



Date: March 13, 2023

To: Community Foundation for the Fox Valley Region Donors

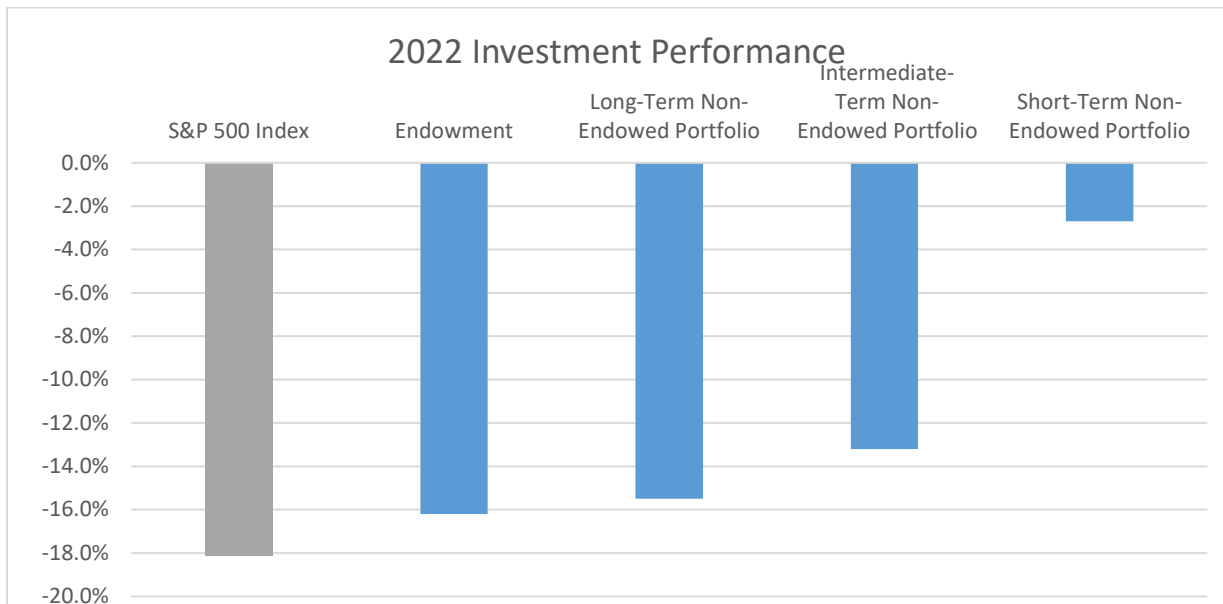
From: Alan Lenahan, CFA, CAIA and Kathryn Mawer, CFA, CAIA

Re: 2022 Investment Performance Review

FEG Investment Advisors, LLC serves as Outsourced Chief Investment Officer (OCIO) to the Community Foundation for the Fox Valley Region. In that capacity, we work with the Board of Directors and Investment Committee to design and manage the Community Foundation’s investment portfolios. The relationship has been in effect since March 2020.

2022 was a challenging year for markets, with stocks returning -18% and bonds returning -13%. Although many years have periods of negative stock performance, *profoundly* negative calendar performance has been the exception. In fact, the S&P 500, a measure of U.S. stock performance, has only seen negative double-digit returns in 12 years over its 100-year history. Further, 2022 was the worst year on record for bonds. With stocks and bonds down double digits, it was a very difficult year for institutional investment portfolios.

Our diversification into other asset categories, including commodities and infrastructure, helped dampen the impact of these negative returns for the endowment, long-term and intermediate-term portfolios. The chart below illustrates 2022 calendar year performance (net of all investment manager fees) for the Community Foundation’s endowment portfolio and three non-endowed portfolios.



Endowment Portfolio: The endowment portfolio seeks to generate investment returns sufficient to support an annual distribution of up to 4.5%. This portfolio has a long-term, perpetual orientation and employs a diverse group of underlying strategies, including alternative investments. It is a broadly diversified portfolio, designed with the dual objectives of mitigating losses in difficult periods while participating significantly during market rallies. Last year, this portfolio returned -16.2%. This portfolio is designed with a long-term perspective and will experience short-term volatility. Since FEG's inception date with the Community Foundation, the endowment portfolio has averaged +9.4% even with this difficult 2022 period.

Non-Endowed Portfolios: Each of the three non-endowed portfolios are structured for a specific time horizon.

- The long-term portfolio provides support for selected charitable causes over a longer-term time horizon (5+ years), although not necessarily into perpetuity. The portfolio is designed similarly to the endowment portfolio in its emphasis on global equities but differs in that it does not hold some of the alternative investment strategies and active managers prevalent in the endowment. Last year, this was a relative advantage for the portfolio and it returned -15.5%. Since FEG's inception date with the Community Foundation, the long-term portfolio has averaged +9.4%.
- The intermediate-term portfolio provides support for selected charitable causes over an intermediate-term time horizon (3-5 years). The fund seeks to balance investment returns with moderate risk. Last year, this portfolio returned -13.2%. Since FEG's inception date with the Community Foundation, the intermediate-term portfolio has averaged +3.7%.
- The short-term portfolio provides support for selected charitable causes over a short-term time horizon (1-3 years). The fund seeks to preserve capital and provide a high level of liquidity to support short-term grantmaking strategies. While the goal is capital preservation, this is not a zero-risk strategy. In the rare environment like we witnessed in 2022, this resulted in negative returns, -2.7%.

OUTLOOK

While FEG believes there may still be more volatility and negative returns in the short term, there is a silver lining. The declines across most asset categories in 2022 helped "reset" the market to more historic normal levels of equity market valuation and interest rates. This has the effect of increasing future return expectations both in global equities and fixed income, which should mean a period of more positive performance in the future.

FEG has positioned all but the short-term portfolio to protect against short-term fluctuations, by increasing the allocation to bonds, many of which are now yielding close

to 5%, and slightly decreasing your allocation to stocks, which will help guard against market volatility while still allowing the portfolio to participate in positive returns should the market recover sooner than anticipated.

The Foundation relied upon Johnson Bank to manage the short-term portfolio. We know that it has also repositioned to move into higher-quality, lower-risk bonds and marketable securities that should provide very attractive yields in the foreseeable future.

We have great confidence in the investment strategy we manage for the Foundation and its donors and expect strong long-term results that will support philanthropy in the region. We thank you for your trust, confidence, and patience in these challenging times.