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Board Meeting

*Trust, Process, Results*

VEBA Trust - Investment Portfolio Review  
Neil Heppler, Co-President  
*September 5, 2019*

# Fiscal Year Market Review

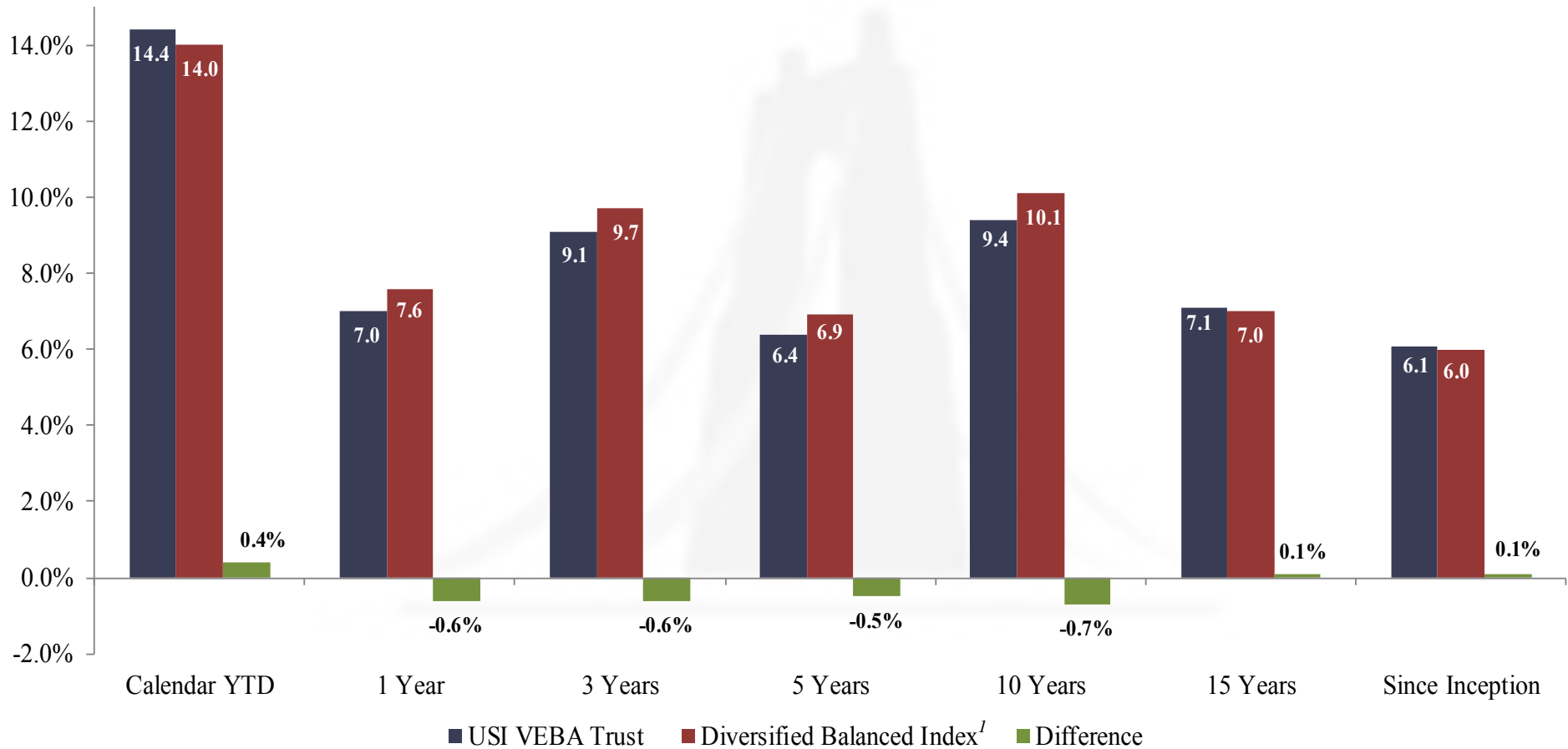
## Global Market Returns For Periods Ended June 30, 2019

	<u>Calendar</u> <u>YTD</u>	<u>Fiscal Year</u> <u>2019</u>
<b><u>Equity Markets</u></b>		
S&P:500	18.5%	10.4%
Russell:Midcap Index	21.3%	7.8%
Russell:2000 Index	17.0%	(3.3%)
MSCI:EAFE	14.0%	1.1%
MSCI:EM	10.6%	1.2%
<b><u>Fixed Income Markets</u></b>		
Blmbg:Int Gov/Cred	5.0%	6.9%
Blmbg:Aggregate	6.1%	7.9%
ML:US Hi Yld BB-B N-Dist	10.4%	8.8%
JPM:EMBI Plus	10.8%	11.7%

- Large-cap U.S. equities continued to rally in anticipation of further monetary stimulus from the Fed
- Growth stocks outperformed value – once again
- Small-cap stocks significantly underperform
- Developed international equities again trailed U.S. stocks due to slower growth and trade concerns
- Emerging market stocks limped along as the impact of tariffs on China was a significant headwind
- Interest rates fell sharply; bonds enjoying large gains relative to yields
- Dovish Fed comments and softer economic data has led the market to expect two or three rate cuts in 2019
- The yield curve flattened; 2 and 10 year Treasury spread barely positive at fiscal year end
- Higher yielding bonds, led by EM debt, outperformed investment grade bonds

# Investment Portfolio

Performance Summary Table  
For Periods Ended June 30, 2019\*



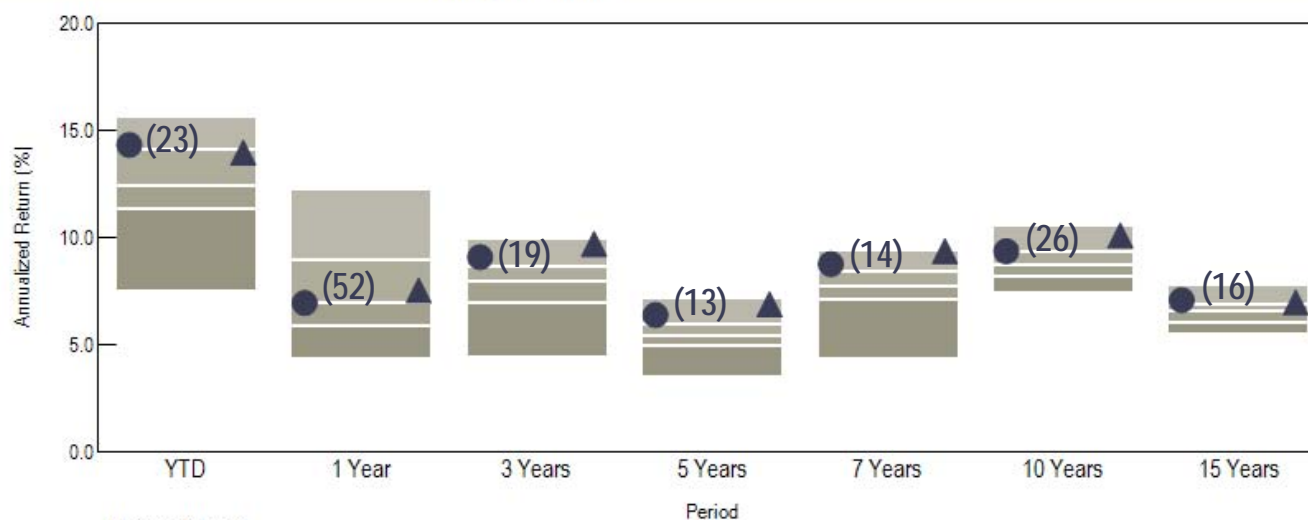
\*Returns are presented net of investment management and consultant fees and are in percentages. Returns for periods greater than 1-year are annualized.

<sup>1</sup> The Diversified Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt/Corp Index, 42% S&P 500 Stock Index, 18% MSCI EAFE Index, and 10% Russell 2000 Index from 1/1/2001 to 9/30/14. From September 30, 2014 to September 30, 2017, the Diversified Balanced Index is comprised of 30% Bloomberg Barclays Intermediate Govt/Corp Index, 40% S&P 500 Stock Index, 10% MSCI EAFE Index, 10% Russell Midcap Index and 10% Russell 2000 Index. From October 1, 2017 to present the Diversified Balanced Index is comprised of 30% Bloomberg Barclays Intermediate Govt/Corp Index, 45% S&P 500 Stock Index, 13% MSCI EAFE Index, 6% Russell Midcap Index and 6% Russell 2000 Index.

# Performance vs. Peers

InvMetrics Corp DB < \$50mm Net Return Comparison  
Ending June 30, 2019

➤ Top quartile performance over long-term trailing periods.



	Return (Rank)							Period							
5th Percentile	15.6	12.2	9.9	7.1	9.4	10.5	7.8								
25th Percentile	14.2	9.0	8.7	6.0	8.4	9.4	7.0								
Median	12.5	7.0	8.0	5.5	7.8	8.7	6.6								
75th Percentile	11.4	5.9	7.0	5.0	7.1	8.3	6.1								
95th Percentile	7.6	4.4	4.5	3.6	4.4	7.5	5.6								
# of Portfolios	144	144	125	111	91	60	24								
● VEBA Trust Composite	14.4	(23)	7.0	(52)	9.1	(19)	6.4	(13)	8.8	(14)	9.4	(26)	7.1	(16)	
▲ Diversified Balanced Index	14.0	(26)	7.6	(46)	9.7	(7)	6.9	(8)	9.4	(7)	10.1	(13)	7.0	(23)	

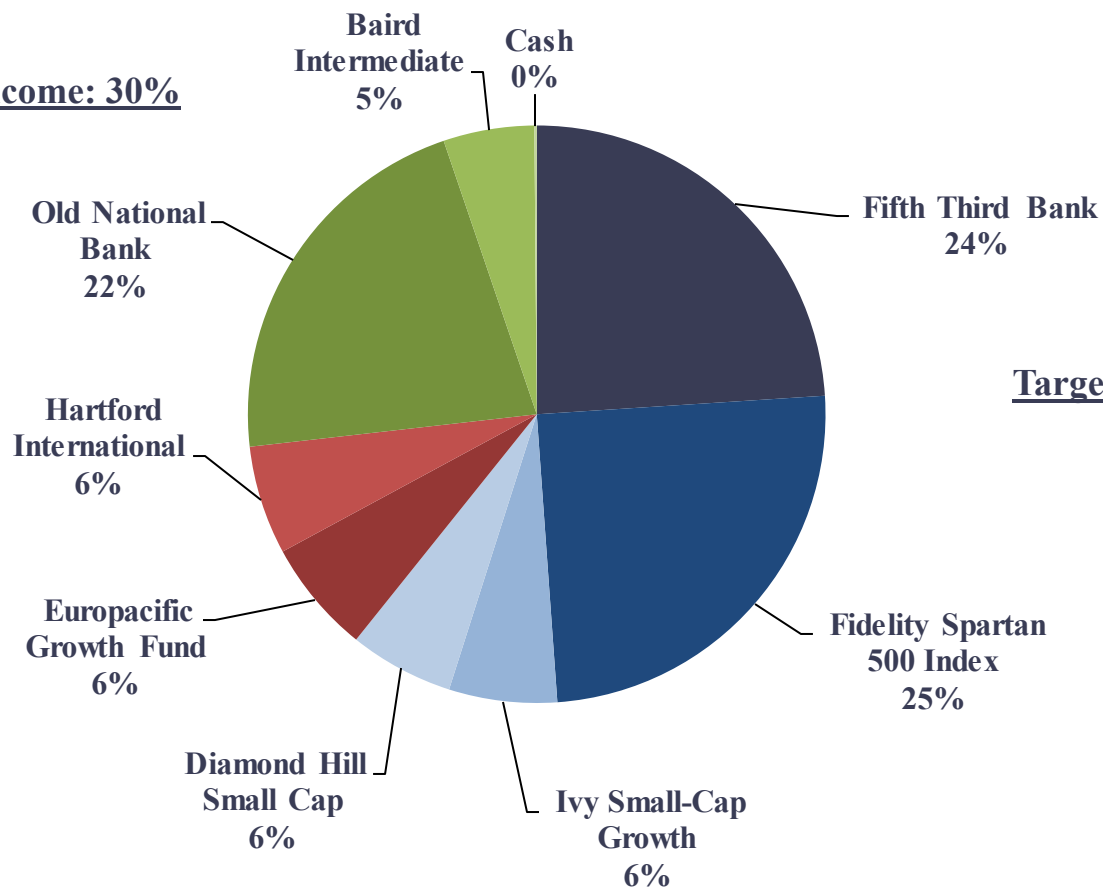
\*Peer universe is net of investment management fees.

# USI VEBA Trust

## Asset Allocation as of June 30, 2019

### Investment Manager Allocation

Target for Fixed Income: 30%

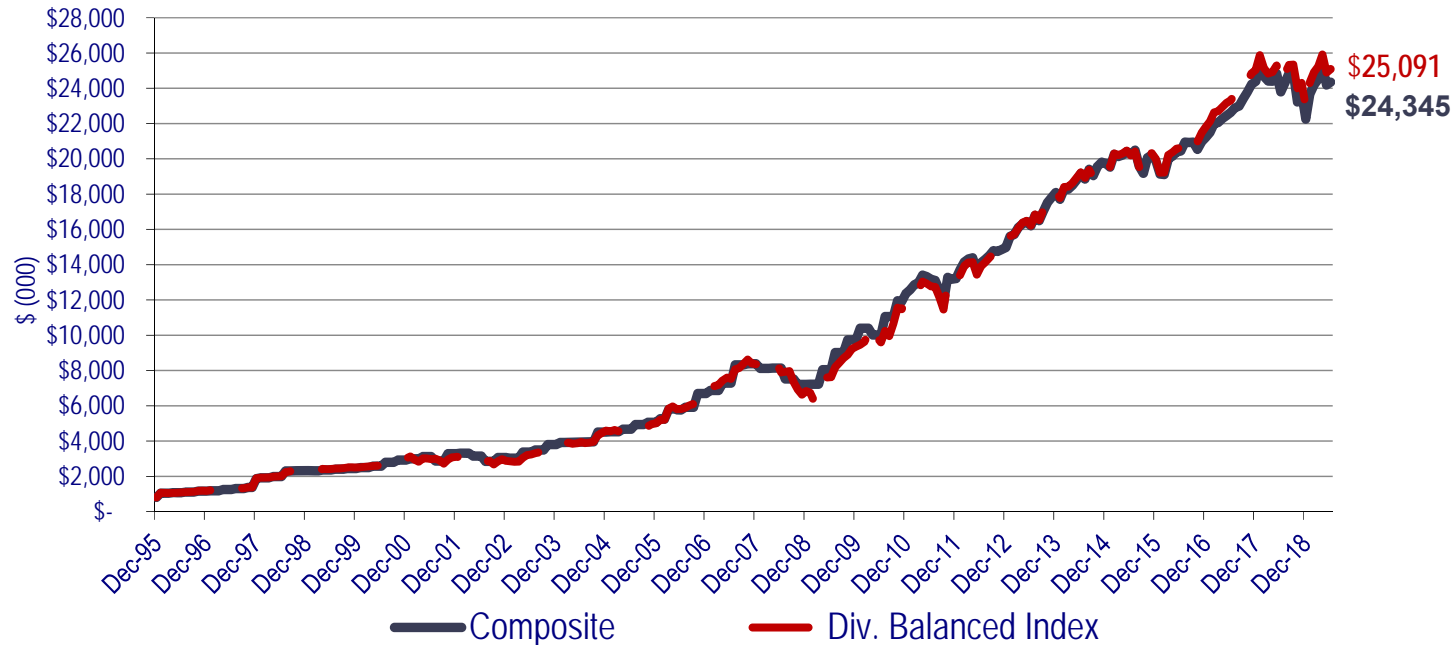


Target for Equities: 70%

Large-Cap: 45%  
Small-Cap: 12%  
International: 13%

Market Value \$24,344,711

# Portfolio Sources of Growth

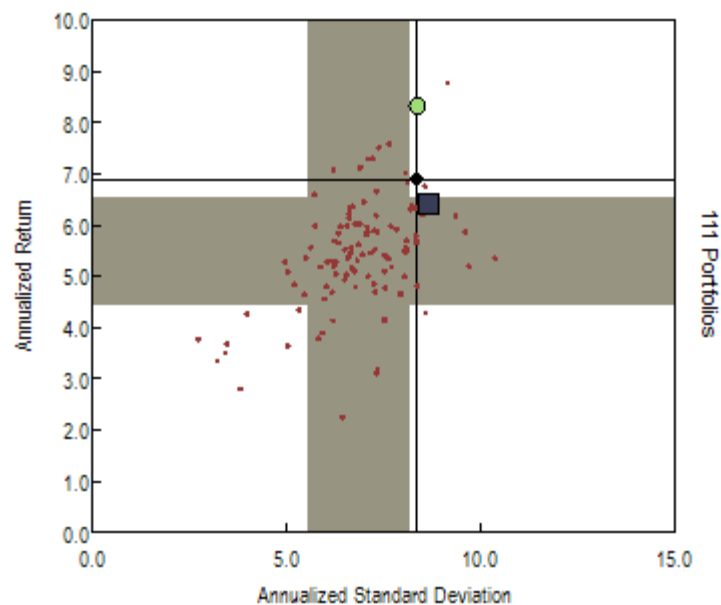


	Net Cash Flow	Gain/Loss	Incremental Gain/Loss Relative to: Div. Balanced Index
Past Quarter	(\$1,085,612)	\$912,270	(\$28,531)
Year-to-Date	(\$1,098,929)	\$3,190,145	(\$55,565)
Past Year	(\$1,098,929)	\$1,649,020	(\$221,692)
Past 3 Years	(\$2,114,846)	\$6,016,228	(\$563,642)
Past 5 Years	(\$1,814,846)	\$6,993,047	(\$685,709)
Since Inception	\$7,459,574	\$15,166,751	(\$746,119)



# Portfolio Risk Statistics

Risk Return for 5 Years



- VEBA Trust Composite
- ◆ Diversified Balanced Index
- Balanced Index
- 68% Confidence Interval
- InvMetrics Corp DB < \$50mm Net

5 Years Ending June 30, 2019

	Anlzd Standard Deviation	Anlzd Alpha	Beta	R-Squared
VEBA Trust Composite	8.67%	-0.69%	1.03	0.98
Diversified Balanced Index	8.36%	0.00%	1.00	1.00
Balanced Index	8.36%	1.50%	0.99	0.98
InvMetrics Corp DB < \$50mm Net Median	6.89%	-0.56%	1.03	0.98

Calendar Year

	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)
VEBA Trust Composite	20.9	12.1	-0.2	10.4	20.0	7.5	0.0	6.6	15.0	-4.8
Diversified Balanced Index	21.4	12.6	0.2	12.7	20.6	7.0	0.4	9.1	14.8	-4.5
Balanced Index	20.2	12.7	3.5	12.4	21.5	10.5	1.5	9.0	15.6	-2.6
Consumer Price Index	2.7	1.5	3.0	1.7	1.5	0.8	0.7	2.1	2.1	1.9
InvMetrics Corp DB < \$50mm Net Rank	40	47	63	75	14	25	31	47	43	36



# Investment Program Fee Analysis



	Manager Fee	Asset Allocation (\$24.3 M)	Fee Percentage	Manager Fees (\$)
<u>Large Cap</u>				
Fifth Third Bank	0.32%	24.0%	0.077%	\$ 18,679
Fidelity Spartan 500 Index	0.02%	24.9%	0.004%	\$ 909
<u>Small Cap</u>				
Ivy Small Cap Growth	0.89%	6.0%	0.054%	\$ 13,086
Diamond Hill Small Cap	0.87%	5.8%	0.051%	\$ 12,380
<u>International</u>				
American Funds Europacific	0.49%	6.4%	0.031%	\$ 7,588
Hartford International	0.79%	6.1%	0.048%	\$ 11,721
<u>Fixed Income</u>				
Old National Bank	0.15%	21.6%	0.032%	\$ 7,879
Baird Intermediate	0.30%	5.1%	0.015%	\$ 3,719
<b>Total Manager Fees</b>			<b>0.31%</b>	<b>\$ 75,959</b>
<b>Fourth Street Consulting Fee</b>			<b>0.04%</b>	<b>\$ 10,000</b>
<b>Custodial Fees</b>			<b>0.10%</b>	<b>\$ 24,344</b>
<b><u>Total Fee</u></b>			<b><u>0.45%</u></b>	<b><u>\$ 110,303</u></b>





# Fourth Street Performance Partners

- Fourth Street is 100% employee owned, SEC-registered investment consultant.
- Fourth Street's only source of revenue comes from client fees.
- Fourth Street is an institutional consulting firm serving 65 clients with over \$9 billion in assets.
- Our only business is institutional investment consulting, supported by 10 investment consulting professionals.
- Fourth Street is a member of Callan's Independent Adviser Group.

# Representative Clients

For over 20 years, we have partnered with 65 clients, representing over \$9.5 billion in assets.

A representative list of our institutional clients is provided below.

## Educational Institutions

- Army War College
- Eastern Kentucky University Foundation
- **Kentucky Wesleyan College**
- Louisville St. Xavier High School
- Marshall University Big Green Fund
- Thomas More College
- University of Dallas
- **University of Southern Indiana Foundation**

## Healthcare

- Baptist Health
- **Columbus Regional Hospital**
- Deaconess Associations, Inc.
- **Deaconess Health System**
- **Hancock Regional Health**
- **Hendricks Regional Health**
- **Indiana Healthcare Reciprocal RRG**
- **Indiana Hospital Association**
- **Methodist Hospital**
- **Union Hospital**
- **Witham Health Services**

## Foundations & Endowments

- **Community Foundation Alliance**
- Community Foundation of Louisville
- **Community Foundation of Southern Indiana**
- **Dubois County Community Foundation**
- Foundation for the Tri-State Community
- **Heritage Fund – The Community Foundation of Bartholomew County**
- Jewish Federation of Greater Dayton Foundation
- Jewish Heritage Fund for Excellence
- The Kentucky Center for the Performing Arts
- **Washington County Community Foundation**

## Other

- Congregation of Divine Providence
- CM Wealth Advisors
- Diocese of Covington
- Jewish Community Center of Cincinnati
- Province of St. Joseph of the Capuchins
- **Sister of St. Francis of Perpetual Adoration**
- **Vanderburgh County Police Pension Plan**



# Biographies

## **T. Neil Heppler, Co-President & Senior Consultant**

Neil has over thirty years of experience in consulting and financial services. Before founding Asset Performance Partners in 1997, Neil was a Managing Director at Fund Evaluation Group (FEG), an investment consulting firm, where he consulted to a broad client base and headed FEG's services to healthcare organizations. Neil also spent eight years in public accounting at Price Waterhouse and Coopers & Lybrand specializing in health care, insurance, and non-profit companies. Neil holds a B.S. in Accounting from Western Kentucky University and a J.D. from Northern Kentucky University's Chase College of Law. He is an inactive member of the Kentucky and Ohio Bar Associations.



# Performance Summary

As of  
June 30, 2019

	Q2 (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date	Market Value (\$)	% of Portfolio
<b>VEBA Trust Composite</b>	3.8	14.4	7.0	9.1	6.4	8.8	9.4	6.1	Dec-95	24,344,711	100.0
<i>Diversified Balanced Index</i>	3.7	14.0	7.6	9.7	6.9	9.4	10.1	6.0			
<i>Balanced Index</i>	3.9	14.5	9.8	10.6	8.3	10.5	11.3	6.1			
<i>Consumer Price Index</i>	0.8	2.0	1.6	2.0	1.5	1.6	1.7	2.2			
<b>Domestic Equity</b>											
Fidelity Spartan S&P 500	4.3	18.5	10.4	14.2	10.7	13.9	14.7	8.0	Jun-07	6,058,299	24.9
<i>S&amp;P 500</i>	4.3	18.5	10.4	14.2	10.7	14.0	14.7	8.0			
Fifth Third Bank	4.5	17.7	10.5	12.6	8.5	11.4	12.3	7.5	Dec-00	5,837,262	24.0
<i>S&amp;P 500</i>	4.3	18.5	10.4	14.2	10.7	14.0	14.7	6.5			
Ivy Small Cap Growth	5.2	23.8	6.2	17.6	10.9	14.0	16.2	8.6	Dec-00	1,470,920	6.0
<i>Russell 2000 Growth</i>	2.7	20.4	-0.5	14.7	8.6	12.9	14.4	7.1			
<i>Russell 2000</i>	2.1	17.0	-3.3	12.3	7.1	11.6	13.4	8.0			
Diamond Hill Small Cap	1.9	12.0	-5.2	5.7	2.5	9.3	10.7	9.3	Nov-09	1,422,944	5.8
<i>Russell 2000 Value</i>	1.4	13.5	-6.2	9.8	5.4	10.3	12.4	11.0			
<i>Russell 2000</i>	2.1	17.0	-3.3	12.3	7.1	11.6	13.4	12.5			
<b>International Equity</b>											
American Funds EuroPac	3.9	17.6	1.9	10.8	4.4	8.3	8.1	6.2	Mar-10	1,548,472	6.4
<i>MSCI EAFE</i>	3.7	14.0	1.1	9.1	2.2	7.3	6.9	5.1			
Hartford International	4.0	18.7	0.0	4.1	0.7	5.4	6.6	4.3	Feb-17	1,483,658	6.1
<i>MSCI EAFE</i>	3.7	14.0	1.1	9.1	2.2	7.3	6.9	7.3			
<b>Fixed Income</b>											
Old National Bank Fixed Income	2.2	4.5	6.1	1.7	2.4	2.2	2.8	4.4	Dec-95	5,252,492	21.6
<i>BBgBarc US Govt/Credit Int TR</i>	2.6	5.0	6.9	2.0	2.4	2.2	3.2	4.6			
Baird Intermediate	2.7	5.2	7.0	2.3	2.6	2.7	4.2	2.8	Sep-15	1,239,638	5.1
<i>BBgBarc US Govt/Credit Int TR</i>	2.6	5.0	6.9	2.0	2.4	2.2	3.2	2.5			

- Diversified Balanced Index = 30% BBgBarc US Govt/Credit Int TR / 45% S&P 500 / 13% MSCI EAFE / 6% Russell MidCap / 6% Russell 2000

- Balanced Index = 30% BBgBarc US Govt/Credit Int TR / 70% S&P 500

# Asset Allocation

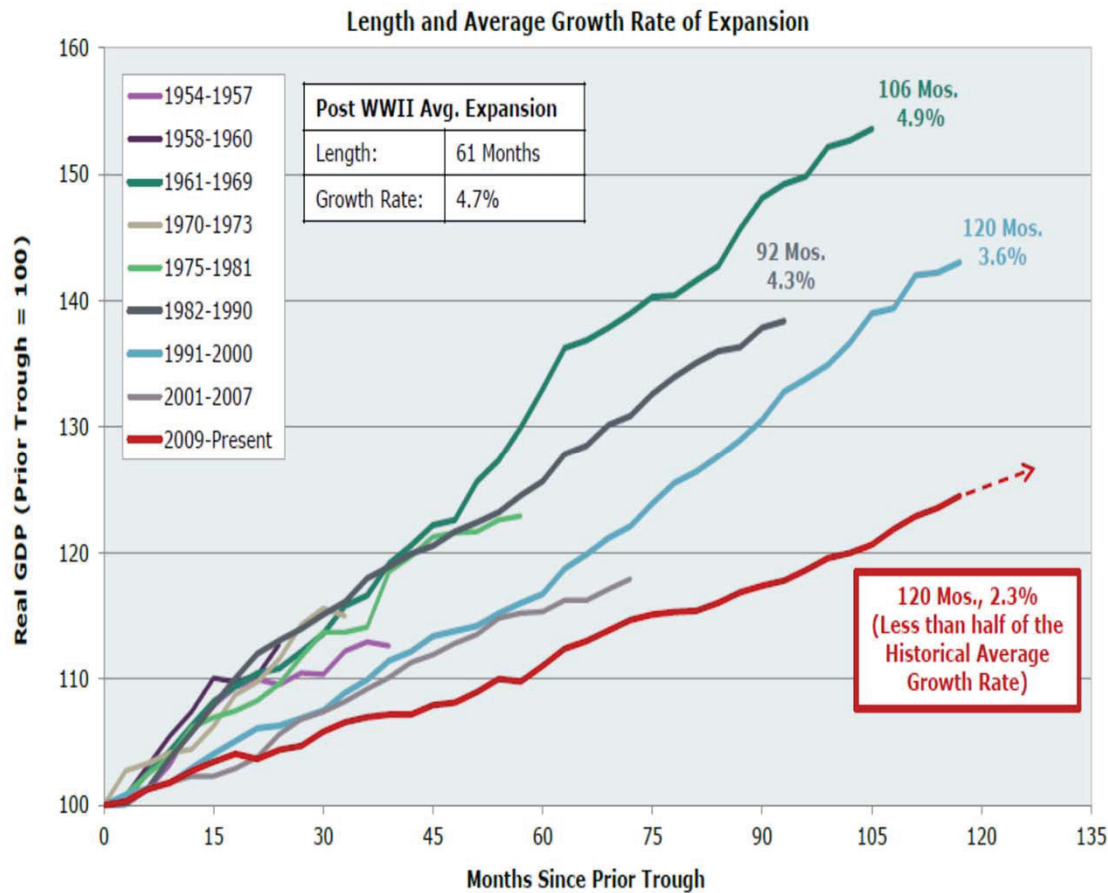
As of  
June 30, 2019

	Current	Current	Policy	Difference*	Policy Range	Within Range
<b>Domestic Large Cap Equity</b>	11,895,561	48.9	45.0	3.9	35.0 - 55.0	Yes
Fidelity Spartan S&P 500	6,058,299	24.9				
Fifth Third Bank	5,837,262	24.0				
<b>Domestic Mid/Small Cap Equity</b>	2,893,864	11.9	12.0	-0.1	9.0 - 15.0	Yes
Ivy Small Cap Growth	1,470,920	6.0				
Diamond Hill Small Cap	1,422,944	5.8				
<b>International Equity</b>	3,032,131	12.5	13.0	-0.5	10.0 - 16.0	Yes
American Funds EuroPac	1,548,472	6.4				
Hartford International	1,483,658	6.1				
<b>Fixed Income</b>	6,492,129	26.7	30.0	-3.3	25.0 - 35.0	Yes
Old National Bank Fixed Income	5,252,492	21.6				
Baird Intermediate	1,239,638	5.1				
<b>Cash</b>	31,027	0.1	0.0	0.1	0.0 - 2.0	Yes
Cash	31,027	0.1				
<b>Total</b>	<b>24,344,711</b>	<b>100.0</b>	<b>100.0</b>			

\*Difference between Policy and Current Allocation

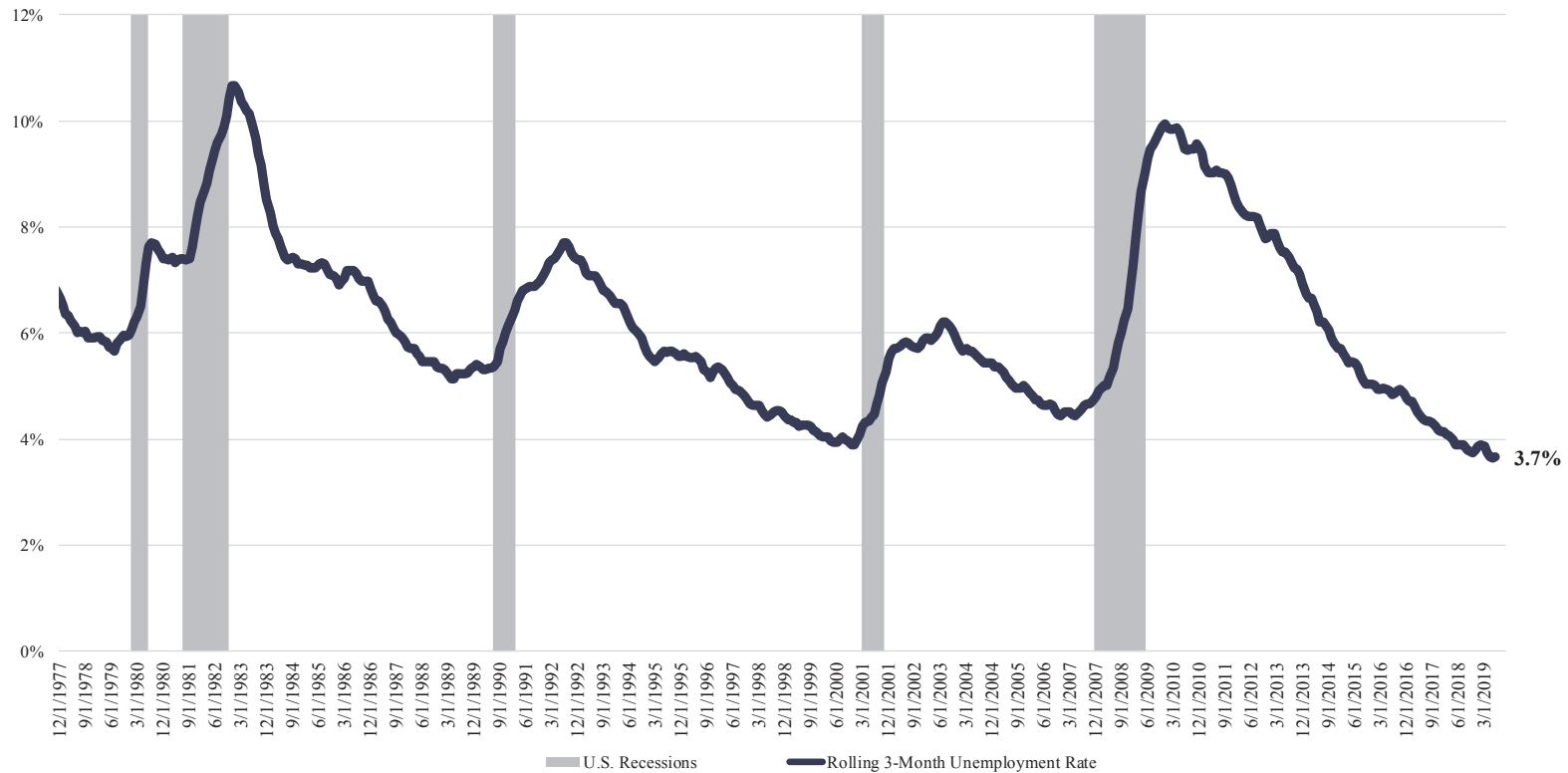
# The Longest Recovery in U.S. History

## ...and one of the Slowest



Expansion	Annual Growth	Cumulative Growth	Duration Quarters	Rank
1970	4.8%	52.0%	35	1
2001	3.5%	42.6%	40	2
1990	4.0%	38.4%	32	3
1953	7.1%	29.4%	14	4
<b>2019</b>	<b>2.3%</b>	<b>24.8%</b>	<b>40</b>	<b>5</b>
1980	3.9%	23.3%	21	6
2007	2.6%	18.0%	25	7
1973	4.7%	16.0%	12	8
1957	3.7%	13.6%	13	9
1960	5.8%	11.9%	8	10
1981	3.2%	3.2%	4	11

# Unemployment Rate

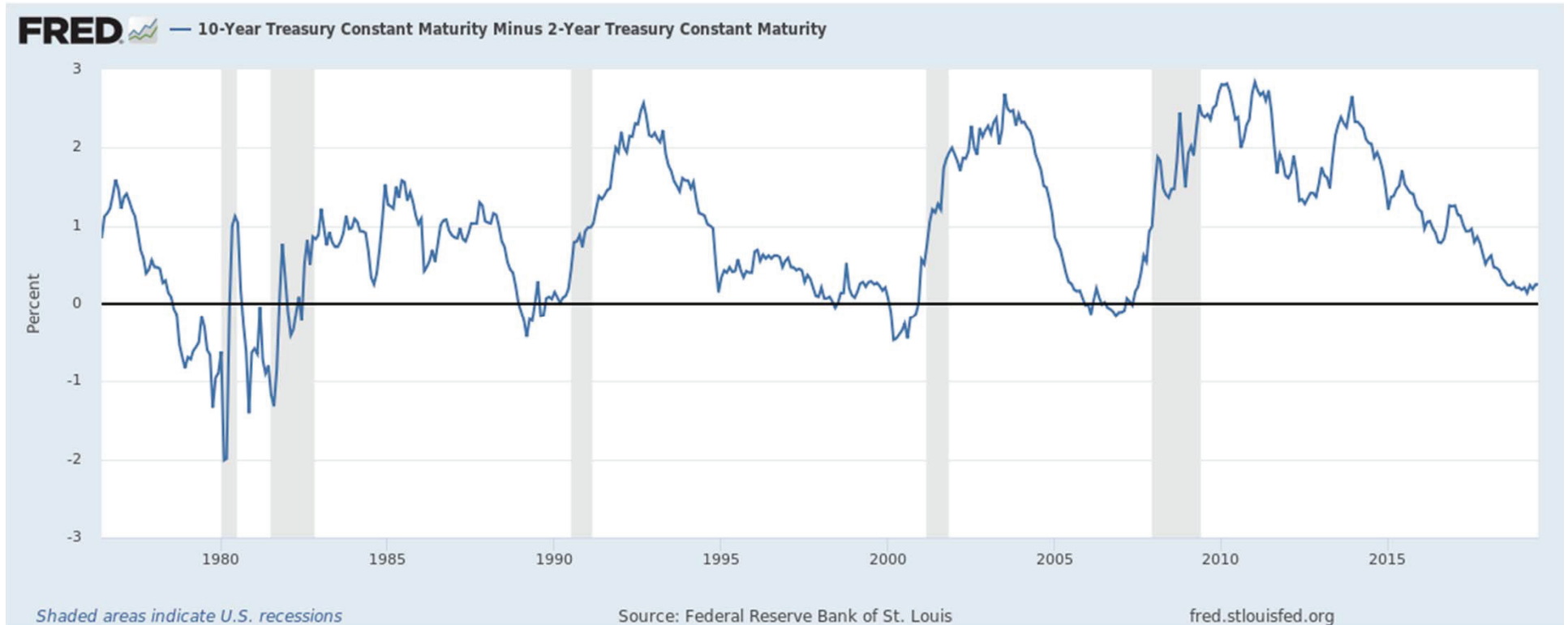


- Since World War II, every time the three-month average of the unemployment rate has ticked higher by 0.3% a recession has followed
- Current three-month average unemployment is 3.7%



# Inverted Yield Curve Recession Indicator

## 10 Year Yield less 2 Year Yield

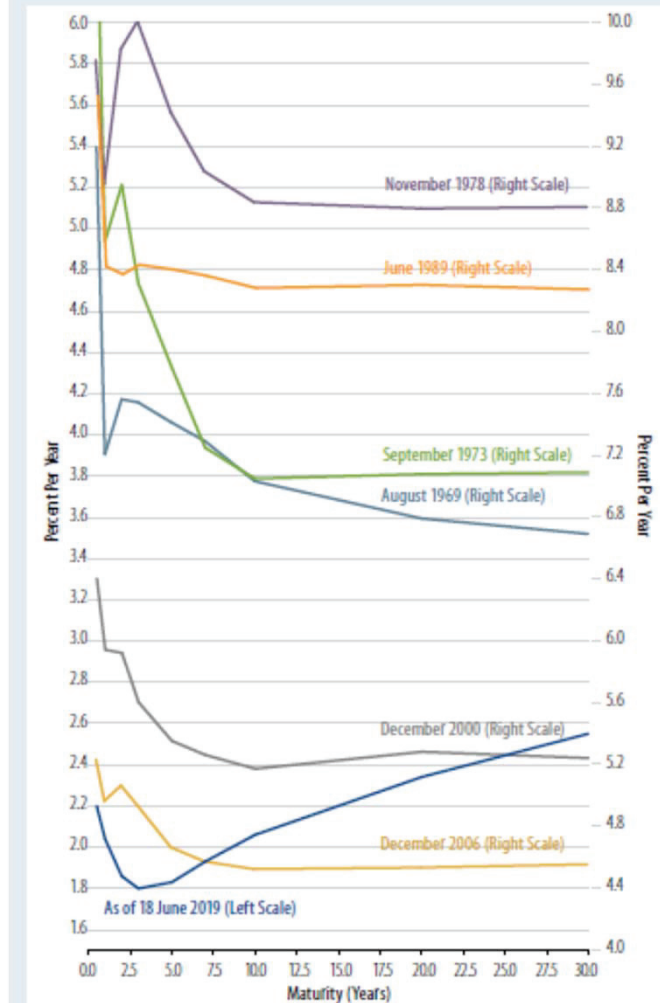


- 25 bp spread at 6/30; was 18 bps at end of 2018
- Inverted yield curve has preceded every recession since WWII
- But not every inversion of the the yield curve was followed by recession; “False Positives”

# Are We Truly Inverted?

- **Current Yield Curve (bottom blue line) is not inverted from Fed Funds to 30-year Treasuries**
- **Every previous yield curve that preceded recession had a negative slope out to 30-year Treasuries**
- **Current “inverted” yield curve looks different than previous inversions**

Exhibit 1: Yield Curves, Previously and Presently



Source: Federal Reserve Board, As of 18 Jun 19



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