



# Independent Investment Consultants for Institutions



Board Meeting

*Trust, Process, Results*

VEBA Trust & Unrestricted Asset - Investment Portfolio Review  
Neil Heppler, Co – President  
*September 2, 2021*



# Fiscal Year Market Review

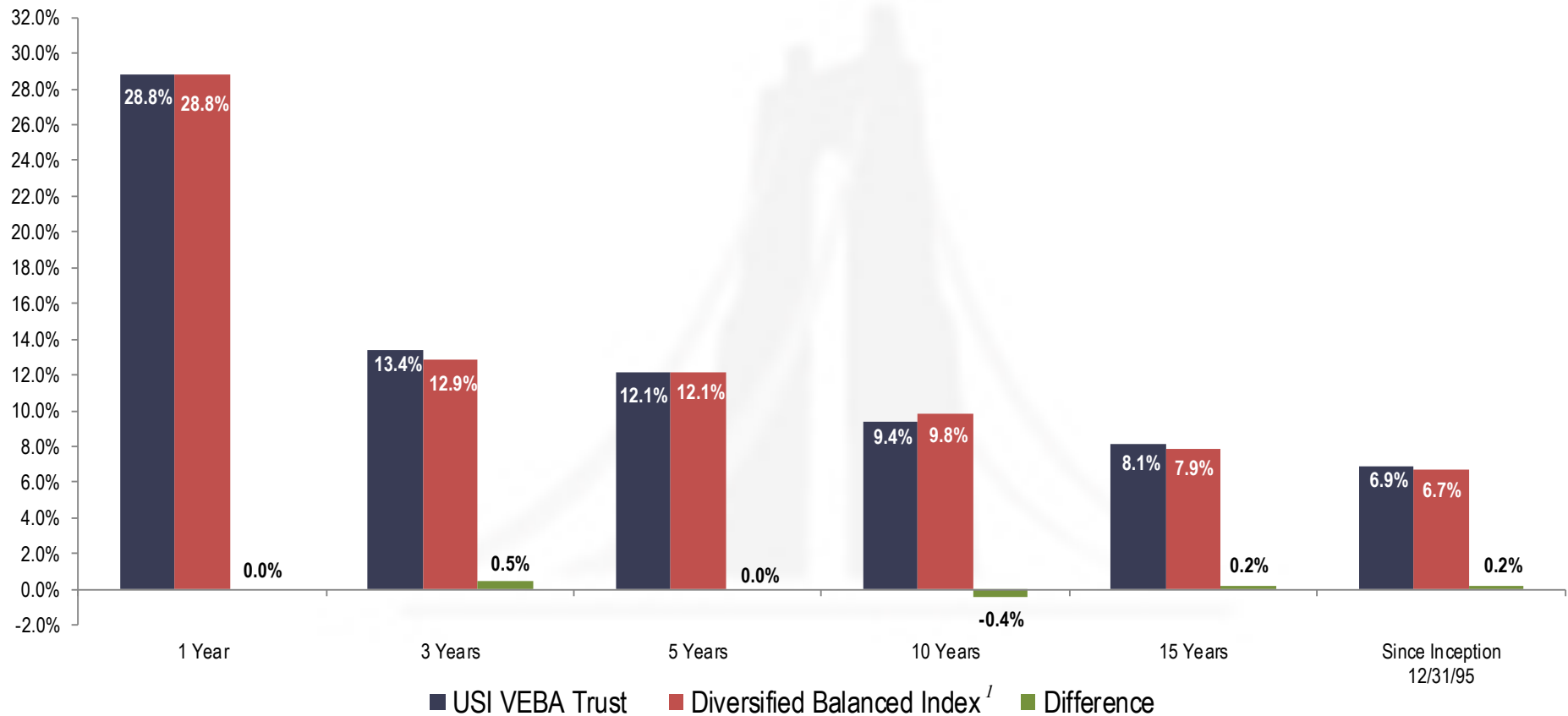
	<u>Calendar</u>	<u>Fiscal Year</u>		<u>Calendar</u>	<u>Fiscal Year</u>
<u>Equities</u>	<u>YTD</u>	<u>2021</u>	<u>Fixed Income</u>	<u>YTD</u>	<u>2021</u>
U.S. Large Cap	15.3%	40.8%	Inv. Grade Bonds	-1.6%	-0.3%
U.S. Mid Cap	16.2%	49.8%	Inv. Grade Credit	-1.3%	3.0%
U.S. Small Cap	17.5%	62.0%	Inv. Grade Gov't	-2.5%	-3.1%
Int'l Developed	8.8%	32.4%	3 Month Treasury Bill	0.0%	0.1%
Int'l Emerging	7.5%	40.9%			

- Markets continued to push forward in the quarter as investors focused on the progress of vaccinations, re-opening economies, strong earnings growth, pent-up demand, and positive economic data.
- A 5% increase in CPI over the last 12 months through May sparked inflationary concerns but did not affect market sentiment which has agreed with the Federal Reserve that the spike in inflation will prove to be transitory.
- Second quarter GDP grew 6.5% annualized, while 2021 GDP is expected to be over 7% pointing to a strong recovery this calendar year.
- The value-style outperformance seen since November 2020 reverted in calendar Q2 as growth-oriented companies performed better in all capitalizations except for small cap (large value +5.2% vs. large growth +11.9%; small value +4.6% vs. small growth +3.9%).
- Investment Grade fixed income markets were positive for the quarter, despite an increase in inflation readings and a more hawkish tone by the Fed who signaled earlier than expected rate hikes at their last meeting. Fiscal year returns were modestly negative for the full fiscal year.

# USI VEBA Trust

## Investment Portfolio Performance Summary Table

For Periods Ended June 30, 2021\*



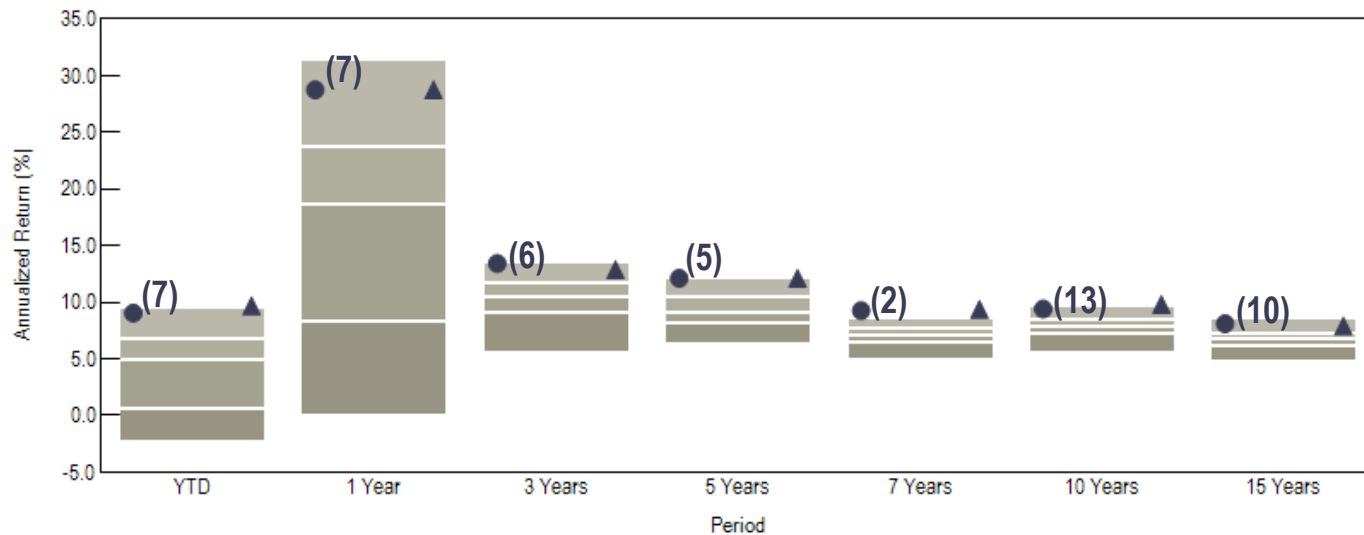
\*Returns are presented net of investment management and consultant fees and are in percentages. Returns for periods greater than 1-year are annualized.

<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 December 31, 2017, 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. From January 1, 2018 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 and 12% Russell 2000 Index.

# USI VEBA Trust

## Performance Comparison to Peers Top Quintile Performance Over All Trailing Periods

InvMetrics Corp DB < \$50mm Net Return Comparison  
Ending June 30, 2021



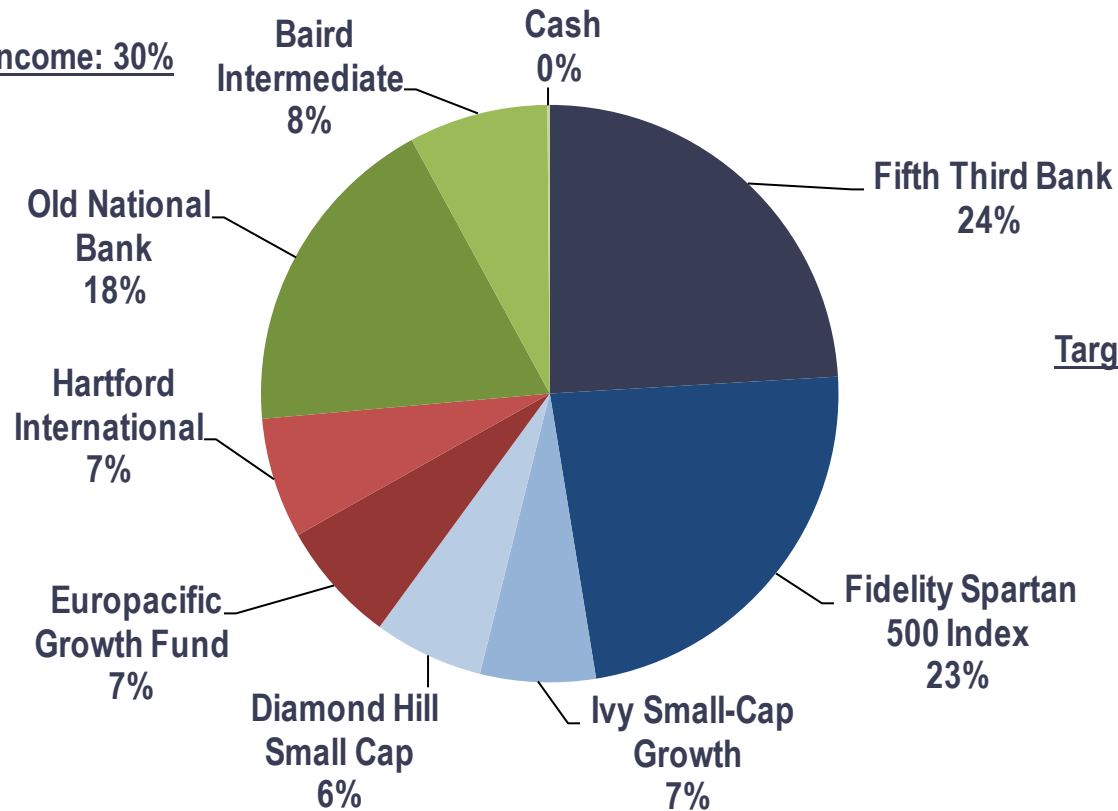
	Return (Rank)													
	YTD		1 Year		3 Years		5 Years		7 Years		10 Years		15 Years	
5th Percentile	9.5	31.4	13.5	12.1	8.6	9.7	8.5	8.5	8.5	7.4	8.5	7.4	8.5	7.4
25th Percentile	6.9	23.9	11.7	10.6	7.8	8.5	7.4	7.4	7.4	6.9	7.4	6.9	7.4	6.9
Median	5.0	18.8	10.6	9.1	7.2	7.9	6.9	6.9	6.9	6.2	6.9	6.2	6.9	6.2
75th Percentile	0.7	8.3	9.2	8.3	6.5	7.4	6.2	6.2	6.2	5.6	6.2	5.6	6.2	5.6
95th Percentile	-2.3	0.1	5.6	6.4	5.1	5.6	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
# of Portfolios	78	77	72	63	56	39	22	22	22	22	22	22	22	22
● VEBA Trust Composite	9.1	(7)	28.8	(7)	13.4	(6)	12.1	(5)	9.3	(2)	9.4	(13)	8.1	(10)
▲ Diversified Balanced Index	9.7	(5)	28.8	(7)	12.9	(10)	12.1	(5)	9.4	(2)	9.8	(5)	7.9	(14)

# USI VEBA Trust

Asset Allocation as of June 30, 2021

## Investment Manager Allocation

Target for Fixed Income: 30%



Target for Equities: 70%

Large-Cap: 45%

Small-Cap: 12%

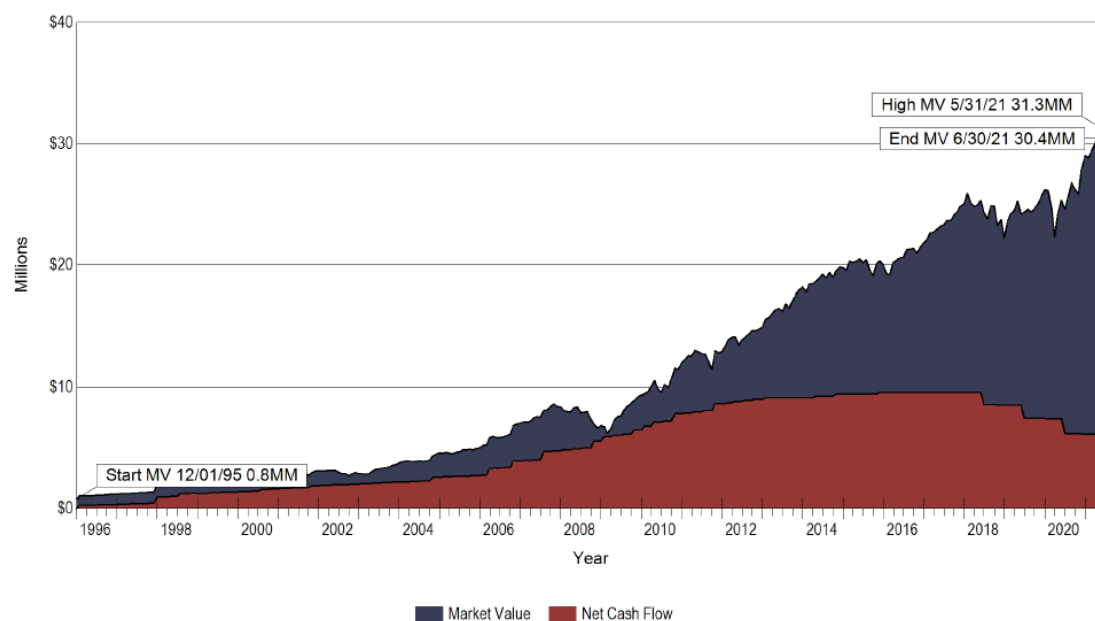
International: 13%

Market Value \$30,412,789

# USI VEBA Trust

## Portfolio Sources of Growth

Market Value History



### Summary of Cash Flows

	Second Quarter	Year-To-Date	One Year	Three Years	Five Years	Inception 12/31/95
Beginning Market Value	\$30,002,406	\$29,013,443	\$24,573,464	\$24,319,047	\$20,625,806	\$806,117
Net Cash Flow	(\$1,220,373)	(\$1,220,855)	(\$1,222,091)	(\$3,544,180)	(\$4,560,097)	\$5,014,323
Net Investment Change	\$1,630,756	\$2,620,201	\$7,061,416	\$9,637,921	\$14,347,079	\$24,592,349
Ending Market Value	\$30,412,789	\$30,412,789	\$30,412,789	\$30,412,789	\$30,412,789	\$30,412,789



# USI VEBA Trust



## Portfolio Risk Statistics & Calendar Year Results

### 5 Years Ending June 30, 2021

	Anlzd Standard Deviation	Anlzd Alpha	Beta	R-Squared
VEBA Trust Composite	10.93%	-0.09%	1.01	0.99
Diversified Balanced Index	10.77%	0.00%	1.00	1.00
Balanced Index	10.51%	1.51%	0.97	0.98
InvMetrics Corp DB < \$50mm Net Median	8.89%	-0.41%	1.01	0.99

### Calendar Year Returns

	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)
<b>VEBA Trust Composite</b>	<b>-0.2</b>	<b>10.4</b>	<b>20.0</b>	<b>7.5</b>	<b>0.0</b>	<b>6.6</b>	<b>15.0</b>	<b>-4.8</b>	<b>22.9</b>	<b>16.4</b>
<i>Diversified Balanced Index</i>	<i>0.2</i>	<i>12.7</i>	<i>20.6</i>	<i>7.0</i>	<i>0.4</i>	<i>9.1</i>	<i>14.8</i>	<i>-4.6</i>	<i>22.0</i>	<i>14.4</i>
<i>Balanced Index</i>	<i>3.5</i>	<i>12.4</i>	<i>21.5</i>	<i>10.5</i>	<i>1.5</i>	<i>9.0</i>	<i>15.6</i>	<i>-2.6</i>	<i>23.8</i>	<i>15.4</i>
<i>Consumer Price Index</i>	<i>3.0</i>	<i>1.7</i>	<i>1.5</i>	<i>0.8</i>	<i>0.7</i>	<i>2.1</i>	<i>2.1</i>	<i>1.9</i>	<i>2.3</i>	<i>1.4</i>
<i>InvMetrics Corp DB &lt; \$50mm Net Rank</i>	<i>63</i>	<i>75</i>	<i>14</i>	<i>25</i>	<i>31</i>	<i>47</i>	<i>43</i>	<i>36</i>	<i>13</i>	<i>16</i>



# USI VEBA Trust

## Performance Summary - Manager Detail

As of June 30, 2021



Performance Summary Table

	Q2 (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date	Market Value (\$)	% of Portfolio
<b>VEBA Trust Composite</b>	<b>5.5</b>	<b>9.1</b>	<b>28.8</b>	<b>13.4</b>	<b>12.1</b>	<b>9.3</b>	<b>9.4</b>	<b>6.9</b>	<b>Dec-95</b>	<b>30,412,789</b>	<b>100.0</b>
<i>Diversified Balanced Index</i>	5.3	9.7	28.8	12.9	12.1	9.4	9.8	6.7			
<i>Balanced Index</i>	6.3	10.2	27.5	14.7	13.2	10.8	11.3	6.9			
<i>Consumer Price Index</i>	2.6	4.3	5.4	2.5	2.4	1.9	1.9	2.3			
<b>Domestic Equity</b>											
Fidelity Spartan S&P 500	8.5	15.3	40.8	18.7	17.6	14.1	14.8	10.0	Jun-07	7,107,111	23.4
S&P 500	8.5	15.3	40.8	18.7	17.6	14.1	14.8	10.1			
Fifth Third Bank	7.5	12.9	35.9	19.2	16.9	12.7	12.4	9.0	Dec-00	7,316,507	24.1
S&P 500	8.5	15.3	40.8	18.7	17.6	14.1	14.8	8.0			
Ivy Small Cap Growth	5.6	10.3	52.6	17.9	20.2	14.6	14.0	10.0	Dec-00	1,965,983	6.5
Russell 2000 Growth	3.9	9.0	51.4	15.9	18.8	13.1	13.5	8.8			
Russell 2000	4.3	17.5	62.0	13.5	16.5	11.4	12.3	9.4			
Diamond Hill Small Cap	4.2	20.9	62.2	7.5	9.1	5.8	8.6	10.2	Nov-09	1,868,450	6.1
Russell 2000 Value	4.6	26.7	73.3	10.3	13.6	9.3	10.8	12.5			
Russell 2000	4.3	17.5	62.0	13.5	16.5	11.4	12.3	14.2			
<b>International Equity</b>											
American Funds EuroPac	7.0	6.5	40.1	13.8	14.5	8.7	8.3	8.6	Mar-10	2,075,141	6.8
MSCI EAFE	5.2	8.8	32.3	8.3	10.3	5.0	5.9	6.3			
Hartford International	4.9	5.9	35.4	10.7	11.3	6.6	7.0	11.0	Feb-17	2,052,315	6.7
MSCI EAFE	5.2	8.8	32.3	8.3	10.3	5.0	5.9	9.4			
<b>Fixed Income</b>											
Old National Bank Fixed Income	0.8	-1.1	-0.5	4.1	2.3	2.6	2.7	4.3	Dec-95	5,614,321	18.5
BBgBarc US Govt/Credit Int TR	1.0	-0.9	0.2	4.7	2.6	2.7	2.8	4.5			
Baird Intermediate	1.0	-0.8	0.9	5.1	3.0	3.0	3.3	3.2	Sep-15	2,372,775	7.8
BBgBarc US Govt/Credit Int TR	1.0	-0.9	0.2	4.7	2.6	2.7	2.8	2.9			

- Diversified Balanced Index = 30% BBgBarc US Govt/Credit Int TR / 45% S&P 500 / 13% MSCI EAFE / 12% Russell 2000

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





# USI VEBA Trust

## Asset Allocation vs. Policy Targets

As of June 30, 2021



Asset Allocation vs. Target As Of June 30, 2021						
	Current (\$)	Current (%)	Policy (%)	Difference* (%)	Policy Range (%)	Within Range
<b>Domestic Large Cap Equity</b>	14,423,618	47.4	45.0	2.4	35.0 - 55.0	<b>Yes</b>
Fidelity Spartan S&P 500	7,107,111	23.4				
Fifth Third Bank	7,316,507	24.1				
<b>Domestic Mid/Small Cap Equity</b>	3,834,434	12.6	12.0	0.6	9.0 - 15.0	<b>Yes</b>
Ivy Small Cap Growth	1,965,983	6.5				
Diamond Hill Small Cap	1,868,450	6.1				
<b>International Equity</b>	4,127,456	13.6	13.0	0.6	10.0 - 16.0	<b>Yes</b>
American Funds EuroPac	2,075,141	6.8				
Hartford International	2,052,315	6.7				
<b>Fixed Income</b>	7,987,095	26.3	30.0	-3.7	25.0 - 35.0	<b>Yes</b>
Old National Bank Fixed Income	5,614,321	18.5				
Baird Intermediate	2,372,775	7.8				
<b>Cash</b>	40,185	0.1	0.0	0.1	0.0 - 2.0	<b>Yes</b>
Cash	40,185	0.1				
<b>Total</b>	<b>30,412,789</b>	<b>100.0</b>	<b>100.0</b>			

\*Difference between Policy and Current Allocation



# USI VEBA Trust

## Investment Manager Change



### PORTFOLIO MANAGER CHANGES

Diamond Hill Capital Management – Small-cap, value-style manager terminated in July. Manager had struggled since poor 2016. Changed portfolio manager in 2017. After a solid 2017 and 2018, experienced a mediocre 2019 and performance struggled in late 2020 and early 2021.

Replaced by Segall, Bryant & Hamill – Chicago-based team with similar high-quality, small-cap value-style focus as Diamond Hill. Termination and re-investment took place in mid-July

### OTHER WATCH LISTED MANAGERS

None



# USI VEBA Trust

## Investment Program Fee Analysis



	Manager Fee	Asset Allocation (\$30.4 M)	Fee Percentage	Manager Fees (\$)
<u>Large Cap</u>				
Fifth Third Bank	0.32%	24.1%	0.077%	\$ 23,413
Fidelity Spartan 500 Index	0.02%	23.4%	0.004%	\$ 1,066
<u>Small Cap</u>				
Ivy Small Cap Growth	0.90%	6.5%	0.058%	\$ 17,694
Diamond Hill Small Cap	0.97%	6.1%	0.060%	\$ 18,124
<u>International</u>				
American Funds Europacific	0.46%	6.8%	0.031%	\$ 9,546
Hartford International	0.77%	6.7%	0.052%	\$ 15,803
<u>Fixed Income</u>				
Old National Bank	0.15%	18.5%	0.028%	\$ 8,421
Baird Intermediate	0.30%	7.8%	0.023%	\$ 7,118
<b>Total Manager Fees</b>			<b>0.33%</b>	<b>\$ 101,185</b>
<b>Fourth Street Consulting Fee</b>			<b>0.03%</b>	<b>\$ 10,000</b>
<b>Custodial Fees</b>			<b>0.10%</b>	<b>\$ 30,413</b>
<b><u>Total Fee</u></b>			<b><u>0.47%</u></b>	<b><u>\$ 141,598</u></b>



# USI Unrestricted Assets

## Intermediate Fixed Income Manager Funding

As of July 31, 2021



Asset Allocation vs. Target As Of July 31, 2021						
	Current (\$)	Current (%)	Policy (%)	Difference* (%)	Policy Range (%)	Within Range
U.S. Fixed Income	60,081,560	100.0	--	100.0	--	No
Johnson Asset Mgmt.	30,037,141	50.0	37.5	12.5	30.0 - 45.0	No
Longfellow Investment Mgmt.	30,044,419	50.0	37.5	12.5	30.0 - 45.0	No
<b>Total</b>	<b>60,081,560</b>	<b>100.0</b>				

\*Difference between Policy and Current Allocation

- Johnson Asset Management and Longfellow Investment Management portfolios were funded in mid-July
- Investment Manager agreements with Fifth Third and Old National Bank near completion
  - Each bank to manage approx. \$10 M

# USI Unrestricted Assets

## Investment Policy Statement Recommended Amendments

### AUTHORIZED INVESTMENTS AND EXPOSURE RESTRICTIONS

6. Investment Grade Corporate Notes and Bonds – **U.S. dollar-denominated** notes and bonds of a corporate entity **publicly issued in the U.S. domestic market where the indebted corporate entity, organized under the law of the United States or any other State thereof with has** a corporate bond rating by Standard & Poor’s, Fitch’s or Moody’s of investment grade (BBB- or Baa-) or above are authorized for use.

*Change permits the use of “Yankee” bonds (SEC registered debt of foreign domiciled companies issued on and rated by major U.S. rating agencies). Periodically, due to interest rate differentials between the U.S. and foreign countries and their currencies, these bonds can be relatively attractive from a yield perspective.*

7. Mortgage-Backed Securities - **U.S. Government or agency** Mortgage Pass-Through Securities (including TBAs, **Commercial Mortgage-Backed Securities (CMBS)**, and non-agency MBSs) rated AA-/Aa- or better by Standard & Poor’s, Fitch’s or Moody’s are authorized for use.

*Change permits the use of Commercial Mortgage-Backed Securities (CMBS). CMBS are not government agency guaranteed. CMBS can offer less of pre-payment risk than residential mortgage-backed securities (RMBS), as the term on commercial mortgages is generally fixed and periodically can be attractive from a yield perspective.*

# USI Unrestricted Assets

## Investment Policy Statement Recommended Amendments

### INVESTMENT MANAGER GUIDELINES AND RESTRICTIONS

#### Item 10

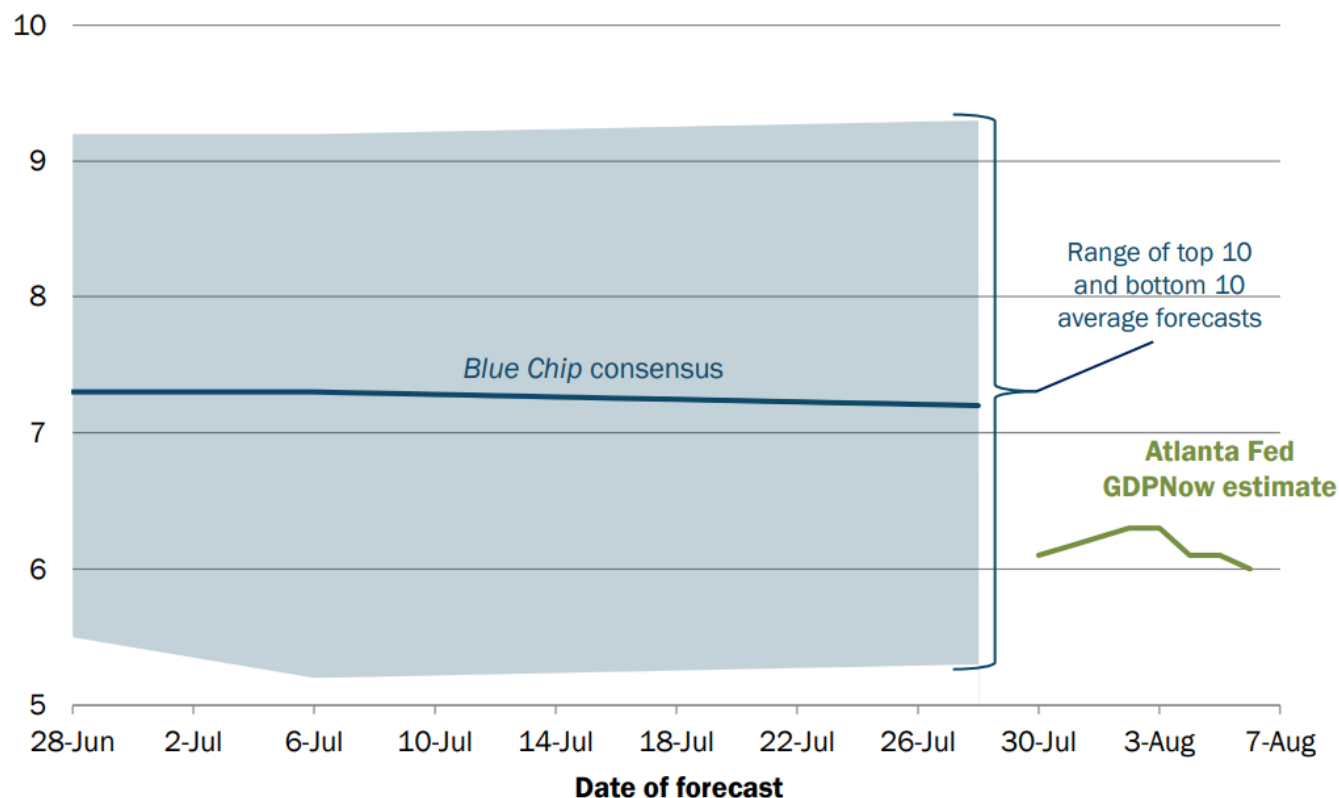
- a) The duration of any intermediate-term fixed income portfolio shall be between 3 years and 5 years. ~~The maturity of individual fixed income issues shall be restricted to 10 years.~~
- b) The duration of any short-term fixed income portfolio shall be between 1 year and 3 years. ~~The maturity of individual fixed income issues shall be restricted to 10 years unless self-amortizing in which case the average life is to be 5 years or less.~~

*Both changes provide more latitude for active fixed income managers to use “barbelled” yield curve strategies to take advantage of periods when the investment grade fixed income yield curve is “flattening” (i.e., the yields of short-term and longer-term bonds are moving closer to each other). The overall level of interest rate risk of all Unrestricted Asset fixed income managers will continue to be restrained by the duration restrictions in item 10 above (i.e., if a manager wants to add bonds with maturities considerably greater than 10 years without eventually causing duration to violate the duration maximums in Item 10, they will have to add some considerably shorter than 10-year maturity bonds to do so).*

# 2021 Q3 GDP Consensus Estimates

## Evolution of Atlanta Fed GDPNow real GDP estimate for 2021: Q3

Quarterly percent change (SAAR)



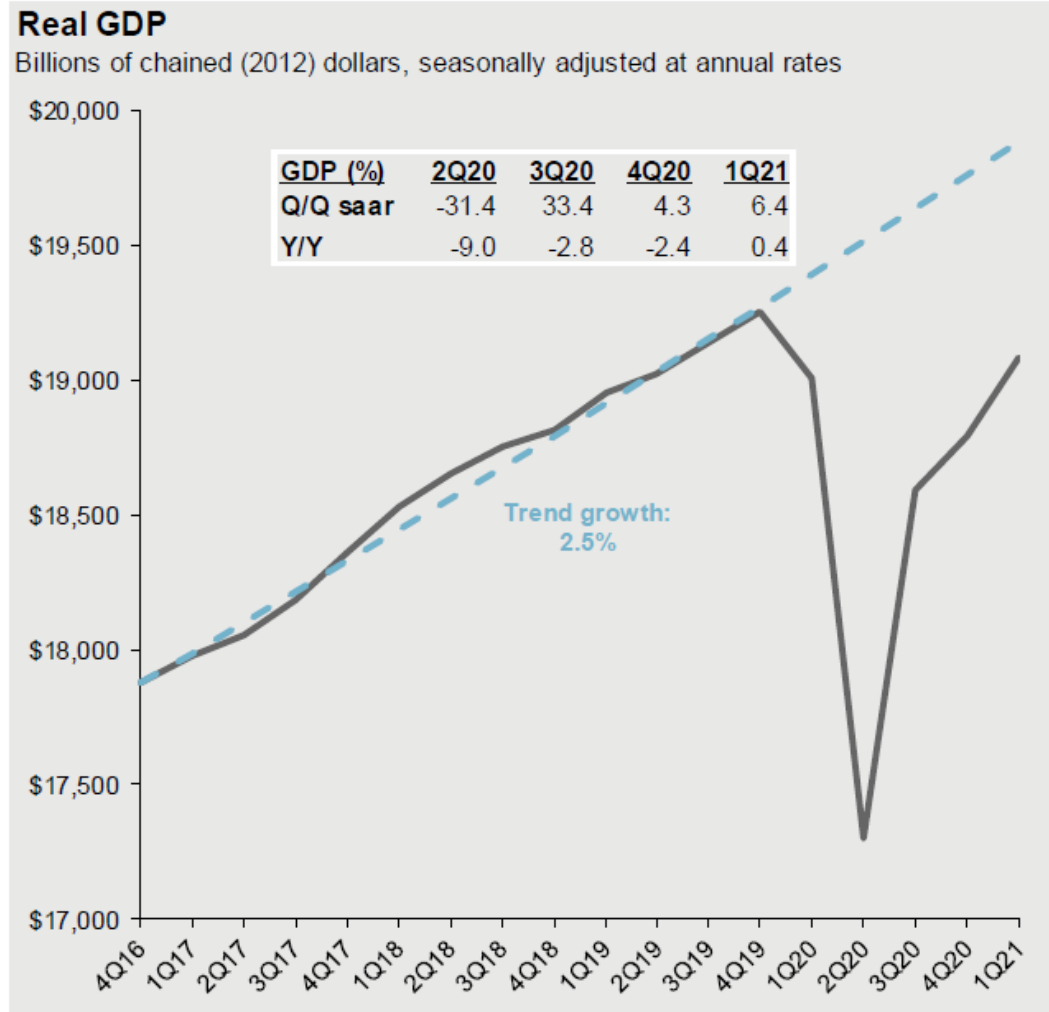
- 2<sup>nd</sup> QTR Real GDP Growth (Advance Estimate) was +6.5%.
- Consensus estimates for Q3 are between 5% and 9%.
- Atlanta Fed GDPNow Model estimating +6.0% for Q3.
- New York Fed estimating +3.7% for Q3.

Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

# U.S. Economy Healing

Consensus Expects a Return to Trend Growth by End of Year





# Dramatic Inflation Spikes Being Driven by Narrow Part of Market

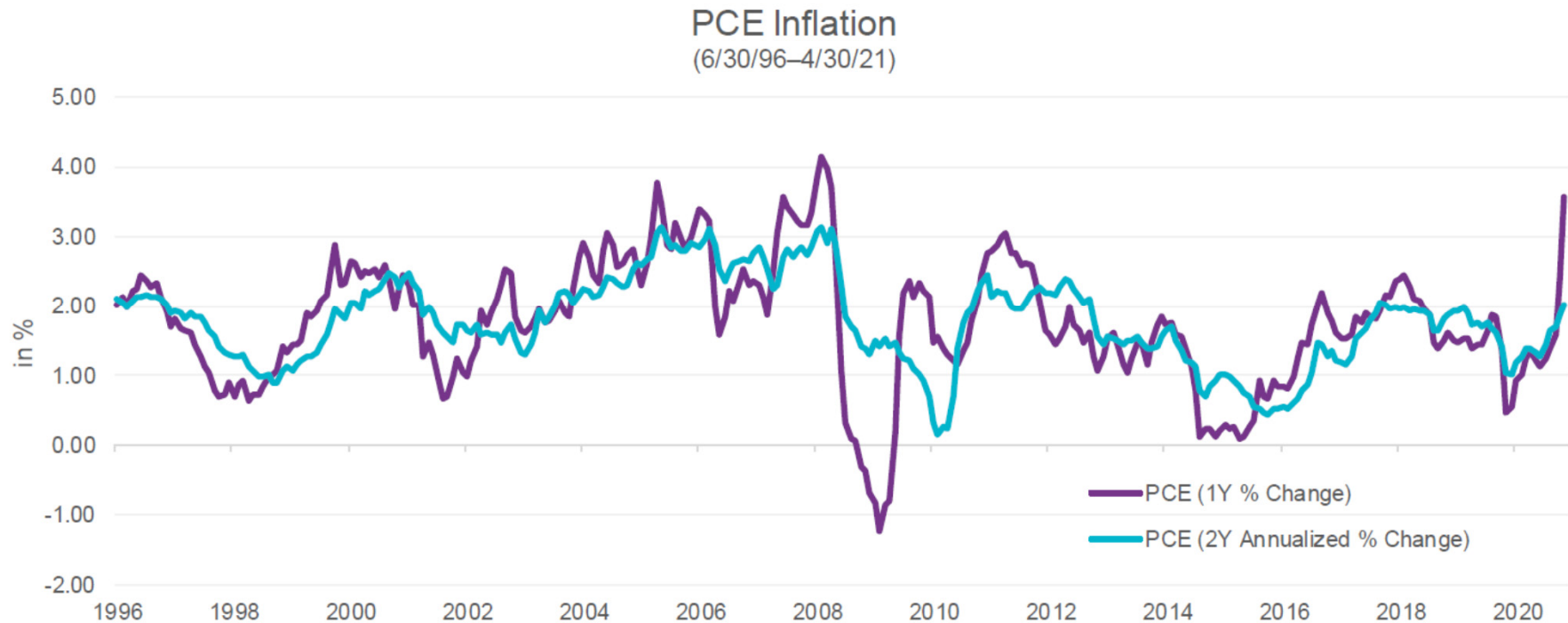
## Contributions to Monthly Core CPI Inflation

Percentage points, monthly rate



Source: BLS, CEA analysis.

# Inflation Returning to Pre-Pandemic Levels

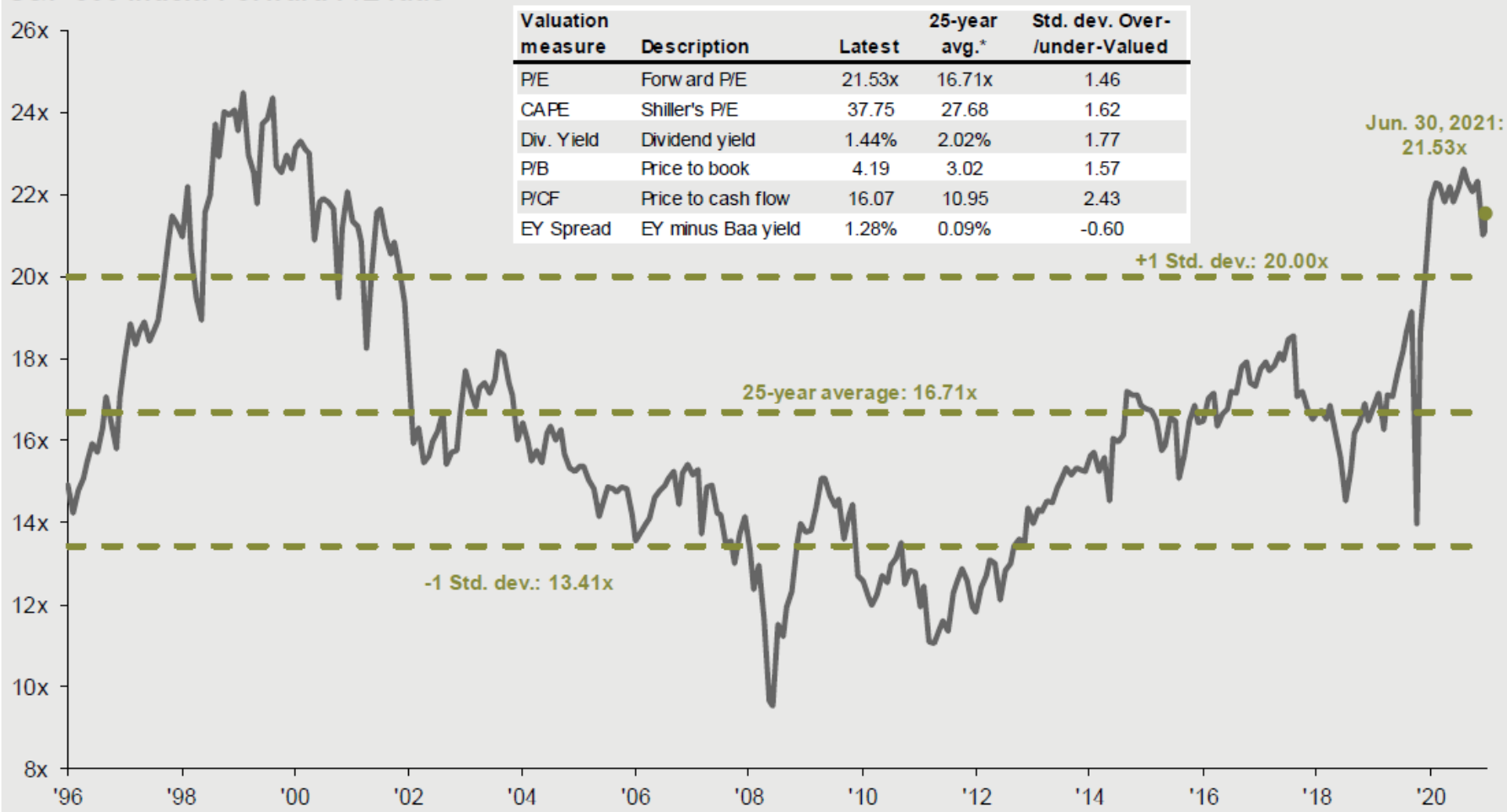


- One-year inflation readings reflect data distorted by the pandemic
- Two-year inflation data only reflects a 2% annualized inflation gain

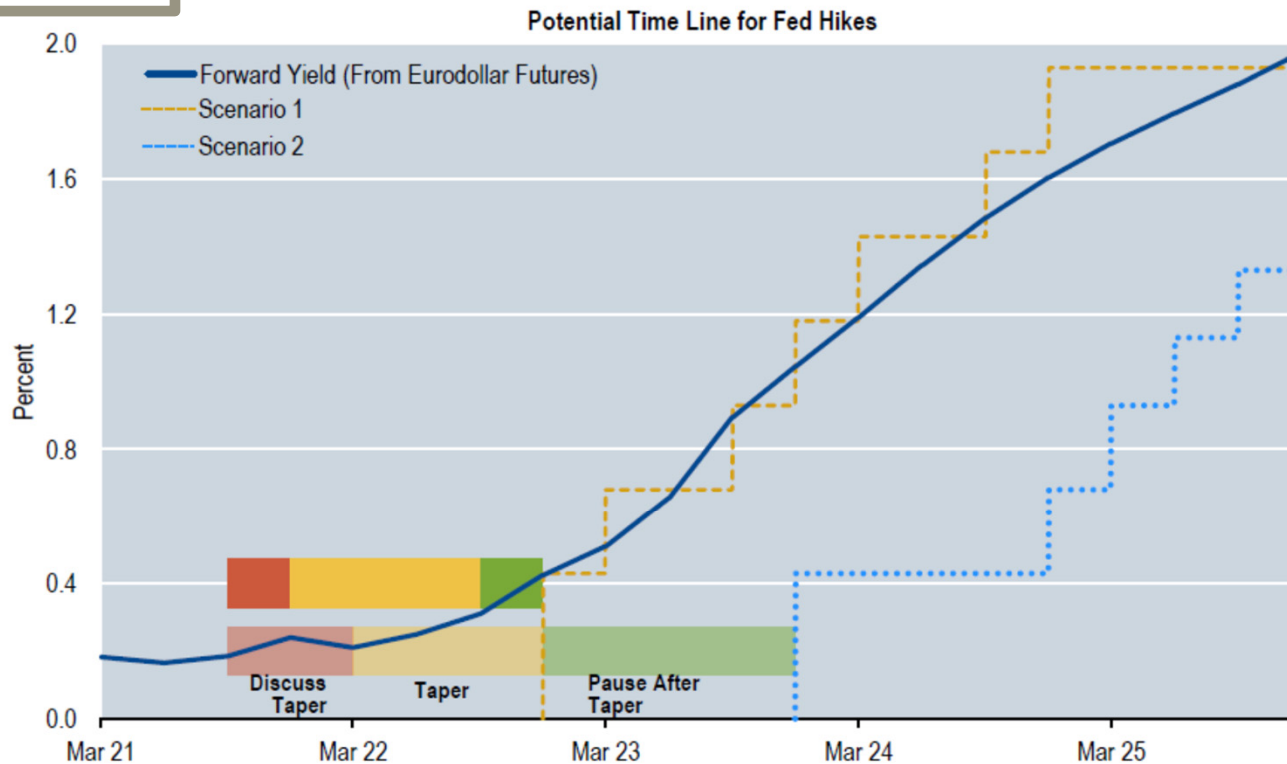
# Market is Expensive Relative to History

## Still Not as High as the Dot-Com Bubble

S&P 500 Index: Forward P/E ratio



# Potential Fed Action Timeline



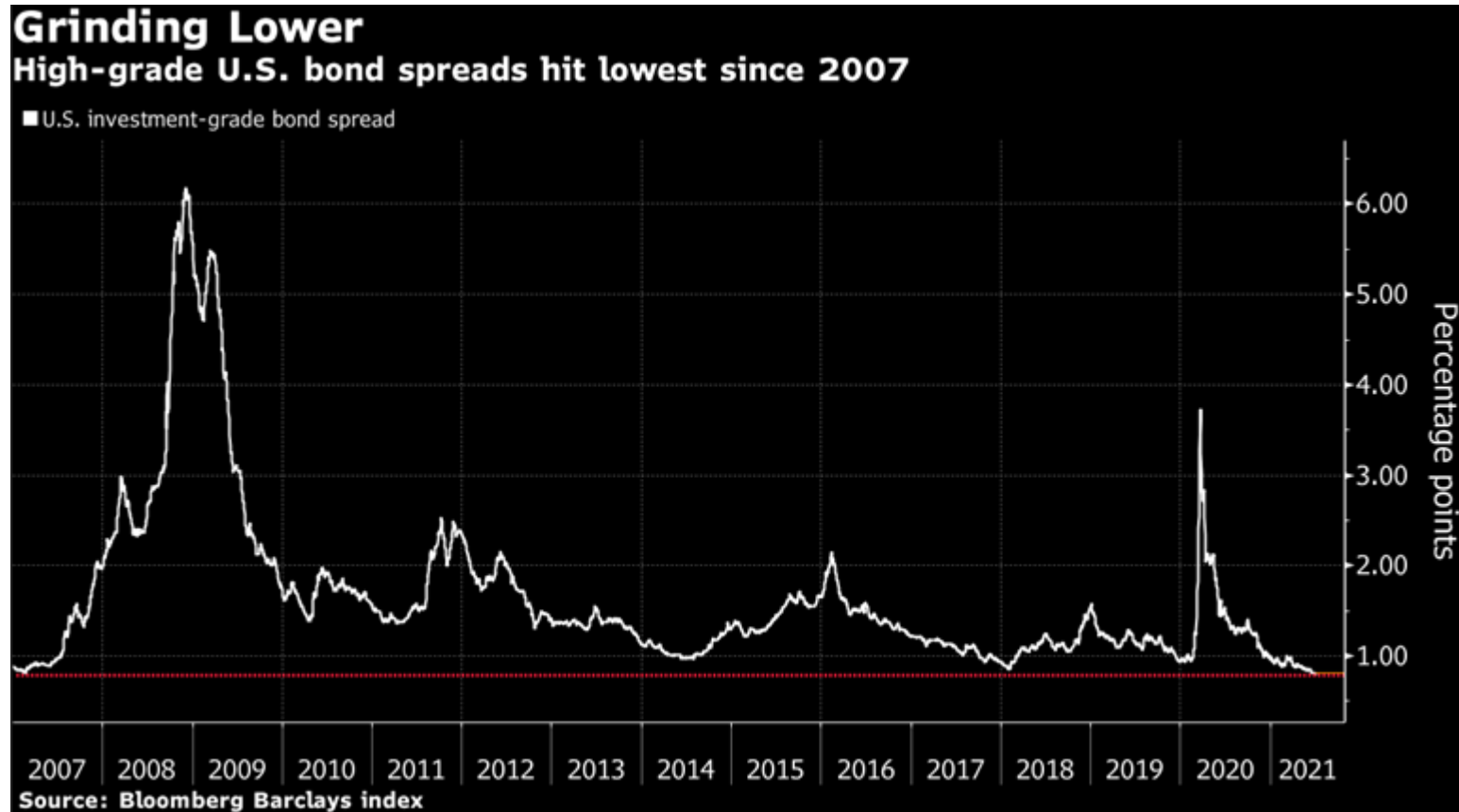
## Scenario 1: Consistent with Current Market Pricing:

- Powell discusses taper in Sep 2021
- Taper to start in Dec 2021 (+3 months)
- Taper to end in Sep 2022 (+12 months)
- First rate hike in Dec 2022 (+15 months)
- Funds rate reaches 1% in Dec 2023 (+27 months)
- Funds rates reaches 2% in Dec 2024 (+39 months)

## Scenario 2: Consistent with Previous Cycle:

- Bernanke mentioned taper in May 2013
- Taper started in Jan 2014 (+8 months)
- Taper ended in October 2014 (+18 months)
- First hike was in Dec 2015 (+31 months);
- Funds rate reached 1% in June 2017 (+50 months)
- Funds rate reaches 2% in June 2018 (+62 months)

## Generation Low Bond Spreads



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