EMPOWERING ENDOWMENTS

& OTHER SHORT/LONG-TERM FUNDS

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“The Who, What, Why, How, When & Result!”

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EMPOWERING ENDOWMENTS & OTHER SHORT/LONG-TERM FUNDS

This document represents a comprehensive overview of the principal financial and investment philosophies and practices of the Community Foundation of Greater Muscatine Investment Committee and the historical performance of its various model investment portfolios.

Community Foundations

Community foundations are tax-exempt charitable organizations created by and for the people of their respective communities or counties. The mission of a Community Foundation in its simplest form is building community! The stated Mission of the Community Foundation of Greater Muscatine is to actively work to improve the quality of life through philanthropy in the counties and communities it serves.

Community foundations provide personalized service to their donors to achieve charitable and financial goals by offering tools and resources that make both giving and the investment of funds easy, flexible, and effective. They typically represent a collection of endowed funds established by many individuals, organizations and businesses and to which many different types of donors contribute. The goal is to empower or grow these endowed funds to ensure grants support the community in perpetuity.

Accredited community foundations receive the most favorable tax advantages allowed by law. For example, in Iowa, the Endow Iowa Tax Credit provides a 25% state tax credit for donors to endowments even if they don't itemize – this is in addition to a normal federal charitable income tax deduction.

People Make the Difference

We suggest the most important consideration in determining the effectiveness of any community foundation is the quality of the organization and people behind it. The Community Foundation of Greater Muscatine has given highest priority to attracting an expert Board of Directors, Board-appointed Committee members, and executive staff. The Board and its Committee members generously volunteer their time, knowledge, and leadership skills, which dramatically lowers the overhead cost of operating the Community Foundation, including the investment of funds. And, professional executive staff makes it all happen!

Investing with Conviction

The Community Foundation's Investment Committee is responsible for advising all Foundation investment decisions. The Committee is governed by the Foundation's Board of Directors and its formal and comprehensive Investment Policy, which is available upon request. The Committee is comprised of up to nine independent volunteer community members and two Community Foundation executives who provide administrative support to the Committee: Bob Jensen, Angela Johnson, David Jones, Jim Stein, Mike Wilson, Chair Mel McMains and staff Charla Schafer, President, and Amy Henson, Accounting Manager.

The Community Foundation does not utilize any outside independent investment advisors at this time, but may choose to do so in the future. All independent volunteer committee members are active community leaders who have been selected for their professional financial and investment expertise AND extensive record of community service which gives them a deep-seated understanding of the serious fiduciary responsibility inherent in investing donor monies. The Committee meets routinely on a quarterly basis, but is also available on an ad hoc basis, as warranted.

The Investment Committee has adopted and faithfully practices time-tested and proven investment philosophies and strategies that are summarized in this document. ***It is primarily about employing investment discipline!***

Foundation funds are pooled for investing purposes. The power of pooling enables greater buying power than would be possible by any individual investor. This allows for investing in a wider range of securities more effectively than would be possible by any investor on their own which also has huge portfolio diversification benefits.

In addition, this larger investment pool also enables having more professional fund management who does the daily and longer-term work of supporting the investment strategy, executing trades, filing the needed paperwork and recordkeeping, monitoring fund holdings and performance, and conducting in-depth research and analysis to investigate new opportunities while pursuing investment goals.

On average, the Community Foundation charges a modest 1% per annum service fee on all funds invested to partially offset the cost of providing all donor services, not just investment-related services.

Investment portfolios are diversified into various asset classes and investment sectors of the financial market to average the returns, minimize risk and to mitigate loss. This is recognition that individual asset class and sector values tend to go up and down at different times which allows an investor to reduce risk and participate in the potential rewards each market offers over time. Investment portfolios employ fixed income and equity investments, domestic and international investments, and targeted asset/security allocation mixes.

- The favored short-term fixed income investments are laddered bank certificates of deposit and short-term mutual bond funds with a preference for bond index funds.
- The favored long-term fixed income investments are a broad mix of short-, intermediate- and long-term mutual bond funds again with a preference for bond index funds.
- The favored equity investments are a broad mix of quality mutual funds representing various sectors of the equity market again with a preference for equity index funds.
- Primarily employs a “buy and hold” long-term investment strategy.
- The favored fund vendor is The Vanguard Group, Inc. selected for its broad product offering of mutual and exchange-traded funds, low administrative fees, exceptional fund performance, and sterling reputation.

Because of their charitable nature, the investment of all Foundation funds are exempt from federal and state income taxes thus no tax reporting is required. It also means that there is no need to invest in lower yielding tax-free securities.

The Investment Committee Charter follows which documents the core investment principles the Committee is faithfully committed to in its investing of Foundation assets.

INVESTMENT COMMITTEE CHARTER

Core Investment Principles

- ***Capitalism:*** an enduring belief in capitalism and how free capital markets function.

- ***Capital Markets:*** belief that capital markets are relatively efficient, that is, capital markets discount, or reflect, all widely known information at all times.

- ***Simplicity:*** keeping investment strategies and models as simple and straightforward as possible.

- ***Passive Investing:*** a belief in an investment strategy involving limited ongoing buying and selling actions – purchasing investments with the intention of long-term appreciation and limited maintenance.

- ***Equities:*** an ardent belief in equities – they have proven to deliver the highest net investment returns over time compared to any other investment alternative, but invest with a conservative bias. Since 1928, stocks have returned an average 9.7% per year.

- ***Quality:*** invest in quality investments and proven mutual funds or exchange-traded funds and favor passive low-cost index funds.

- ***Time:*** time in the market is what matters, not timing! Favor a "buy and hold" long-term investment strategy, utilizing dollar-cost averaging whenever possible, and staying fully invested at all times.

- ***Pooling:*** pooling funds benefits all investors through economies of scale, investment diversification, and investment return.

- ***Diversification:*** diversify each investment portfolio not to boost performance – it won't ensure gains or guarantee against losses – but to help set the appropriate level of risk for the investment's time horizon, financial goals, and tolerance for portfolio volatility. Diversification can be achieved by investing in different types of investments, styles of investment, by capitalization, by sectors, and by geography.

- ***Asset Mix/Rebalance:*** employ asset allocation target mixes, faithfully ladder fixed income securities and routinely monitor and rebalance investment portfolios to their respective model portfolio.

- ***Earnings:*** earnings drive investment valuations. Funds and stock prices may deviate from a reasonable relationship to profits in the short-term, but in the long-term, they match up fairly well.

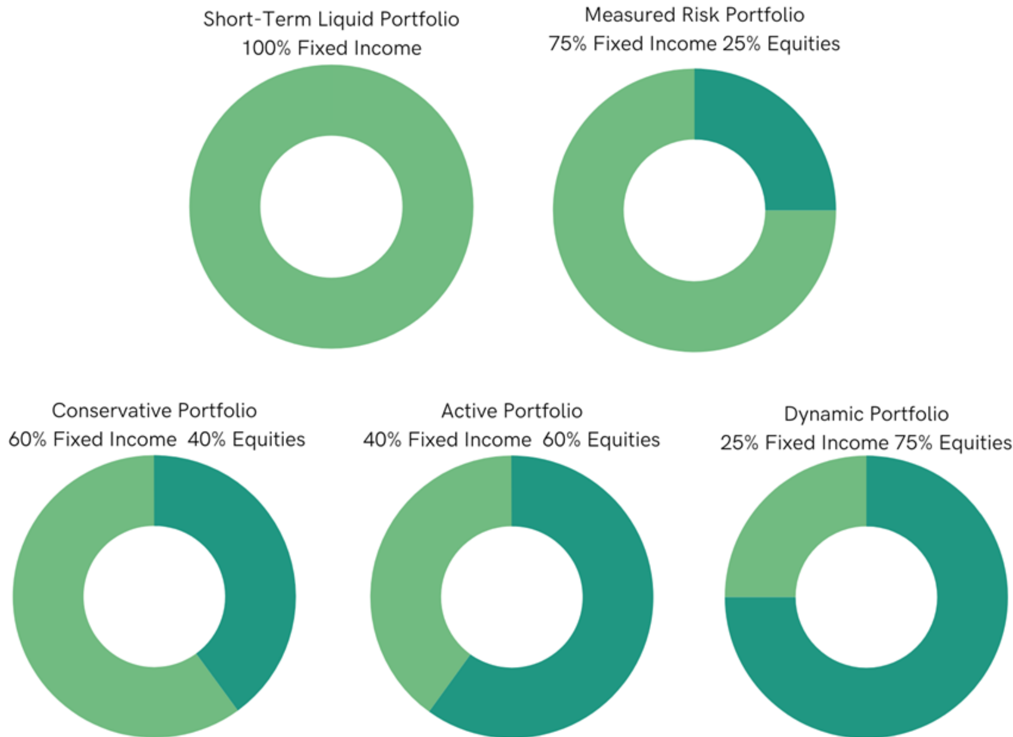
- ***Market Risk:*** it is a certainty that investment returns will fluctuate! The U.S. stock market historically drops by 5% or more several times a year, 10% about once every 15 months, and periodically a major market correction of 20% or more about once every five years. Even following time-proven investment principles does not assure a profit or protect against a loss in a declining market and past performance is no guarantee of future results.

- ***Confidence:*** finally have confidence that patience and exercising good investment judgment will be rewarded.

The effectiveness of applying these core investment principles is highly dependent on employing unnerving "investment discipline" to faithfully apply them regardless of the prevailing or anticipated broader economic/financial environment.

MODEL PORTFOLIO OPTIONS

The Community Foundation currently has two short-term and three long-term model investment portfolios available to donors. In addition, new portfolios may be designed and added to address special investment needs. Regardless of the investment portfolio, they all have a comparatively conservative investment bias although each intentionally represents a different risk/return profile.



Description of Short-Term Model Investment Portfolios

The Foundation's two current short-term model portfolios are: Liquid and Measured-Risk. They are the Foundation's most conservative portfolios – both are heavily weighted in fixed income securities and favor insured certificates of deposit.

The Foundation pools short-term funds that allow it to spread investments over a larger diversified pool of short-term investment securities and to make higher denomination investments that typically earn a higher interest rate than if a lesser amount was invested. In addition, the duration of laddered certificates of deposit are managed to earn a higher return. The primary objectives of these short-term model portfolios are to maintain fund liquidity, conservatively protect asset principal from loss, while earning income that will be sufficient to offset inflation.

The investment risk/return of all short-term portfolios are managed through a combination of four different conservative asset allocation strategies:

(1) the percentage of the portfolio allocated to no-risk or modest risk short-term fixed income securities and balanced equity mutual funds;
(2) the duration of the certificates of deposit and mutual bond funds;
(3) the specific fixed income and equity investment security selections included in each portfolio; and
(4) the targeted allocation mix assigned to each investment security.

A component fund may be invested in one or a combination of short-term model and long-term model portfolios.

<u>Short-Term Liquid Model Portfolio – 100% Fixed Income Investments</u>

This is the Foundation's most conservative investment model portfolio and is most applicable for the investment of short-term assets when liquidity and security of principal are of paramount importance and investment return is secondary. As a guideline, this model portfolio was designed to conservatively invest assets for up to two years or less.

This model portfolio in normal short-term interest rate environments would typically invest as much as 95% of its assets in insured risk-free certificates of deposit (CDs), but during periods when interest rates are abnormally low and uncompetitive, this portfolio may reduce its CD allocation percentage to a minimum of 80% and invest up to 15% of its assets in a short-term inflation-protected securities index mutual fund. While CDs are the preferred fixed income security for this portfolio, there are times when CD interest rates are so low that they need support.

The short-term inflation-protected securities index mutual fund is capped at a maximum 15% target and the money market mutual fund at 5%. While these two securities are not insured against a loss of principal, this risk is believed to be quite low. As a practical matter, this portfolio will make every reasonable effort to maximize CD investments because they are insured.

The short-term investment goal is to match or exceed the prevailing interest rate on risk-free short-term certificates of deposits prior to charging the Foundation's applicable annual service fee.

<u>Short-Term Measured-Risk Model Portfolio – 75% Fixed Income Investments & 25% Equities</u>

The primary driver of investment returns on specific fixed income short-term securities are prevailing interest rates. For this reason, it is prudent for a fixed income-oriented investment portfolio to encompass a combination of short-term securities that provides investment flexibility to reallocate assets between or among such securities as interest rates rise and fall. This portfolio offers an opportunity to more effectively manage through changing interest rate cycles rather than to surrender to them.

This short-term model portfolio is designed with a flexible conservative investment profile by:

(1) providing a broader range of conservative short-term securities to invest in;
(2) by broader security goal ranges; and
(3) allocating as much as 25% of the portfolio between two conservative balanced mutual equity funds.

However, it is important to also recognize that these advantages add more investment risk than a portfolio strictly or principally invested in risk-free certificates of deposit. This portfolio is likely to be most attractive for the investment of "longer" short-term assets that are <u>not</u> anticipated to be needed for a 3-5 year time period versus invested assets that may be needed sooner.

The short-term investment goal is to exceed the prevailing interest rate of certificates of deposit by 2%-3% prior to charging the Foundation's applicable annual service fee.

Description of Long-Term Model Investment Portfolios

The three current long-term model investment portfolios: Conservative Growth, Active Growth and Dynamic Growth, all invest in many of the same or similar investment securities, but with different asset allocation mixes (percentages). The purpose of fund and mix differences is to change the investment risk/return character of the portfolios. So, each of the model portfolios is intentionally designed to offer a different risk/return profile.

The investment risk/return of all long-term model portfolios are managed through a combination of three different asset allocation mixes: (1) the percentage of the portfolio allocated between fixed income and equity securities; (2) the specific investment security selections included in each portfolio; and (3) the targeted allocation mix assigned to each investment security.

A component fund may be invested in one or a combination of short-term model and long-term model portfolios.

Conservative Growth Model Portfolio – 60% Fixed Income Investments & 40% Equities

This model portfolio is designed to be a more conservative long-term investment portfolio option with its 60% fixed income allocation and 40% equity allocation.

It employs similar fixed income and equity securities as the much larger Active Growth Portfolio, but with different target mixes. Its fixed income securities represent a broad mix of short- and intermediate-term mutual bond funds. Its equity securities include a diversified mix of mutual equity funds with a definite conservative orientation. The portfolio invests principally in domestic securities, but it does have a 5.0% international target allocation to further broaden its diversification.

This model portfolio provides the opportunity for long-term assets to be invested with a strong conservative bias yet provide important potential portfolio asset growth that has historically been attributed to equity securities.

The long-term investment goal of this portfolio is to exceed the annual rate of inflation by a minimum of 2% with a longer-term target of a compounded annual growth rate of 5-7% prior to charging the Foundation's applicable annual service fee.

Active Growth Model Portfolio – 40% Fixed Income Investments & 60% Equities

This portfolio is the "default" long-term investment portfolio for continuing charitable funds, endowment funds, and unrestricted Foundation funds for long-term capital growth.

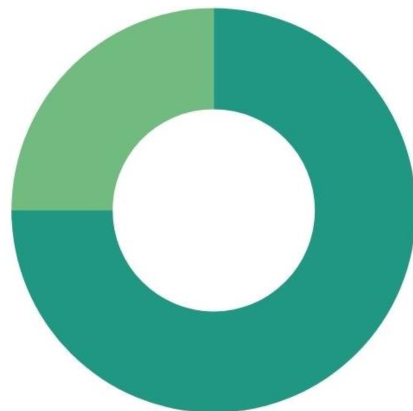
Most Community Foundation long-term assets are currently invested in this model portfolio. It is comprised of approximately 40% fixed income investments and 60% equity investments.

This model portfolio with its increased security allocation to equities is most applicable for the investment of long-term assets that are seeking long-term growth, but yet preserves the downside protection of the more conservative fixed income securities.

This model portfolio encompasses a broad mix of fixed income short-, intermediate- and long-term mutual bond funds and a broad mix of mutual equity funds including a 10.0% international allocation target.

The long-term investment goal of this portfolio is to exceed the annual rate of inflation by a minimum of 2% with a longer-term target of a compounded annual growth rate of 7-9% prior to charging the Foundation's applicable annual service fee.

Dynamic Growth Model Portfolio – 25% Fixed Income Investments & 75% Equities



This is a bolder "growth-oriented" long-term investment model for the investment of continuing charitable funds, endowment funds, and unrestricted Foundation funds invested for long-term capital growth.

These are funds that can tolerate the volatility of the equity market with expectations of benefiting from the higher long-term capital appreciation that equities have historically delivered.

It consists of approximately 25% fixed income and 75% equity securities including several higher risk/return equity securities. The selection of this model portfolio should be done with caution and with a clear recognition of its increased investment risk.

This model portfolio is the Foundation's most aggressive portfolio partially due to its asset allocation between fixed income and equity securities, the particular securities chosen in each instance, and by their respective investment targets. This portfolio has an 18.0% international allocation target that includes emerging markets. This model portfolio was designed for the portion of long-term assets invested responsibly with a "growth focus" that can tolerate periodic market valuation changes.

The long-term investment goal of this portfolio is to exceed the annual rate of inflation by a minimum of 2% with a longer-term target of a compounded annual growth rate of 9-11% prior to charging the Foundation's applicable annual service fee.

Rebalancing Actual Portfolios to their Respective Model Portfolio

Each model portfolio, both short- and long-term, essentially represents the "portfolio index" for its respective portfolio. In other words, each model portfolio represents the "targeted" investment securities and mix for its portfolio.

Normal and routine operational portfolio inflows and outflows coupled with ongoing dynamic market valuation changes inevitably cause the actual portfolio to get out-of-balance with its respective model portfolio. So this out-of-balance situation requires periodic rebalancing of the actual portfolio back to its model portfolio.

Because the investment securities mix between the model and actual portfolios cannot be realistically maintained exactly the same at all times, the portfolio returns of the two portfolio versions will be inevitably different – both are routinely calculated and reported.

The Foundation's Investment Committee routinely focuses on evaluating the performance of its various model portfolios since they are much easier to evaluate because they are static models, but at the same time it also monitors the actual performance of each investment portfolio to make its determination for needed rebalancing. When a rebalancing decision is made, the actual portfolio security mix of the particular portfolio is then reset to reflect its model "portfolio index" which necessitates buying/selling securities.

Reporting of Actual Investment Portfolio Performance to Donors

Actual investment portfolio performance and Foundation management fees for all model portfolios for the current year are communicated to donors via an account statement at least semi-annually. Actual gross model investment portfolio performance for each model portfolio, before management fees, is also posted quarterly on the Foundation's "About Us" page on its website at: www.givinggreater.org.

The Foundation also welcomes donors to call, email, or stop by the office at any time if there are questions or additional information is desired. Or, if a donor prefers, a Foundation management representative will be happy to schedule a time to personally meet with donor representatives to answer any questions.

The Reward!

The Foundation firmly believes making good quality diversified investments as represented by its model investment portfolios represent the best investment offense and defense. Discipline, patience, confidence and exercising good commonsense judgment will be rewarded.

INVESTING WORDS OF WISDOM

"The stock market is the only market where things go on sale and all the customers run out of the store." *Nick Murray, July 2020, Client's Corner, Beware the Confirmation Bias*

"All of us would be better investors if we just made fewer decisions." *Nick Murray, August 2020, Client's Corner, Don't Just Do Something: Stand There*

THE FOUNDATION'S INVESTMENT SECURITIES OF CHOICE

The Foundation's investment securities of choice are a combination of certificates of deposit and mutual funds, specifically money market, bond and equity mutual funds. These core investment products were chosen to help manage investment risk.

Stocks are generally riskier than bonds, so an equity fund tends to be riskier than a fixed income fund. Some specialty equity funds may focus on certain kinds of investment such as emerging markets or a specific market sector such as international securities to try to earn a higher return, but they also have a higher investment risk. And, even within a fixed income portfolio, some bonds are riskier than others such as longer-duration bonds and bonds in general are higher risk than government guaranteed certificates of deposit. **The Foundation chose the highly regarded Vanguard Group as its mutual fund company of choice.** Vanguard administers all Foundation mutual funds.

Good fundamental investing is all about maximizing return while minimizing risk. To do so requires an understanding of financial objectives, risk tolerance, and the historical performance of an equity and fixed income portfolio by different asset weightings.

The fact is that every saving and investment product has a different risk and return. Investment risk is inescapable so it needs to be managed. The Foundation offers a variety of model portfolios and each is designed to have a different risk/return profile. It is important to appreciate that equities (stocks) are unmatched in terms of return in comparison to any other investment product. They are the leading way to make money and stay ahead of inflation over time. So equities have proven to be the best investment choice to achieve a long-term investment goal.

Why did the Foundation choose mutual funds rather than some other type of investment product? **Mutual funds automatically offer a wide range of benefits** including diversification, are professionally managed, come in many varieties, are simple to understand, highly accessible, transparent, liquid, have comparatively low administration costs, and have an audited track record. These benefits individually and collectively make mutual funds particularly attractive. In addition, as a result of pooling assets, the Foundation generally qualifies for using the "Admiral" version of Vanguard funds that carries the company's lowest annual management fee.

The Foundation has a definite investment bias toward "index" bond and equity funds versus "managed" bond and equity funds, but it has both. Indexing is a passive form of fund investing that has been successful in outperforming most actively managed mutual funds. While the most popular index bond and equity funds track the S&P 500 there are many other indexes including a wide variety of "spliced index" benchmarks used for both bond and equity mutual funds. There is an appropriate performance benchmark for each and every mutual fund whether it is indexed or managed.

The primary advantage of an index fund is its lower management expense ratio, which increases its return. Since fund managers of an index fund are simply replicating the performance of a benchmark index, the computer does the replicating so the services of research analysts and others that assist in the stock selection process are simply not needed. Whereas, actively managed funds do need to utilize a research team and incur the increased cost. In all cases, the costs of fund management get reflected in the fund's expense ratio and are netted out of the fund's return to shareholders.

The Foundation's Investment Committee does have the option to also utilize exchange-traded funds (ETFs) in addition to mutual funds, but so far has only utilized mutual funds, but does periodically compare the relative performance of both options. Vanguard offers both mutual and ETF funds.

Risk-Return Tradeoff

The risk-return tradeoff is the balance between the desire for the lowest possible risk and the highest possible return. In general, low levels of uncertainty (low risk) are associated with low potential returns and high levels of uncertainty (high risk) are associated with high potential returns. Each investor must decide how much risk they are willing and able to accept for a desired return. But, it's important to keep in mind that higher risk doesn't automatically equate to higher returns. The risk-return tradeoff only indicates that higher risk investments have the possibility of higher returns – but there are no guarantees.

Investing involves risk and there is no escaping this reality. The value of investments will fluctuate and principal can be lost. There are special risks inherent to international and emerging market investing, including currency fluctuations and foreign political and economic events. Even cash is not risk free -- there's inflation and changes in interest rates! There are also risks to not investing such as not reaching long-term goals.

The most effective way to manage investment risk is through diversification

The most effective way to manage investment risk is through diversification. Although diversification won't ensure gains or guarantee against losses, it does provide the potential to improve returns based on the target level of risk. Finding the right balance between risk and return helps ensure the achievement of financial goals while still being able to get a good night's sleep.

Fixed Income Securities

The only zero risk investments are bonds held to maturity, bank money market accounts and CDs where the FDIC/NCUA guarantees up to $250,000 in losses.

The Foundation's fixed income securities encompass money market funds, laddered certificates of deposit and a variety of short-, intermediate- and long-term mutual bond funds.

Money Market Funds: these funds invest in short-term fixed income securities such as government bonds, treasury bills, bankers' acceptances, commercial paper and certificates of deposit. This type of fund is primarily used by the Foundation to temporarily invest money until the longer-term investment decision is made and/or to hold assets that are anticipated to be disbursed near-term.

Laddered Certificates of Deposits and Mutual Bond Funds: these securities work similarly in that both investments generate income. A CD ladder is a way of setting up multiple CDs so they mature at staggered intervals. Each time a CD matures, there is an opportunity to access the money or to reinvest it. A CD ladder will usually earn higher interest rates without sacrificing accessibility. Bondholders and CD account holders are creditors who lend money to businesses, governments or banks, in return for interest payments. However, while bond funds and CDs have many similarities, these two investment types differ in major ways.

CDs and mutual bond funds entail lower levels of risk than investing in equities while also producing interest income. However, they are not identical. Things such as rising interest rates, inflation and changes in the market can affect them differently. Both are affected by the current interest rate environment, albeit differently.

When the Federal Reserve institutes rate hikes, banks typically increase CD rates correspondingly. A higher rate translates to more interest earned. Conversely, when interest rates are low, the rates on CDs drop, meaning lower yields for investors. In other words, rising interest rates are a good thing for CD investors.

That's not necessarily the case for mutual bond fund investors. Bonds and interest rates typically have an inverse relationship. When rates are low, bond prices are high; when rates rise, bond prices fall. If mutual bond funds are owned in a rising rate environment, the prices of those bond funds will decline and the investor can actually experience a loss of principal in the bond fund. The only way for a bond investment to eliminate interest rate risk is to buy the bond and hold it until maturity, but this cannot be done through a mutual bond fund so with a mutual bond fund interest rate is a risk factor to be considered.

However, not all mutual bond funds are affected equally by rising interest rates. Mutual bond funds that have a longer average maturity term tend to see more of an impact than those with a shorter term. A 10-year average bond fund, for example, will be more sensitive to changes in interest rates than a 2-year bond fund. If the bond fund is primarily composed of long-term bonds, the returns from CDs could easily outpace bond yields in the short-term.

The Foundation primarily invests in U.S. investment-grade mutual bond funds: short-term, intermediate-term and long-term and both indexed and managed and representing different sectors of the bond market. For additional information on the Foundation's specific bond funds, please refer to the "Model Portfolios" in this document. Inflation is also an investment factor. When inflation rises steadily, the higher returns from CDs may have trouble keeping up. Rising consumer prices can also negatively impact the real rate of return from bonds, shrinking investors' purchasing power. When higher inflation is combined with rising rates, bond investors can experience a double hit. Aside from returns, the safety and liquidity of CDs versus mutual bonds is another key consideration. All things being equal, CDs and mutual bonds are both safer than mutual equity funds or stocks. But when interest rates rise, bonds may become more of a gamble if their yield potential is diminished.

In short, there's a high probability of not getting a positive return on a mutual bond fund when interest rates rise. CDs insured by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) are at the other end of the risk spectrum. Even if the bank issuing a CD goes bankrupt, the funds are insured by a government-chartered agency for up to $250,000 per depositor, per financial institution. Effectively, CDs have a government guarantee that the CD owner won't lose money. It is the Foundation's investment practice to take advantage of the FDIC and NCUA guarantees to the extent practicable which requires it to invest CDs with a multitude of financial institutions in order to keep each institution under the insured limit.

An advantage that mutual bond funds have over CDs is liquidity. While it's possible to liquidate a CD, banks often charge a penalty for doing so ahead of the CD's maturity date. Turning a mutual bond fund into cash is easy, simple and without penalty.

The Bottom Line

CDs and mutual bond funds are attractive to investors for different reasons but whether to invest in one over the other often hinges on what's happening in the broader market. When interest rates rise, for instance, bonds may lose some of their luster, while CDs grow more appealing. On the other hand, investing in short-term mutual bonds may offer greater liquidity than a CD, while still producing solid yields. Weighing the advantages and disadvantages of both against the backdrop of where the market is currently – and where it's headed – can help determine where to put investment dollars.

Equity Securities

The Foundation's equity securities of choice encompass both indexed and managed mutual equity funds that collectively represent a wide range of market sectors both domestically and internationally. While the Foundation currently only invests in mutual equity funds, as noted earlier, it also has the option to invest in exchange-traded funds (ETFs) if deemed to be more favorable.

An ETF, or exchange-traded fund, is a marketable security that tracks a stock index (most common), a commodity, bonds, or a basket of assets. Although similar in many ways, ETFs differ from mutual funds because shares trade

like common stock on an exchange. The price of an ETF's shares will change throughout the day as they are bought and sold whereas mutual funds are priced at the end of each trading day.

The Vanguard Group offers both ETFs and mutual funds, but offers many more mutual fund choices than ETFs and most of their ETFs mirror a sister mutual fund. The Investment Committee periodically compares the historical performance of its mutual funds against their respective sister ETF's to validate its on-going selection of mutual funds.

A mutual fund is at its core a managed portfolio of equities and/or bonds. Mutual fund companies like The Vanguard Group bring together a large group of people and invest their money on their behalf in a mutual fund portfolio. Each investor owns shares of the mutual fund, which represent a portion of its holdings. A share of a mutual fund represents investments in many different equities or entities (or other securities) instead of just one holding. The investment challenge is to select mutual funds to provide portfolio diversification while also managing risk.

The Foundation's long-term equity mutual funds encompass large, medium and small companies, U.S., international and foreign owned-companies, conservative dividend companies, REITs, and emerging market companies. These funds collectively provide broad investment diversification. Equity mutual funds typically differ from one another by performance measure and investment style and sector. Please refer to the "Model Portfolios" in this document for more specific investment style, sector and fund benchmark/index information applicable to each portfolio.

The Investment Committee tracks over seventy Vanguard and a few select non-Vanguard fixed income and equity mutual funds each quarter to facilitate routinely comparing the on-going performance of its particular mutual fund selections to other similar fund options. Both long-term and short-term fund performance are tracked. This administrative process permits the Committee to be confident its fund selections continue to be top performers.

The long-term investment nature of the Foundation's endowment funds help immensely to manage the investment impact of inevitable stock market downturns. Downturns have always been followed by market recoveries, but it typically requires time and patience so not having to cash-in investments during the downturn is a huge advantage in terms of protecting longer-term fund performances.

But, there is a reason every investment firm diligently discloses in its promotional literature a statement along the lines of "past performance of an investment is no guarantee of its future performance." This is an honest recognition that the future really is basically unknowable. Investment performance at any point in time is dependent on a multitude of factors and many, if not most, are unpredictable. ***The reality is that the market is more volatile than companies and investor emotions are the most volatile of all.***

The Foundation's fixed income and equity securities represent money market funds, certificates of deposit, bond mutual funds and equity mutual funds that can be further differentiated such as balanced, indexed, managed, domestic, international, large-, mid-size, -small, growth, value, balanced, etc. While Foundation equity portfolios invest primarily in domestic securities each long-term model portfolio does have an international allocation target consistent with its respective risk/return profile. The Foundation, by pooling its large base of assets, gives it the advantage of participating in this wide range of investments that ultimately works to financially benefit all.

The Bottom Line

Given the long-term investment nature of many Foundation funds, investing in equities represents the Foundation's best opportunity to grow its funds. Yes, equities pose a greater investment risk, but history has proven they also yield the greatest return (reward). So, for most long-term funds**, a measured investment in equities is not only appropriate, but a must if the fund is expected to grow with the broader economy.** This is a core investment belief of the Foundation's Investment Committee!

Short-Term Model Investment Portfolios
Portfolio Securities

(**Targeted *% of Portfolio Invested in each Security)***

Investment Securities *	Liquid**	Measured Risk	Morningstar Credit Quality/Interest Rate Risk Sensitivity
Fixed Income:			
Cash/Vanguard Federal Money Market (VMFXX) (A)	5.00%	5.00%	
Certificates of Deposit (CDs)**	95.00%	30.00%	FDIC/NCUA Insured
Vanguard S/T Inflation-Protected Securities Idx (VTAPX) (B)	0.00%	10.00%	High/Limited
Vanguard Ultra-S/T Bond (VUSFX) (C)		10.00%	Medium/Limited
Vanguard S/T Federal (VSGDX) (D)		10.00%	High/Limited
Vanguard S/T Investment Grade (VFSUX) (E)		10.00%	Medium/Limited
Vanguard S/T Treasury Index (VSBSX) (F)		0.00%	High/Limited
Vanguard S/T Bond Index (VBIRX) (G)		0.00%	High/Limited
Total Fixed Income	**100.00%**	**75.00%**	
Equities:			**Morningstar Investment Style/Category**
Vanguard Wellesley Income (VWIAX) (1)		15.00%	Mid/Moderate (30%-50% Equity)
Vanguard Wellington (VWENX) (2)		10.00%	Mid/Moderate (50%-70% Equity)
Total Equities	**0.00%**	**25.00%**	
Total Portfolio	**100.00%**	**100.00%**	

** All of the above securities and investment targets are approved for use within the respective portfolios, but typically not all will be used at the same time. The selection of investment securities and their respective targeted mix percentages may change over the course of time due to changing market conditions and expectations: most especially when there is an extended change in level of interest rates. However, such portfolio revisions are anticipated to be very infrequent.*

*** During normal short-term interest rate environments, this model portfolio is designed to have 95% of its assets invested in insured risk-free certificates of deposit (CD's). But, during periods of extraordinarily low short-term interest rates approaching zero other select conservative securities may also be needed. In this instance, a conservative short-term inflation-protected securities index mutual bond fund may be utilized to supplement short-term CDs. But, even with these supplemental securities, it is still possible that some assets may be invested in securities earning a zero or near-zero interest rate to protect their principal.*

Fund Benchmarks/Index

(A) US Gov't Money Market Funds Average
(B) Bloomberg US 0-5 Year TIPS Index
(C) Bloomberg US Treas Bellwether:1Yr.
(D) Bloomberg US 1-5 Yr Government Idx
(E) Bloomberg US 1-5 Year Credit Index
(F) Spl Bloomberg US Treas 1-3 Yr Idx
(G) Spl Bloomberg US1-5YrGov/Cr FlAdjlx

(1) Wellesley Income Composite Index
(2) Wellington Composite Index

Long-Term Model Investment Portfolios
Portfolio Securities

(Targeted *% of Portfolio Invested in each Security)*

Investment Securities	Conservative Growth	Active Growth	Dynamic Growth	Morningstar Credit Quality/Interest Rate Sensitivity
Fixed Income:				
Vanguard Federal MM Fund & Bank MM (VMFXX) A	5.00%	5.00%	2.00%	
Vanguard S/T Inflat-Protect Sec Indx Adm (VTAPX) B	10.00%	4.00%		High/Limited
Vanguard S/T Investment Grade Adm (VFSUX) C	9.60%	4.80%		Medium/Limited
Vanguard Inflation-Protected Index Adm (VAIPX) D	16.80%	9.00%	3.50%	High/Moderate
Vanguard Core Bond Fund Adm (VCOBX) E	6.60%	6.80%	6.00%	Medium/Moderate
Vanguard I/T Bond Index Fund Adm (VBILX) F	6.00%	6.80%		Medium/Moderate
Vanguard Total Bond Mkt Index Adm (VBTLX) G	6.00%		3.00%	High/Moderate
Vanguard High-Yield Corporate Adm (VWEAX) H			6.00%	Low/Limited
Vanguard Long Term Bond Index Adm (VBLAX) I		3.60%	4.50%	Medium/Extensive
Total Fixed Income	**60.00%**	**40.00%**	**25.00%**	
				Morningstar Investment Style/Category
Equities:				
Vanguard 500 Index Fund Adm (VFIAX) 1	14.00%	18.00%	15.00%	Large Blend/Large Cap
Vanguard Mid Cap Index Adm (VIMAX) 2	3.00%	4.50%	6.00%	Mid Blend/Mid Cap
Vanguard Mid Cap Value Index Adm. (VMVAX) 3	3.00%	4.50%	6.00%	Mid Value/Mid Cap
Vanguard Small-Cap Index Fund Adm (VSMAX) 4	3.00%	4.50%	6.00%	Small Blend/Small Blend
Vanguard Small Cap Value Index Adm (VSIAX) 5	3.00%	4.50%	6.00%	Small Value/Small Value
Vanguard Total International Stk Indx Adm (VTIAX) 6	2.00%	5.55%	7.50%	Large Blend/Foreign
Vanguard International Value (VTRIX) 7	2.00%	3.50%	5.50%	Large Value/Foreign
Vanguard Wellington Fund Adm (VWENX) 8	4.00%	1.25%		Large Value/Balanced
Vanguard Windsor II Adm (VWNAX) 9	1.00%	3.00%	6.00%	Large Value/Domestic
Vanguard Div. Appreciation Index Adm (VDADX) 10	2.00%			Large Blend/Domestic
Vanguard High Dividend Yield Index (VHYAX) 11	2.00%	2.85%		Large Value/Large Value
Vanguard Growth Index Fund Adm (VIGAX) 12	1.00%	2.00%		Large Growth/Domestic
Vanguard Dividend Growth Fund (VDIGX) 13		2.85%		Large Blend/Domestic
Vanguard Real Estate Index Fund Adm (VGSLX) 14		3.00%	6.00%	Mid Blend/Sector
Vanguard U.S. Growth Fund Adm (VWUAX) 15			6.00%	Large Growth/Domestic
Vanguard Emerging Mkts Stk Index (VEMAX) 16			5.00%	Large Blend/Diver Emerg
Total Equities	**40.00%**	**60.00%**	**75.00%**	
Total Portfolio	**100.00%**	**100.00%**	**100.00%**	

Both the selection of investment securities and their respective targeted mix percentages in the portfolios have and do change over the course of time due to changing market conditions and expectations. However, such portfolio changes have been and are anticipated to be very infrequent.

Fund Benchmark/ Indexes

(A) US Gov't Money Market Funds Average
(B) Bloomberg US 0-5 Yr TIPS Index
(C) Bloomberg US 1-5 Yr Credit Index
(D) Bloomberg US Trsy Inflat Prtcd Idx
(E) Bloomberg US Agg Float Adj Index
(F) Spl Bloomberg US 5-10YR G/CR FltAdj
(G) Bloomberg US Agg Flt Adjlx
(H) High-Yield Corporate Composite Index
(I) Spl Bloomberg USLongGv/Cr Fit Adj lx

1 S&P 500 Index
2 Spliced Mid Cap Index
3 Spliced Mid Cap Value Index
4 Spliced Small Cap Index
5 Spliced Small Cap Value Index
6 Spl Total International Stock Idx
7 Spliced International Index
8 Wellington Composite Index

9 Russell 1000 Value Index
10 Spl S&P US Dividend Growers Idx TR
11 FTSE High Dividend Yield Index
12 Spliced Growth Index
13 Dividend Growth Spliced Index
14 Real Estate Spliced Index
15 Russell 1000 Growth Index
16 Spliced Emerging Markets Index

MODEL PORTFOLIO ANALYTICS

Model Portfolios Condensed as of December 31, 2022

Short-Term Portfolios
S/T Liquid: normally 95% invested in certificates of deposit (CDS) and 5% invested in a money market account. But, during periods when interest rates are abnormally low and uncompetitive, it may invest a maximum of 15% of assets in a short-term inflation-protected securities index fund.
S/T Measured Risk: asset allocation varies with market conditions and expectations, but approximately 5% money market, 30% certificates of deposit, 40% short-term mutual bond funds, and 25% conservative "balanced" mutual equity funds.

Long-Term Portfolios
L/T Conservative Growth (60%/40%): approximately 60% fixed income with mix of money market, short- and intermediate-term mutual bond funds and 40% in a broad mix of diversified equity mutual funds.
L/T Active Growth (40%/60%): this portfolio serves as the "default portfolio" and is composed of approximately 40% fixed income with a mix of money market, short- and intermediate-term mutual bond funds and 60% in a broad mix of diversified equity mutual funds including a modest allocation to international mutual funds.
L/T Dynamic Growth (25%/75%): approximately 25% fixed income with a mix of money market and intermediate- and long -term mutual bond funds and 75% in a broad mix of diversified equity mutual funds including an allocation to international and emerging markets.

Short-Term Model Portfolio Securities: Index vs. Managed Funds

Model Portfolio	% Index Funds	% Managed Funds	Total Portfolio
Liquid	0.00%	100.0%	100.0%
Measured-Risk	10.0%	90.0%	100.0%

Long-Term Model Portfolio Securities: Index vs. Managed Funds

Model Portfolio	% Index Funds	% Managed Funds	Total Portfolio
Conservative Growth			
Fixed Income	*38.8%*	*21.2%*	*60.0%*
Equities	*33.0%*	*7.0%*	*40.0%*
Total	*71.8%*	*28.2%*	*100.0%*
Active Growth			
Fixed Income	*23.4%*	*16.6%*	*40.0%*
Equities	*49.4%*	*10.6%*	*60.0%*
Total	*72.8%*	*27.2%*	*100.0%*
Dynamic Growth			
Fixed Income	*11.0%*	*14.0%*	*25.0%*
Equities	*57.5%*	*17.5%*	*75.0%*
Total	*68.5%*	*31.5%*	*100.0%*

Short-Term Model Investment Portfolios: Sector Exposure (Morningstar)

As of December 31, 2022

Short-Term Liquid Model Portfolio (100% Fixed Income Funds)

Fixed Income Sector Exposure (100.00%)

Sector	Exposure
Government	95.00%
Cash & Equivalents	5.00%
Total	100.00%

Short-Term Measured-Risk Model Portfolio (75.00% Fixed Income & 25.00% Equity Funds)

Fixed Income Sector Exposure (75.00%)

Sector	Exposure
Government	54.93%
Municipal	0.00%
Corporate	13.79%
Securitized	3.09%
Cash & Equivalents	2.95%
Other	0.24%
Total	75.00%

Equity Sector Exposure (25.00%)

Sector	Exposure
Basic Materials	0.70%
Consumer Cyclical	2.11%
Financial Services	4.18%
Real Estate	0.51%
Communication Services	0.78%
Energy	2.10%
Industrials	2.68%
Technology	3.23%
Consumer Defensive	2.73%
Healthcare	4.42%
Utilities	1.56%
Total	25.00%

Long-Term Model Investment Portfolios: Sector Exposure (Morningstar)

As of December 31, 2022

Long-Term Conservative Growth Model Portfolio (60.00% Fixed Income & 40.00% Equity Funds)

Fixed Income Sector Exposure (60.00%)

Sector	Exposure
Government	41.20%
Municipal	0.07%
Corporate	12.92%
Securitized	4.07%
Cash & Equivalents	1.60%
Other	0.14%
Total	60.00%

Equity Sector Exposure (40.00%)

Sector	Exposure
Basic Materials	1.62%
Consumer Cyclical	4.15%
Financial Services	6.35%
Real Estate	1.80%
Communication Services	2.06%
Energy	2.19%
Industrials	4.92%
Technology	6.74%
Consumer Defensive	2.94%
Healthcare	5.40%
Utilities	1.83%
Total	40.00%

Long-Term Model Investment Portfolios: Sector Exposure (continued)

As of December 31, 2022

Long-Term Active Growth Model Portfolio (40.00% Fixed Income & 60.00% Equity Funds)

Fixed Income Sector Exposure (40.00%)

Sector	***Exposure***
Government	22.74%
Municipal	3.83%
Corporate	9.81%
Securitized	2.66%
Cash & Equivalents	0.58%
Other	0.38%
Total	40.00%

Equity Sector Exposure (60.00%)

Sector	***Exposure***
Basic Materials	2.61%
Consumer Cyclical	6.02%
Financial Services	9.05%
Real Estate	5.71%
Communication Services	2.91%
Energy	3.15%
Industrials	7.46%
Technology	9.10%
Consumer Defensive	4.15%
Healthcare	7.38%
Utilities	2.46%
Total	60.00%

Long-Term Dynamic Growth Model Portfolio (25.00% Fixed Income & 75.00% Equity Funds)

Fixed Income Sector Exposure (25.00%)

Sector	
Government	***Exposure***
Municipal	11.32%
Municipal	0.16%
Corporate	10.10%
Securitized	2.80%
Cash & Equivalents	0.62%
Other	0.00%
Total	25.00%

Equity Sector Exposure (75.00%)

Sector	***Exposure***
Basic Materials	3.49%
Consumer Cyclical	7.92%
Financial Services	11.18%
Real Estate	9.47%
Communication Services	3.86%
Energy	3.74%
Industrials	8.57%
Technology	11.53%
Consumer Defensive	4.27%
Healthcare	8.10%
Utilities	2.87%
Total	75.00%

PORTFOLIO PERFORMANCE REPORTING & METRICS

Tracking & Reporting Investment Performance

The Foundation's Investment Committee routinely reports and monitors the investment performance of each security by comparing its performance against its benchmark and to the performance of similar securities as well as alternative investments. Many of the Foundation's fixed income and equity mutual funds are "index" funds so they are driven by their respective index so its index becomes its performance benchmark. Each "managed" mutual fund also has an established performance benchmark. The Investment Committee determines each model portfolios return quarterly by calculating the weighted average return of its securities.

Each of the Foundation's long-term model portfolios represent a much broader range of asset allocation and diversification and is intentionally designed to be more conservative, especially considering its allocations to fixed income securities, than the two major U.S. equity market indices: S&P 500 Index and Dow Jones Industrial Average (DJIA) which strictly includes only equities. While these two major indexes do not represent reliable benchmarks for evaluating Foundation "*total portfolio returns*," they are useful as a reference point for evaluating the performance of its equity securities. The S&P 500 Index is a market capitalization-weighted index that tracks the performance of 500 U.S. large-cap stocks. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 publicly traded U.S. "blue-chip" stocks.

As noted previously, all of the Foundation's model portfolios have a more conservative bias than a pure equity portfolio given each has a significant allocation to fixed income securities. While the investment risk inherent in fixed income securities can be expected to be less than equities, so are their returns. But this is a prudent investment trade-off given the character of endowment funds. Empowering endowments, using a baseball analogy, is to routinely hit base runs to score rather than go for home runs and strike out more! ***But, it is important to be reminded that compounding growth over time is powerful stuff!***

Foundation Short- and Long-Term Portfolio Gross Historical Annual Performance (2008-2022)

(Prior to Applicable Annual Foundation Service Fees)

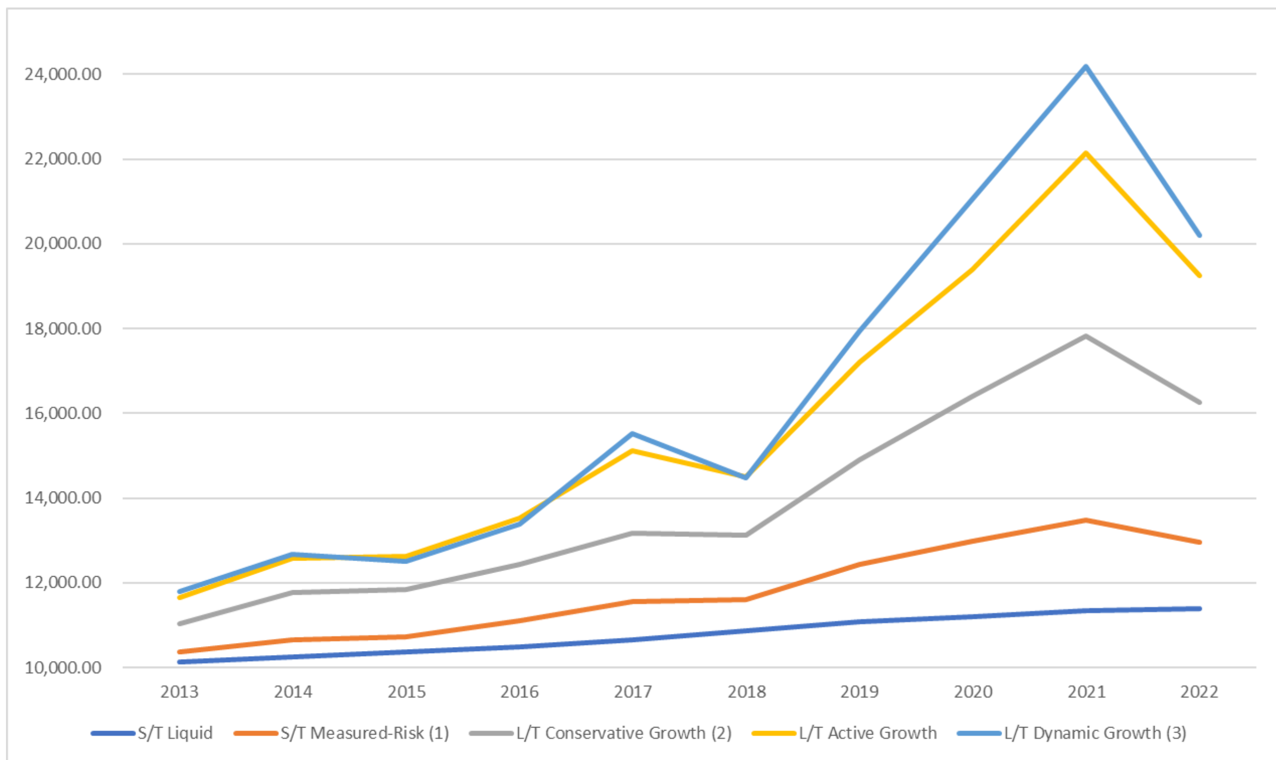
	Foundation Investment Portfolios*					Major National Equity Indices		
Year	**Short-Term Liquid**	**Short-Term Measured Risk***	**Long-Term Conservative**	**Long-Term Active Growth**	**Long-Term Dynamic**	**S&P500**	**S&P500 TR**	**Dow Jones**
2008	2.96%	-2.45%	-12.81%	-21.67%	-29.41%	-38.49%	-37.00%	-33.84%
2009	1.56%	6.80%	15.42%	16.13%	28.60%	23.45%	26.46%	18.82%
2010	1.27%	3.93%	9.43%	9.93%	16.47%	12.78%	15.06%	11.02%
2011	1.11%	2.64%	1.68%	-0.66%	0.04%	0.00%	2.11%	5.53%
2012	1.14%	3.71%	7.99%	8.19%	14.09%	13.41%	16.00%	7.26%
2013	1.29%	3.65%	10.23%	16.39%	17.90%	29.60%	32.39%	26.50%
2014	1.15%	2.73%	6.78%	7.96%	7.42%	11.39%	13.69%	7.52%
2015	1.10%	0.71%	0.58%	0.48%	-1.17%	-0.73%	1.38%	-2.23%
2016	1.25%	3.52%	5.04%	7.13%	6.92%	9.54%	11.96%	13.42%
2017	1.47%	4.00%	5.94%	11.79%	15.92%	19.42%	21.83%	25.08%
2018	2.04%	0.48%	-0.40%	-4.15%	-6.75%	-6.24%	-4.38%	-5.63%
2019	2.03%	7.28%	13.59%	18.78%	24.03%	28.88%	31.49%	22.34%
2020	1.14%	4.39%	10.08%	12.66%	17.35%	16.26%	18.40%	7.25%
2021	1.12%	3.81%	8.71%	14.24%	14.90%	26.89%	28.71%	18.73%
2022	0.42%	-3.59%	-8.84%	-13.08%	-16.48%	-19.44%	-18.11%	8.78%

* Portfolios were launched at different times so performance data is "as if" each portfolio had been launched and effective as of 1-1-2008. (1) Portfolio not made available to donors until 2022 so this portfolio's history is "as if" the portfolio had been launched and effective as of 1-1-2008.

Hypothetical Growth of Foundation Portfolios Assuming $10,000 Invested on January 1, 2013 and Held for Cumulative Growth (10 Years)

Growth Portfolio	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
S/T Liquid	$10,129	$10,245	$10,358	$10,488	$10,642	$10,858	$11,079	$11,206	$11,331	$11,379
S/T Measured-Risk (1)	$10,365	$10,647	$10,724	$11,101	$11,545	$11,600	$12,445	$12,991	$13,486	$12,962
L/T Conservative Growth (2)	$11,023	$11,770	$11,839	$12,435	$13,174	$13,121	$14,904	$16,407	$17,836	$16,259
L/T Active Growth	$11,639	$12,565	$12,626	$13,526	$15,121	$14,493	$17,215	$19,394	$22,156	$19,258
L/T Dynamic Growth (3)	$11,790	$12,665	$12,517	$13,383	$15,513	$14,466	$17,942	$21,055	$24,193	$20,206

(1) Portfolio launched 1-1-2021 so all values shown are "as if" the portfolio had been launched on 1-1-2013
(2) Portfolio launched in 2016 so all values shown prior to 2016 are "as if" the 2016 portfolio had been launched on 1-1-2013
(3) Portfolio launched in 2016 so all values shown prior to 2016 are "as if" the 2016 portfolio had been launched on 1-1-2013



Compounded Annual Growth Rate (CAGR) of Foundation Portfolios *

Growth Portfolio	(2020 – 2022) Last 3-Years	(2018 – 2022) Last 5-Year	(2013 - 2022) Last 10-Years	(2008 – 2022) ** Last 15-Years	Portfolio Investment Goal
S/T Liquid	0.89%	1.35%	1.30%	1.40%	Match or better prevailing interest rate on S/T CD's
S/T Measured-Risk	1.37%	2.34%	2.63%	2.71%	Exceed prevailing interest rate on S/T CD's by 2.0%– 3.0%
L/T Conservative Growth	2.94%	4.30%	4.98%	4.61%	Exceed annual rate of inflation by min. 2.0%, longer-term target of compounded 5.0-7.0%
L/T Active Growth	3.81%	4.96%	6.77%	4.41%	Exceed annual rate of inflation by min. 2.0%, longer-term target of compounded 7.0-9.0%.
L/T Dynamic Growth	4.04%	5.43%	7.29%	6.15%	Exceed annual rate of inflation by min. 2.0%, longer-term target of compounded 9.0-11.0%
*Broad Equity Market Indices ****					
DJIA Index	5.12%	6.04%	9.73%	5.74%	
S&P 500 Index	5.92%	7.51%	10.41%	6.62%	
S&P 500 Total Return Indx	7.66%	9.43%	12.56%	8.80%	

*** Compounded Annual Growth Rate (CAGR)***

The CAGR is a mathematical formula that provides a "smoother" annual rate of return. It is really a pro forma number that tells what an investment yielded on an annually compounded basis indicating to investors what they really earned at the end of the investment period. The CAGR does not reflect investment risk, it smoothes volatility. Investment returns are volatile, meaning that they can and do vary significantly over time. The CAGR gives the illusion that there is a steady growth rate even when the value of the underlying investment varied significantly from year-to-year over the life of the investment. It is a useful and more easily understood measure of growth over multiple time periods.

**** The Lessons of 2008-09 Major Market Correction***

It is important to recognize that 2008 was one of the world's worst market crashes of all time which is why it is included in the above performance data to illustrate how dramatic its impact was to even the Foundation's long-term portfolios. This market crash is a good proxy for a "worst case" bad market cycle and investment timing (i.e., starting the period with a major market loss). It is important as an informed investor to understand the significant impact such a devastating market cycle can have even on a well-designed diversified investment portfolio.

On Sept. 16, 2008, failures of massive financial institutions in the U.S., due primarily to exposure of securities of packaged subprime loans and credit default swaps issued to insure these loans and their issuers, rapidly evolved into a global crisis resulting in a number of bank failures in Europe and sharp reductions in the value of equities and commodities worldwide. On Oct. 28, 2008, the International Monetary Fund warned that the world financial system was teetering on the "brink of systemic meltdown." This economic crisis caused countries to temporarily close their markets. In December 2008, the Federal Reserve dropped the Fed funds rate to zero its lowest level in history. The Dow Jones Industrial Average Index (DJIA) ended 2008 at 8,776.39, down nearly 34% for the year and the S&P 500 Index ended at 903.25 down nearly 39%. By March 6, 2009 the DJIA had dropped 54% to 6,469 before beginning to recover from its peak of 14,164 on October 9, 2007, a span of 17 months.

There is no doubt that the 2008-09 dramatic market correction challenged the faith and confidence of every investor. In fact, many individual investors bailed and still have not yet returned. We witnessed years of market appreciation literally erased in a matter of a few months. So, what did this experience teach us?

We confirmed every one of the Investment Committee's core investment principles. Most notably the importance of portfolio diversification and confidence in the capital market to eventually self-correct. In this instance, the Foundation's significant allocations to fixed income assets in its long-term portfolios dramatically reduced the impact of the devastating equity market. The Active Growth Portfolio achieved a loss of 21.67% for calendar year 2008 that was clearly shielded from the broader market loss of nearly 40% by its diversified asset allocation in fixed income securities. But, the most challenging aspect of 2008-09 was to "stay the course." We have to assume that there will be another major market correction, but there is no way to know what will cause it or when it may occur**.**

Then came 2022! For equity investors, 2022 brought the steepest losses since the 2008 great financial crisis. For bond investors, this was the worst year on record for the Barley's U.S. Aggregate Bond Index since it began over 45 years ago. The combination of having both stocks and bonds reporting losses for the year meant there was no place to hide! **To recover from markets like 2008 and 2022, make it critical to have a sound and proven long-term investment plan!**

For more historical factual information about past stock market disruptions, please read "Putting the U.S. Stock Market in Rational Perspective" that follows. This information is critically important to be reminded of especially during periods of stock market hysteria.

****** <u>Caveat Regarding Use of Broad Equity Market Indices</u>***
The Dow Jones Industrial Average Index (DJIA), Standard & Poor's 500 Index (S&P 500) and Standard & Poor's Total Return Index are pure broad equity indices thus they are only partially applicable as performance benchmarks for the Foundation's long-term portfolios given its Conservative Growth Portfolio is only 40% equities, Active Growth Portfolio 60% equities, and Dynamic Growth 75% equities.

The Foundation's long-term portfolios have been intentionally designed with their significant fixed income asset allocations, selection of specific securities, and target mix allocations to be more conservative and with reduced investment risk than a portfolio consisting totally of equities. But, given that these three indexes are all widely watched performance benchmarks, they still serve as useful independent performance benchmarks and points of reference. However, the Foundation's Investment Committee focuses much more on each individual security's applicable performance benchmark and to the performance of similar securities to evaluate its actual investment performance than any broader market performance index.

The Dow Jones Industrial Average Index (DJIA) is a stock price-weighted benchmark index that tracks 30 large, publicly owned blue chip companies trading on the New York Stock Exchange and NASDAQ. The Standard & Poor's (S&P) 500 Index is a market-capitalization weighted index of the 500 largest U.S. publicly traded companies. This index is widely regarded as the best gauge of large-cap U.S. equities. The Standard & Poor's (S&P) 500 Total Return Index is the S&P 500 Index adjusted to include dividends and their reinvestment. The aim of this index is to reflect the full investment benefit of holding stocks in the index.

Putting the U.S. Stock Market in Rational Perspective

Investing in the stock market is as much a psychological event as it is a financial event. U.S. stock market behavior is influenced by many geopolitical and global economic factors. These complex factors and their interpretations drive markets up and down each trading day. Unfortunately, in most instances the stock market goes down a whole lot faster than it goes up thanks to electronic trading technology.

While the market seeks rationality, it is often irrational. It is understandable why the immediate response of many investors is to panic as a response to the suddenness and often severity of market downturns. Thus, a major challenge to investing is to not panic when they occur, even dramatic downturns, and get out of the market at the most inopportune time. For sure, it takes a deep faith and understanding of the market to hold and wait for the market to eventually recover when the market appears to be in chaos seemingly with no end in sight. But, the serious evidence to date suggests this is the most financially productive stance.

To help put the U.S. stock market in a rational perspective, below are important "nuggets" of factual information provided by Nick Murray and published in July 2017 in his article ***"***Client's Corner: Of Corrections, Recessions, Bear Markets and Other Distractions" that even the most seasoned investor needs to be reminded of, especially when chaotic market events occur, which are fundamentally just a natural part of long-term investing:

- All stock market corrections so far have been temporary. So have all economic recessions and bear markets in stocks. Each has given way in time to the resumption of a major long-term uptrend.
- During the 71 years 1946-2016, there were 57 stock market corrections which are usually defined as declines in the S&P 500 Index of ten percent or more on a closing basis. *That's an average of about one every fifteen months*.
- During this same 71-year period, there have been eleven economic recessions, usually defined as a decline in U.S. GDP lasting for at least two calendar quarters. *That's an average of about one every six and a half years.*
- The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP. (Another way of looking at this is to consider that there were 852 months in the 71 years and that the economy was in recession for 121 of them, or 14%. The other 86% of the time, the economy was growing.)
- During this 71 years, there have been 14 bear markets in stocks, usually defined as a decline in the Index of 20% or more on a closing basis. *That's an average of about one every five years.*
- During these 71 years, when stocks were correcting 57 times, and experiencing 14 bear markets, the S&P 500 Index went from 15 to 2,240, an increase of about 150 times.
- During the same 71 years, while the economy was experiencing 11 recessions, real (inflation-adjusted) U.S. Gross Domestic Product went from about $2 trillion to nearly $17 trillion. That's a multiple of more than 8 times in a country whose population grew less than two and a half times, so per capita real GDP growth has been pretty darn terrific.
- Inference: for these 71 years, an equity investor who stayed focused on the long-term trends – the 86% of the time the economy was expanding, probably did well. But the investor who got panicked over one of the temporary declines in the economy in stock prices probably did a whole lot less well.

* The Ibbitson/Morningstar Yearbook states, from the beginning of 1926 through the end of 2020, the average annual compound return of the S&P 500 Stock Index was just a tad in excess of 10%.

Investment Risk Disclosure

Below is Vanguard's comprehensive investment disclosure and it applies equally as well to all Foundation mutual fund fixed income and equity securities utilized in its model investment portfolios. This disclosure simply reflects the unknowable nature of what the future holds. Investing inherently involves risk and risk comes in a variety of forms!

"Investments are subject to market risk, including the possible loss of the money you invest. Past performance is no guarantee of future returns. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Investments in stocks issued by non-U.S. companies are subject to risks including country/regional risk, which is the chance that political upheaval, financial troubles, or natural disasters will adversely affect the value of securities issued by companies in foreign countries or regions; and currency risk, which is the chance that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates. Stocks of companies based in emerging markets are subject to national and regional political and economic risks and to the risk of currency fluctuations. These risks are especially high in emerging markets.

Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share-price fluctuations. Because high-yield bonds are considered speculative, investors should be prepared to assume a substantially greater level of credit risk than with other types of bonds. Diversification does not ensure a profit or protect against a loss in a declining market. Performance data shown represent past performance, which is no guarantee of future results."

The Community Foundation of Greater Muscatine will continue to invest with conviction to fulfill its mission to improve the quality of life in all of the communities it serves. We are grateful for your trust, confidence, and partnership!

The dominant determinant of long-term, real-life outcomes is not the performance of markets, but the behavior of investors. The bitterest and by far the longest-lasting emotion in investing is neither fear nor greed, but regret.

Nick Murray, March/ June 2019