anticipated interest rate hikes by the Federal Reserve.

MAY/JUNE

- Trimmed Echo Street holding to reduce overweight to longer-duration, smaller cap growth stocks and balance risk across underlying managers.
- Added Hudson Bay, a relative value-focused multi-strategy manager, to diversify our strategy exposures across our multi-strategy manager line up.

AUGUST

- Added to biotech to embrace an overweight position as longer-term, secular thesis remained intact and sharp multiple re-rating began to stabilize.

OCTOBER

- Added TCI to the public equity portfolio and increased allocation to IVV, funded by a full redemption of Steadfast (final redemption 12/31/2022) and reductions of RAE US, RAE International, and AKO Global to maintain geographic and stylistic balance.
- Rebalanced into emerging markets, reducing large cap US equities.
- Decreased underweight to fixed income, adding iShares Short Treasury Bond ETF (SHV) given more attractive yield and desire for dry powder to eventually deploy into risk assets.

A LOOK FORWARD

GLOBAL EQUITY

- **Public Manager Lineup.** Re-underwriting manager positions to help ensure that active risk is distributed appropriately. Current focus on diversification of risk across international developed managers.
- **China.** Evaluating current underweight to China. Risks more balanced given recent reset of valuations, more accommodative policy, and economic re-opening, potentially warranting a neutral posture.
- **Passive+/Portable Alpha.** Exploring re-configuration of a portion of the portfolio's passive exposure to improve alpha potential.
- **Private Equity.** Continue to source co-investments and use slowdown in fundraising to access best in class managers.

FIXED INCOME

- **Dry Powder.** Current position in U.S. T-bills is largely dry powder to be deployed when more attractive opportunities present themselves.
- **Non-USD Opportunities.** Exploring an increased allocation to international unhedged debt should recent dollar weakness continue.
- **Private Debt.** Reviewing distressed debt managers, given a potential credit cycle turning creating an opportunity in 2023 and beyond.

REAL ASSETS

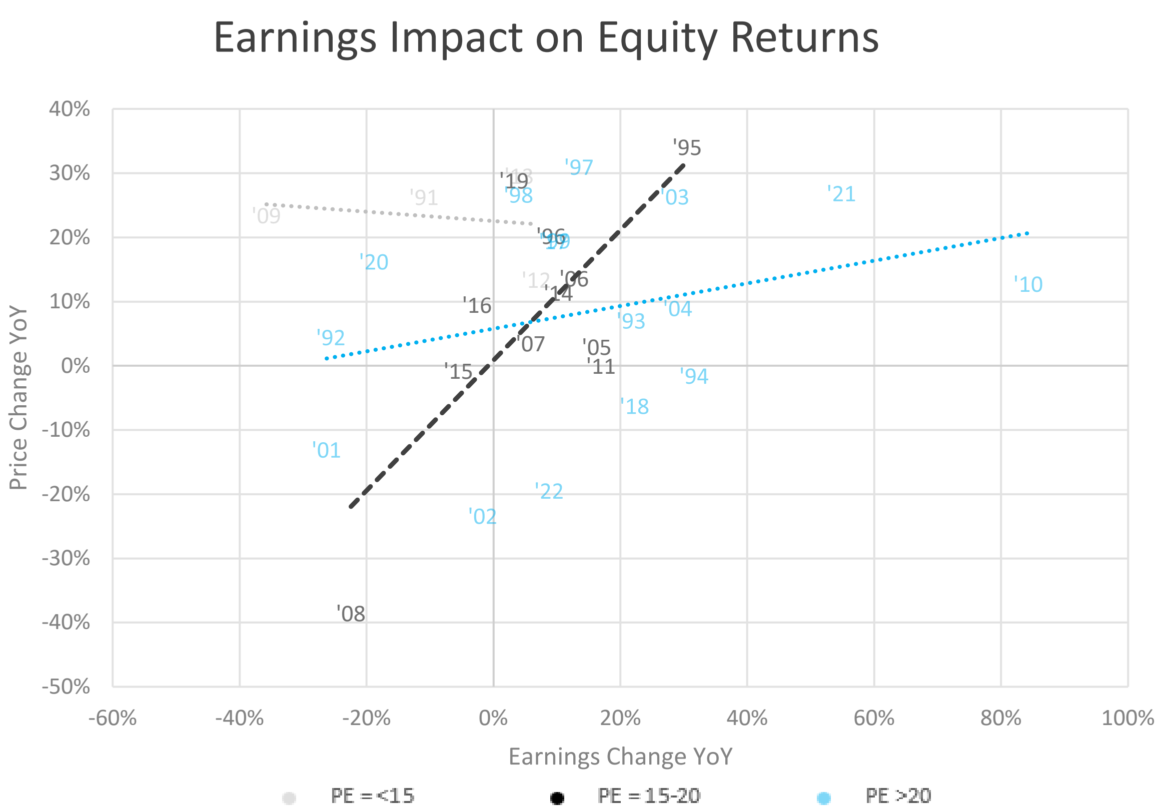
- **Gold.** We continue to monitor the overweight position, which benefitted meaningfully from the pullback in the U.S. dollar during the fourth quarter, as well as a modest reduction in real interest rates and increased sentiment for a pause in Fed monetary tightening.
- **Infrastructure.** Considering underweight in light of elevated valuation levels and the potential for weakening fundamentals should global growth continue to slow.
- **Private Real Assets.** Reviewing real estate managers with distressed debt expertise, energy specialists (both oil and gas, and clean/transition sources) and other eclectic sectors where there is less capital formation, and we can extract outsourced returns.

DIVERSIFYING STRATEGIES

- **Manager Evaluation.** Evaluating the addition of capacity constrained/closed managers where we may be able to get access and complement the portfolio's current holdings.

OUTLOOK: EARNINGS (WILL) MATTER

- Forward equity returns tend to be more correlated to fundamental drivers, such as earnings growth, when multiples start at levels closer to historical norms.
- If earnings weaken this could cause another leg down in equity markets, and why we are modestly underweight equities.



Data source: FactSet (S&P 500 from 1991-2022)

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