



Independent  
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Institutions



Board Meeting

*Trust, Process, Results*

VEBA Trust & Unrestricted Asset - Investment Portfolio Review  
Neil Heppler, Co – President  
*September 1, 2022*

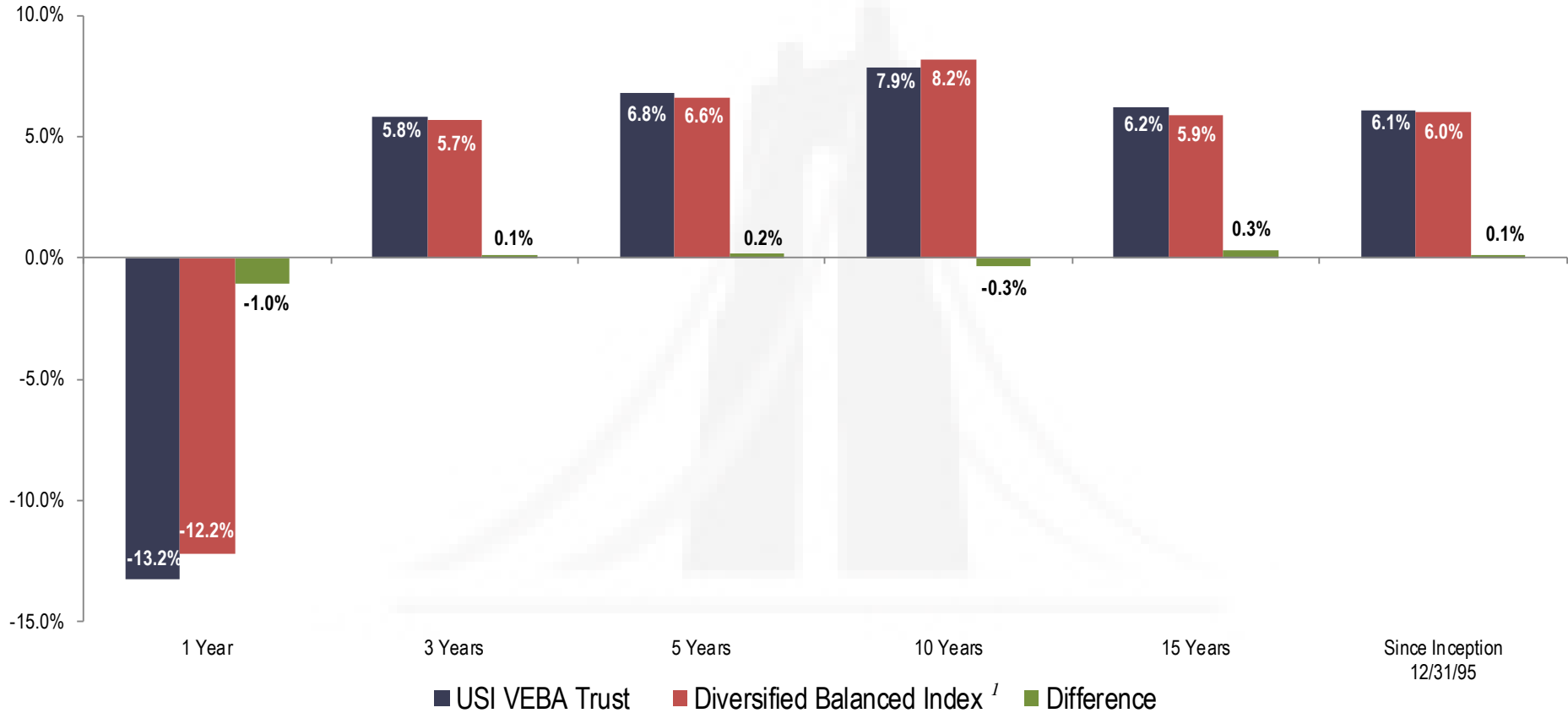
# Fiscal Year Market Review

	<u>Calendar</u>	<u>Fiscal Year</u>		<u>Calendar</u>	<u>Fiscal Year</u>
<u>Equities</u>	<u>YTD</u>	<u>2022</u>	<u>Fixed Income</u>	<u>YTD</u>	<u>2022</u>
U.S. Large Cap	-20.0%	-10.6%	Inv. Grade Bonds	-10.3%	-10.3%
U.S. Mid Cap	-21.6%	-17.3%	Inv. Grade Intermediate Bonds	-6.8%	-7.3%
U.S. Small Cap	-23.4%	-25.2%	Inv. Grade Credit	-13.8%	-13.6%
Int'l Equity	-19.6%	-17.8%	Inv. Grade Gov't	-9.0%	-8.8%
			3 Month Treasury Bill	0.1%	0.2%

# USI VEBA Trust

## Investment Portfolio Performance Summary Table

For Periods Ended June 30, 2022\*



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

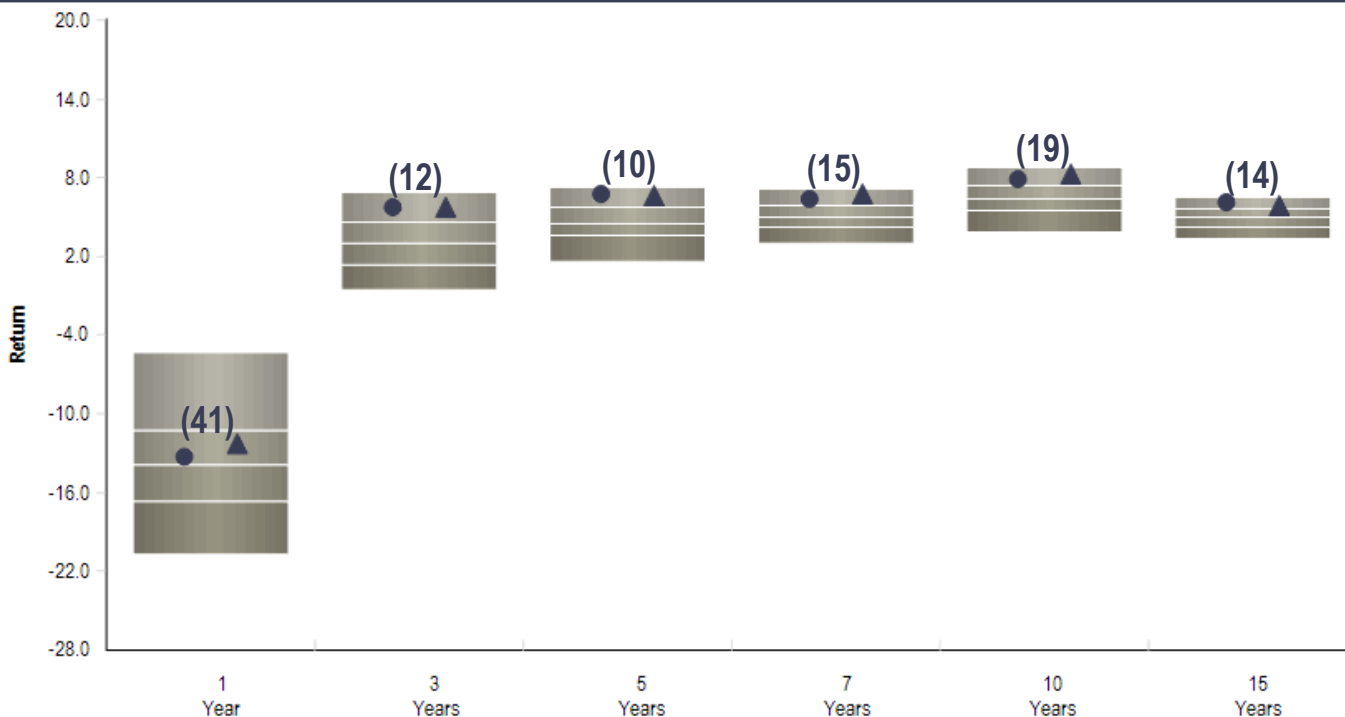
<sup>1</sup> The Diversified Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt/Corp Index, 42% S&P 500 Stock Index, 18% MSCI EAFE Index, and 10% Russell 2000 Index from 1/1/2001 to 9/30/14. From September 30, 2014 to September 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 Long-Term Trailing Periods

IM Corp DB <\$50mm Net  
Ending June 30, 2022



●	<b>VEBA Trust Composite</b>	<b>-13.2%</b>	<b>5.8%</b>	<b>6.8%</b>	<b>6.4%</b>	<b>7.9%</b>	<b>6.2%</b>
▲	<i>Diversified Balanced Index</i>	-12.2%	5.7%	6.6%	6.7%	8.2%	5.9%

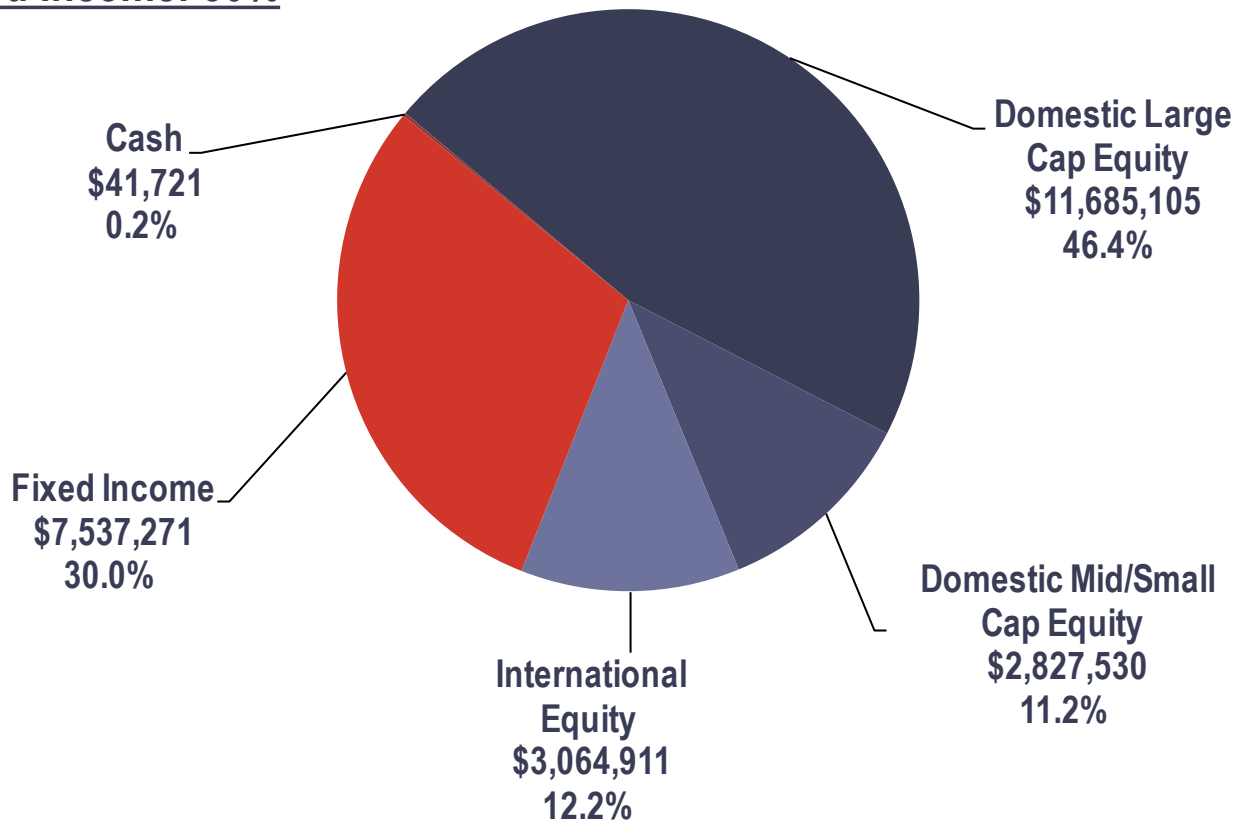
# USI VEBA Trust

## Asset Allocation as of June 30, 2022

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

## Summary of Portfolio Cash Flows

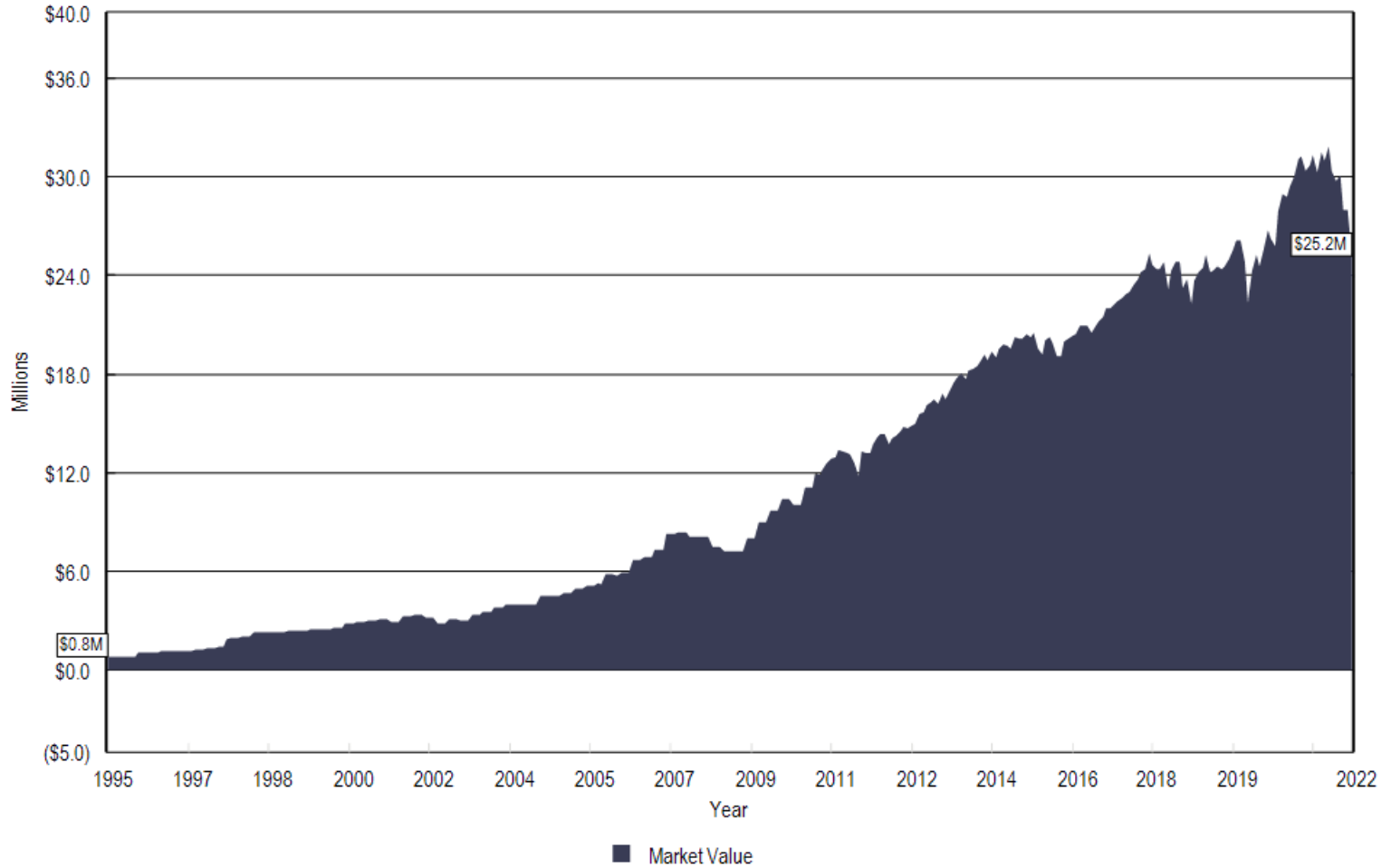
### Summary of Cash Flows

	Second Quarter	Year-To-Date	One Year	Three Years	Five Years	Inception 12/31/95
Beginning Market Value	\$30,116,084	\$31,890,792	\$30,412,789	\$24,344,711	\$22,628,385	\$806,117
Net Cash Flow	(\$1,234,285)	(\$1,234,554)	(\$1,234,427)	(\$3,683,326)	(\$5,794,524)	\$3,779,896
Net Investment Change	(\$3,725,260)	(\$5,499,699)	(\$4,021,823)	\$4,495,154	\$8,322,678	\$20,570,527
Ending Market Value	\$25,156,539	\$25,156,539	\$25,156,539	\$25,156,539	\$25,156,539	\$25,156,539

# USI VEBA Trust

## Portfolio Market Value History

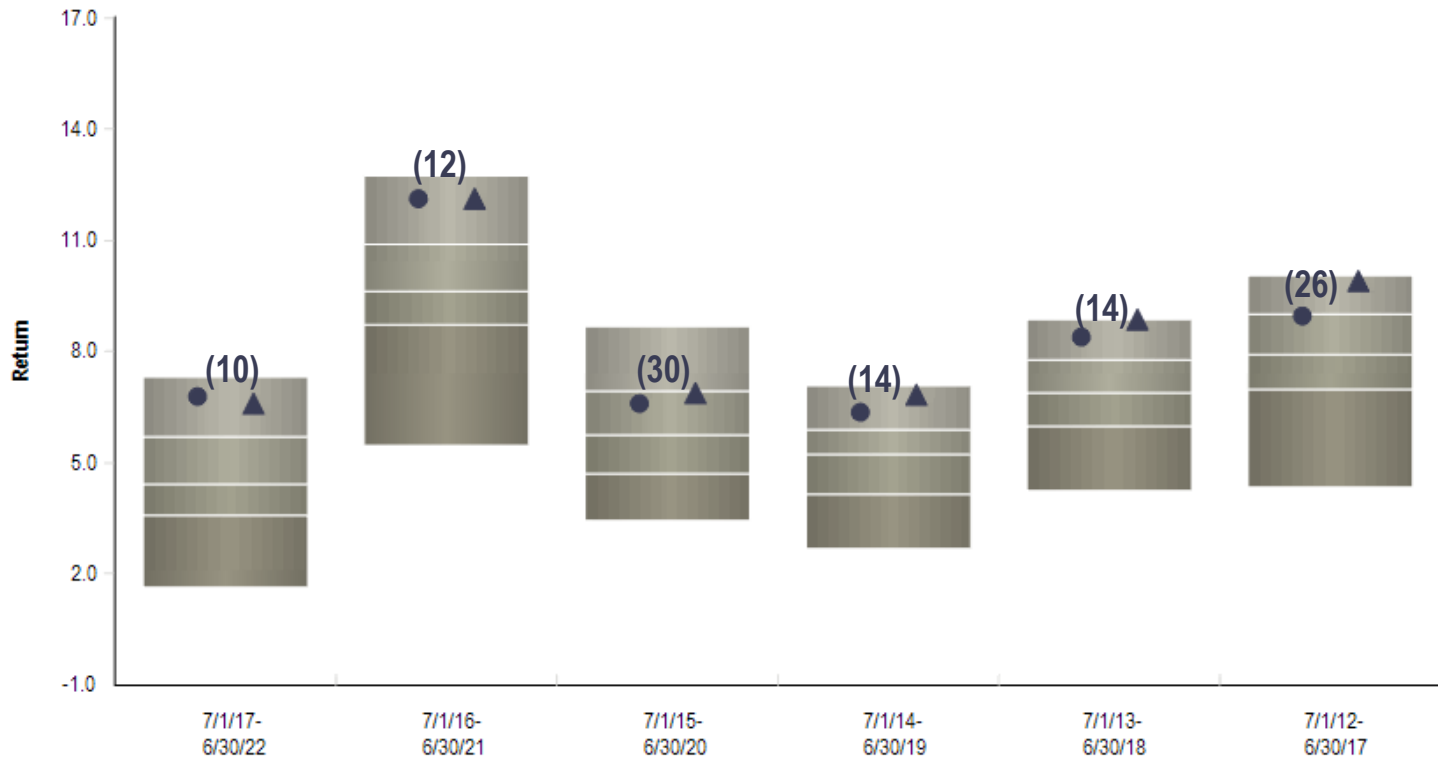
Market Value History



# USI VEBA Trust

## Rolling 5 Year Return Comparison

IM Corp DB <\$50mm Net  
Ending June 30, 2022



 <b>VEBA Trust Composite</b>	6.2%	12.4%	6.2%	5.7%	8.0%	8.6%
 <i>Diversified Balanced Index</i>	6.1%	12.1%	6.7%	6.7%	8.9%	9.8%



# USI VEBA Trust

## Investment Manager Change

### PORTFOLIO MANAGER CHANGES - Past Year

None

### WATCH LISTED MANAGERS - CURRENT

None

# USI VEBA Trust

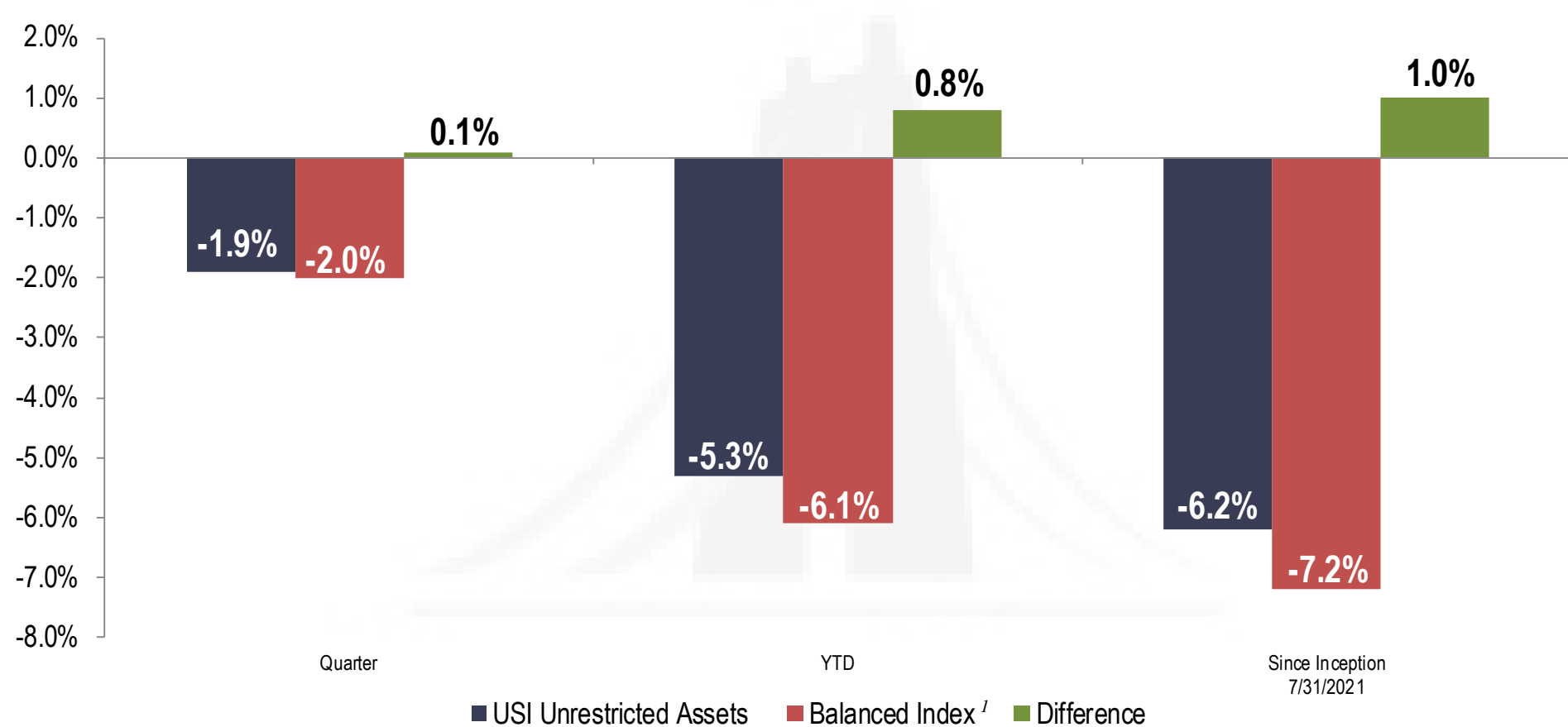
## Investment Program Fee Analysis

	Manager Fee	Asset Allocation (\$25.2 M)	Fee Percentage	Manager Fees (\$)
<u>Large Cap</u>				
Fifth Third Bank	0.32%	23.6%	0.076%	\$ 19,002
Fidelity Spartan 500 Index	0.02%	22.8%	0.003%	\$ 862
<u>Small Cap</u>				
Ivy Small Cap Growth	0.89%	5.2%	0.046%	\$ 11,548
Segall Bryant & Hamill	0.97%	6.1%	0.059%	\$ 14,842
<u>International</u>				
American Funds Europacific	0.46%	5.8%	0.027%	\$ 6,755
Hartford International	0.77%	6.3%	0.049%	\$ 12,292
<u>Fixed Income</u>				
Old National Bank	0.15%	20.1%	0.030%	\$ 7,591
Baird Intermediate	0.30%	9.8%	0.030%	\$ 7,430
<b>Total Manager Fees</b>			<b>0.32%</b>	<b>\$ 80,321</b>
<b>Fourth Street Consulting Fee</b>			<b>0.04%</b>	<b>\$ 10,000</b>
<b>Custodial Fees</b>			<b>0.10%</b>	<b>\$ 25,157</b>
<b><u>Total Fee</u></b>			<b><u>0.46%</u></b>	<b><u>\$ 115,477</u></b>

# USI Unrestricted Assets

## Investment Portfolio Performance Summary Table

For Periods Ended June 30, 2022\*



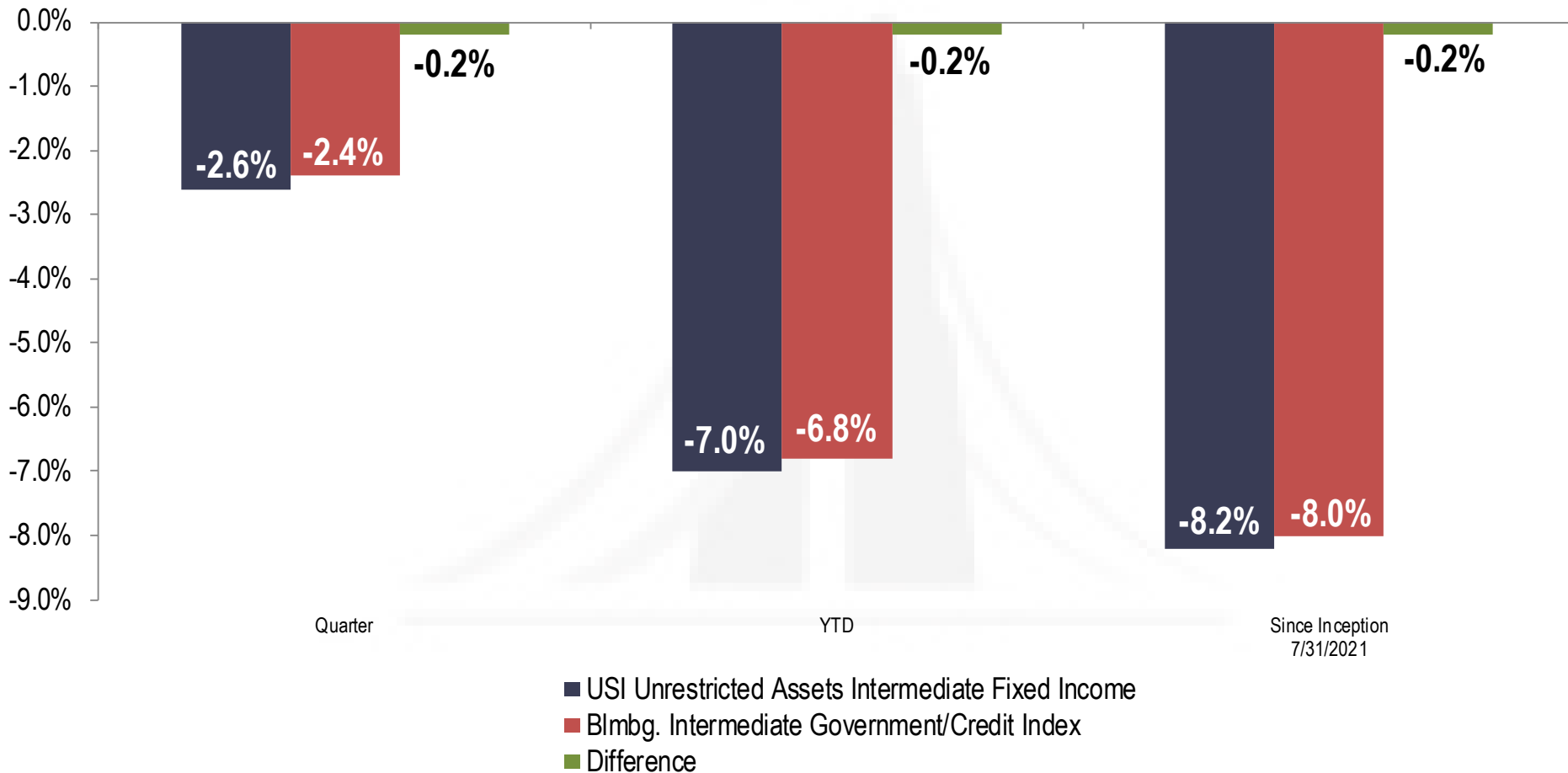
\*Returns are presented net of investment management fees.

<sup>1</sup> The Balanced Index is comprised of 80% of the Bloomberg Intermediate U.S. Government/Credit Index and 20% of the ICE BofA 1-3 Year Gov/Corp Index

# USI Unrestricted Assets

## Intermediate Fixed Income Performance Summary Table

For Periods Ended June 30, 2022\*

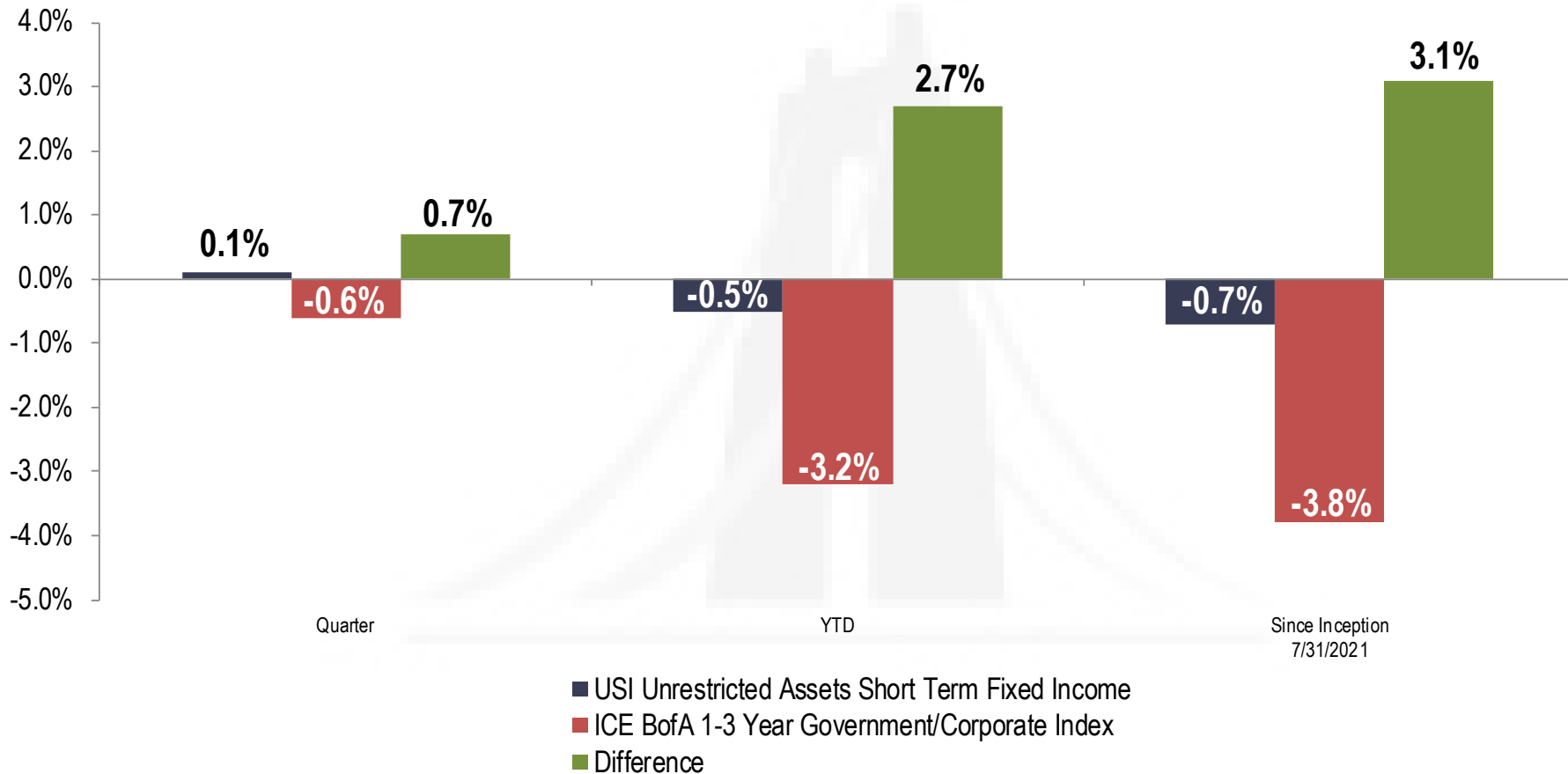


\*Returns are presented net of investment management fees.

# USI Unrestricted Assets

## Short Term Fixed Income Performance Summary Table

For Periods Ended June 30, 2022\*



\*Returns are presented net of investment management fees.

# USI Unrestricted Assets

## Asset Allocation as of June 30, 2022

### Short Duration

Policy Target: 20%

Policy Range: 0-30%

### Intermediate Fixed Income

Policy Target: 80%

Policy Range: 70-100%

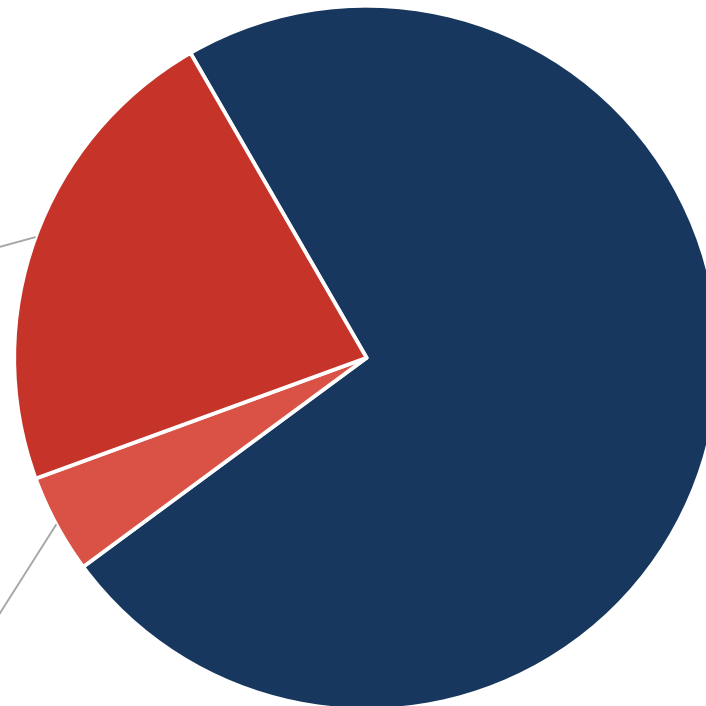
### Certificates of Deposit & Cash

\$24,097,943

22.2%

\$79,322,765

73.2%



### Government Bonds > 1 Year Duration

\$4,928,163

4.5%

**Market Value \$108,348,871**

Estimated Annual Income: \$3,242,418 or 3.00% (net of investment management fees)

# USI Unrestricted Assets Manager Scorecard\*

## Fund Watchlist/Compliance

Fund Name	3 Yr Perf vs. Bench	3 Yr Perf vs. Peer	5 Yr Perf vs. Bench	5 Yr Perf vs. Peer	3 Yr Alpha vs. Bench	3 Yr Alpha vs. Peer	5 Yr Alpha vs. Bench	5 Yr Alpha vs. Peer
Fifth Third Bank	✓	✓	✓	✓	✓	✓	✓	✓
Johnson Asset Mgmt.	✗	✗	✓	✓	✗	✗	✗	✗
Longfellow Investment Mgmt.	✗	✗	✓	✗	✗	✗	✓	✗
Old National Bank	✓	✗	✗	✗	✗	✗	✓	✗

\*Data shown includes actual returns realized since each manager's month-end inception date in the USI Unrestricted Assets portfolio combined with the historical intermediate composite returns for Fifth Third, Johnson and Longfellow. The Old National Bank data shown includes actual returns since their month-end inception in the USI Unrestricted Assets portfolio combined with the historical net results of their USI VEBA intermediate bond portfolio.

# USI Unrestricted Assets

## Summary of Portfolio Cash Flows

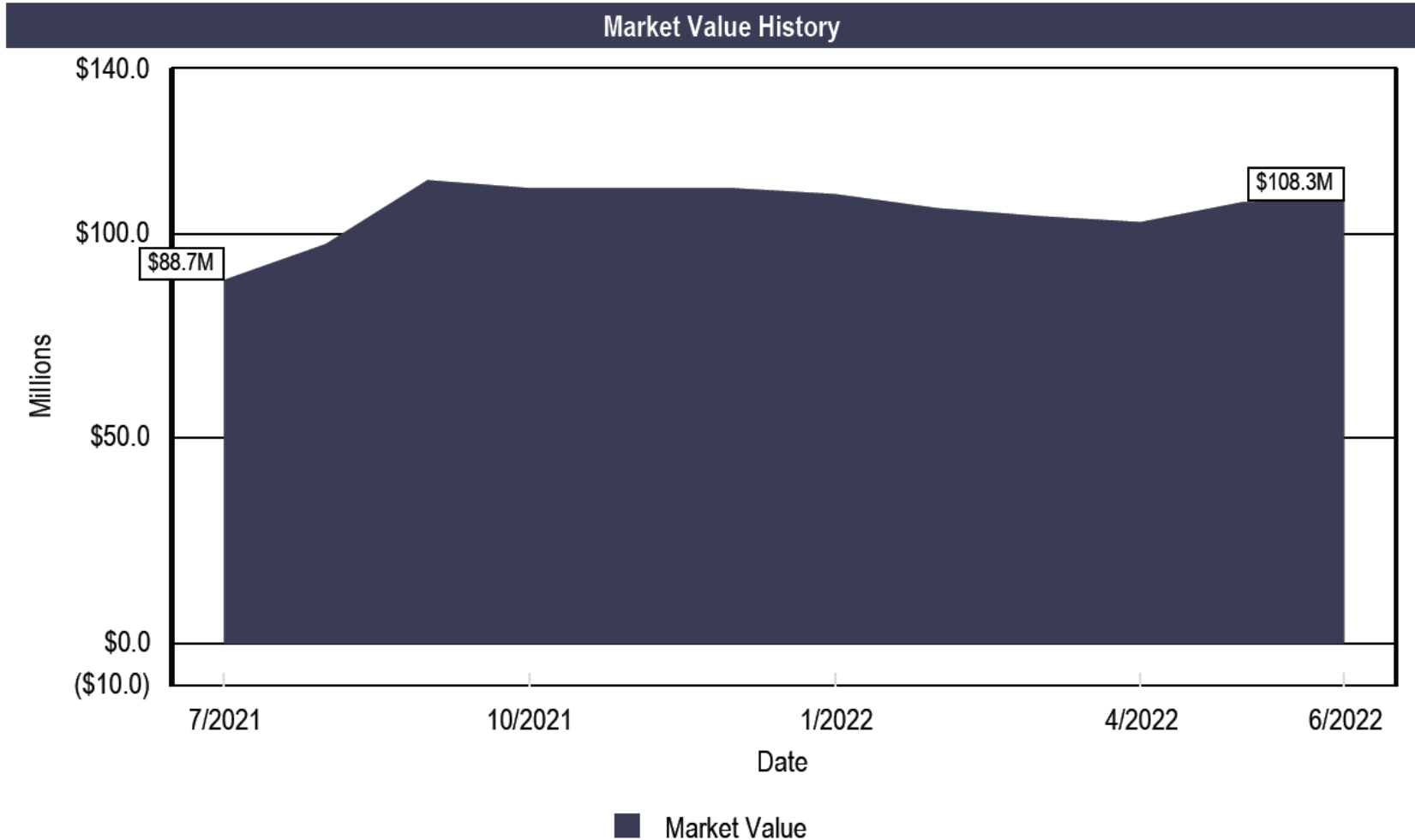
### Summary of Cash Flows

	Second Quarter	Year-To-Date	Inception 7/31/21
Beginning Market Value	\$104,409,044	\$111,137,715	\$109,340,005
Contributions	\$7,332,930	\$7,332,930	\$12,632,930
Distributions	(\$1,391,784)	(\$4,275,768)	(\$6,809,660)
Net Cash Flows	\$5,941,146	\$3,057,162	\$5,823,270
Income	\$591,749	\$1,178,286	\$2,188,358
Net Investment Change	(\$2,001,318)	(\$5,846,006)	(\$9,002,761)
Fees	(\$46,042)	(\$91,613)	(\$149,541)
Ending Market Value	\$108,348,871	\$108,348,871	\$108,348,871



# USI Unrestricted Assets

## Portfolio Market Value History





# USI Unrestricted Assets

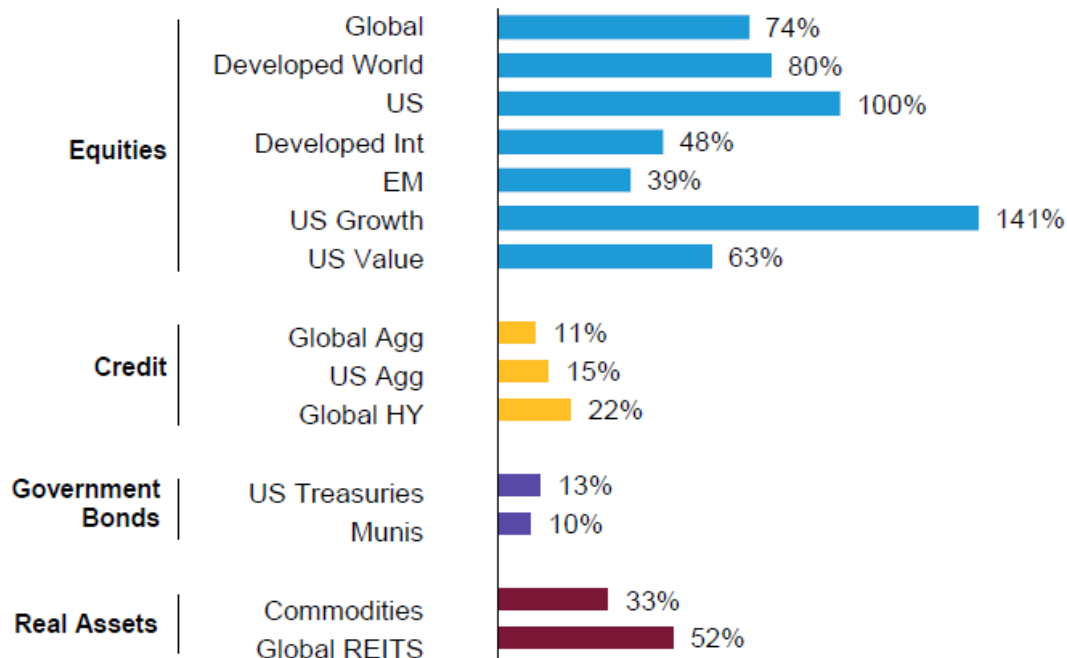
## Investment Program Fee Analysis



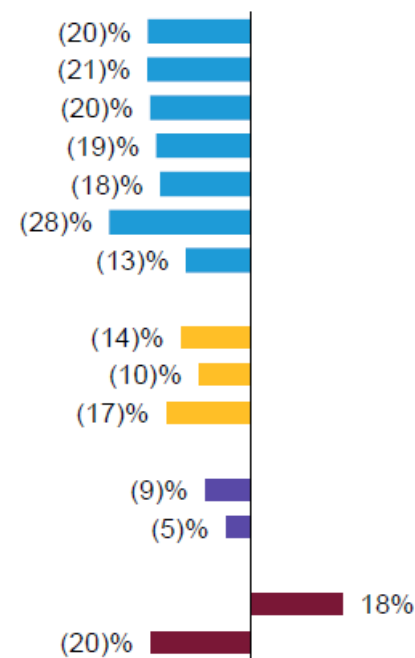
	Manager Fee	Asset Allocation (\$79.3 M)	Fee Percentage	Manager Fees (\$)
<u>Intermediate Fixed Income</u>				
Fifth Third Bank	0.20%	11.7%	0.023%	\$ 18,625
Johnson Asset Mgmt.	0.20%	34.4%	0.069%	\$ 54,558
Longfellow Investment Mgmt.	0.25%	34.8%	0.087%	\$ 68,912
Old National Bank	0.20%	19.1%	0.038%	\$ 30,333
	<b>Total Manager Fees</b>		<b>0.22%</b>	<b>\$ 172,428</b>
		<b>Fourth Street Consulting Fee</b>	<b>0.05%</b>	<b>\$ 39,661</b>
		<b>Custodial Fees</b>	<b>0.03%</b>	<b>\$ 16,454</b>
		<b><u>Total Fee</u></b>	<b><u>0.29%</u></b>	<b><u>\$ 228,543</u></b>

# Year-To-Date Returns vs. Prior 3 Years

2019–2021 Cumulative Return



YTD 2022



# Length and Decline of Historical Bear Markets

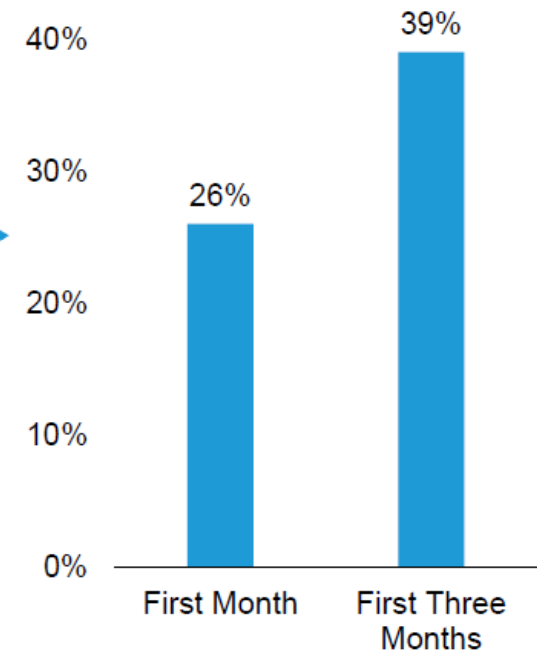
## S&P 500 Bear Markets Since 1950

Peak	Trough	% Decline	# of Days	Breakeven	# of Days	Years
7/15/1957	10/22/1957	-20.7%	99	9/16/1958	329	0.9
12/12/1961	6/26/1962	-28.0%	196	9/3/1963	434	1.2
2/9/1966	10/7/1966	-22.2%	240	5/4/1967	209	0.6
11/29/1968	5/26/1970	-36.1%	543	3/6/1972	650	1.8
1/11/1973	10/3/1974	-48.2%	630	7/17/1980	2114	5.8
9/21/1976	3/6/1978	-19.4%	531	8/15/1979	527	1.4
11/28/1980	8/12/1982	-27.1%	622	11/3/1982	83	0.2
8/25/1987	12/4/1987	-33.5%	101	7/26/1989	600	1.6
7/16/1990	10/11/1990	-19.9%	87	2/13/1991	125	0.3
7/17/1998	8/31/1998	-19.3%	45	11/23/1998	84	0.2
3/24/2000	10/9/2002	-49.1%	929	5/30/2007	1694	4.6
10/9/2007	3/9/2009	-56.8%	517	3/28/2013	1480	4.1
4/29/2011	10/3/2011	-19.4%	157	2/24/2012	144	0.4
9/20/2018	12/24/2018	-19.8%	95	4/23/2019	120	0.3
2/19/2020	3/23/2020	-33.9%	33	8/18/2020	181	0.5
<b>Averages</b>		<b>-30.2%</b>	<b>338</b>		<b>603</b>	<b>1.7</b>

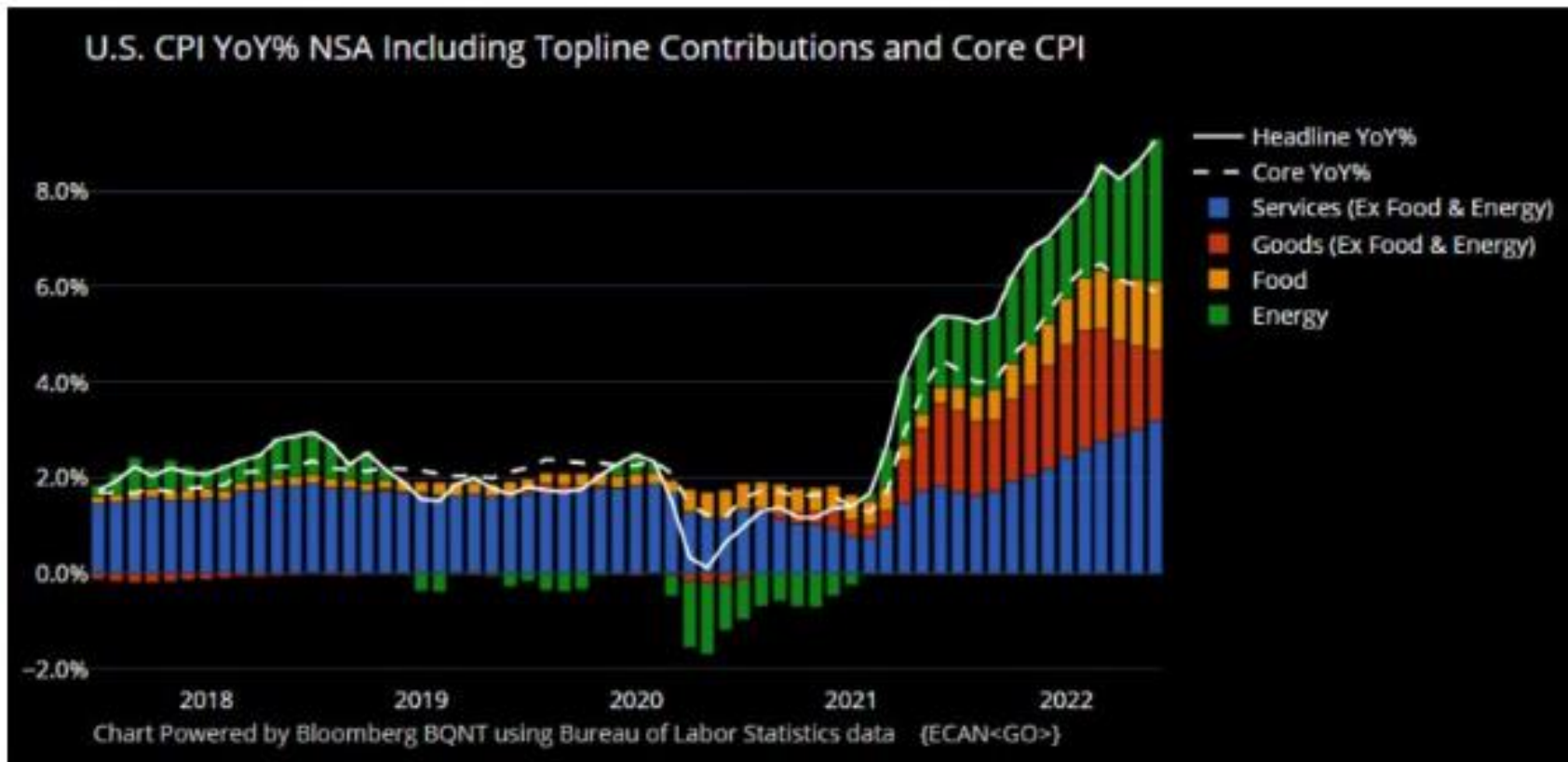
# Recoveries Come Quick

Peak Month	Peak-to-Trough Months	Peak-to-Trough Fall	Peak-to-Recovery Months	Weeks from Start to Down 20%	% of Recovery in 1st Month Following Trough	% of Recovery in 1st 3 Months Following Trough
5/29/1946	12	(25)%	40	15	25%	31%
12/12/1961	6	(27)%	16	24	22%	19%
2/9/1966	8	(20)%	13	34	36%	46%
11/29/1968	18	(33)%	28	73	11%	31%
1/11/1973	21	(45)%	42	47	19%	15%
11/28/1980	20	(20)%	22	89	52%	97%
8/25/1987	2	(33)%	21	8	14%	22%
9/1/2000	25	(47)%	74	27	13%	20%
10/9/2007	17	(55)%	54	40	20%	30%
2/19/2020	1	(34)%	6	3	49%	78%
1/3/2022	N/A	(22)%	N/A	N/A	N/A	N/A
<b>Mean Excluding 2022</b>	<b>13</b>	<b>(34)%</b>	<b>32</b>	<b>46</b>	<b>26%</b>	<b>39%</b>

After a Bear Market Troughs  
% Recovery Occurring In...



# CPI Breakdown Year-Over-Year

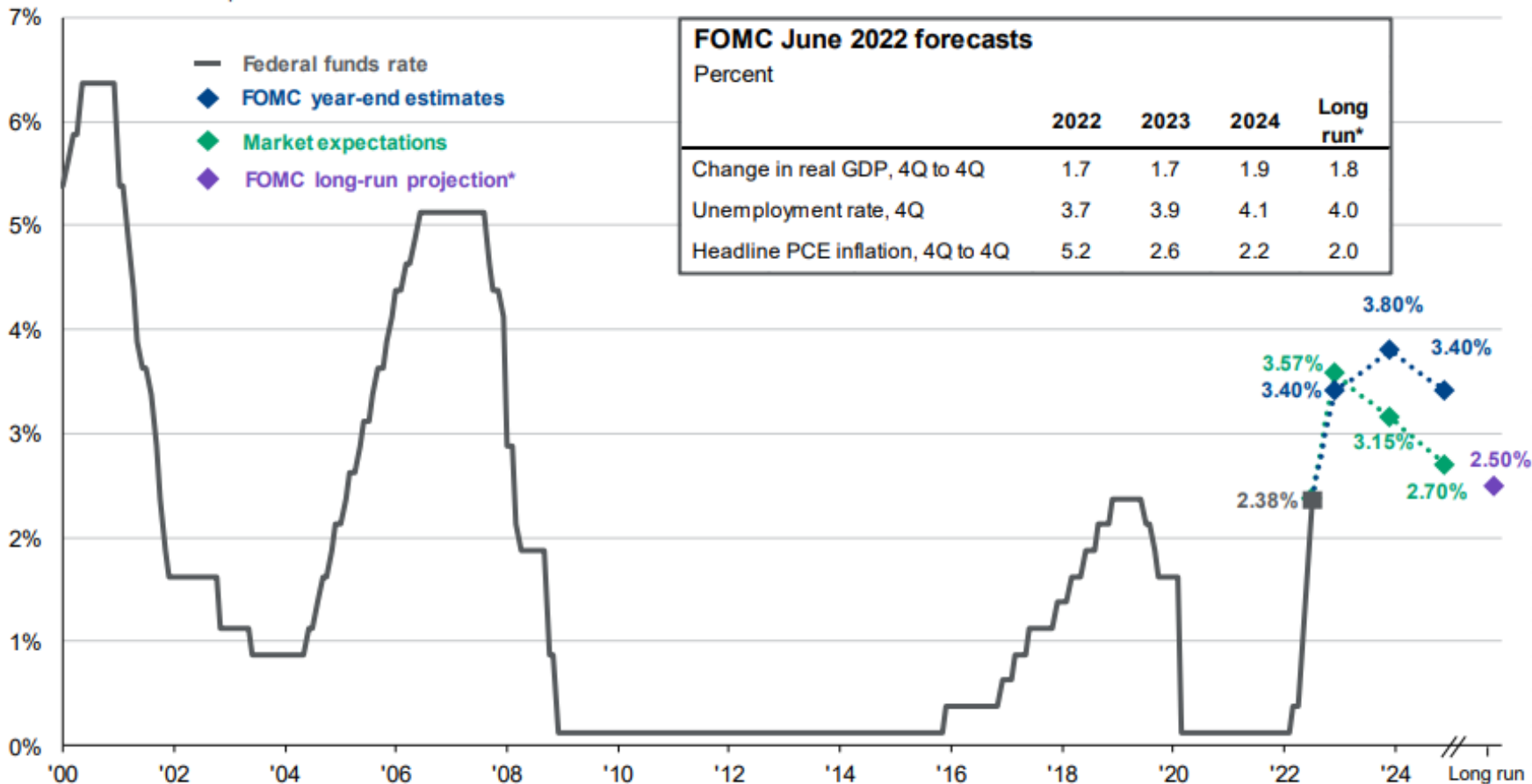


Bloomberg

# Fed Raising Rates to Combat Inflation

## Federal funds rate expectations

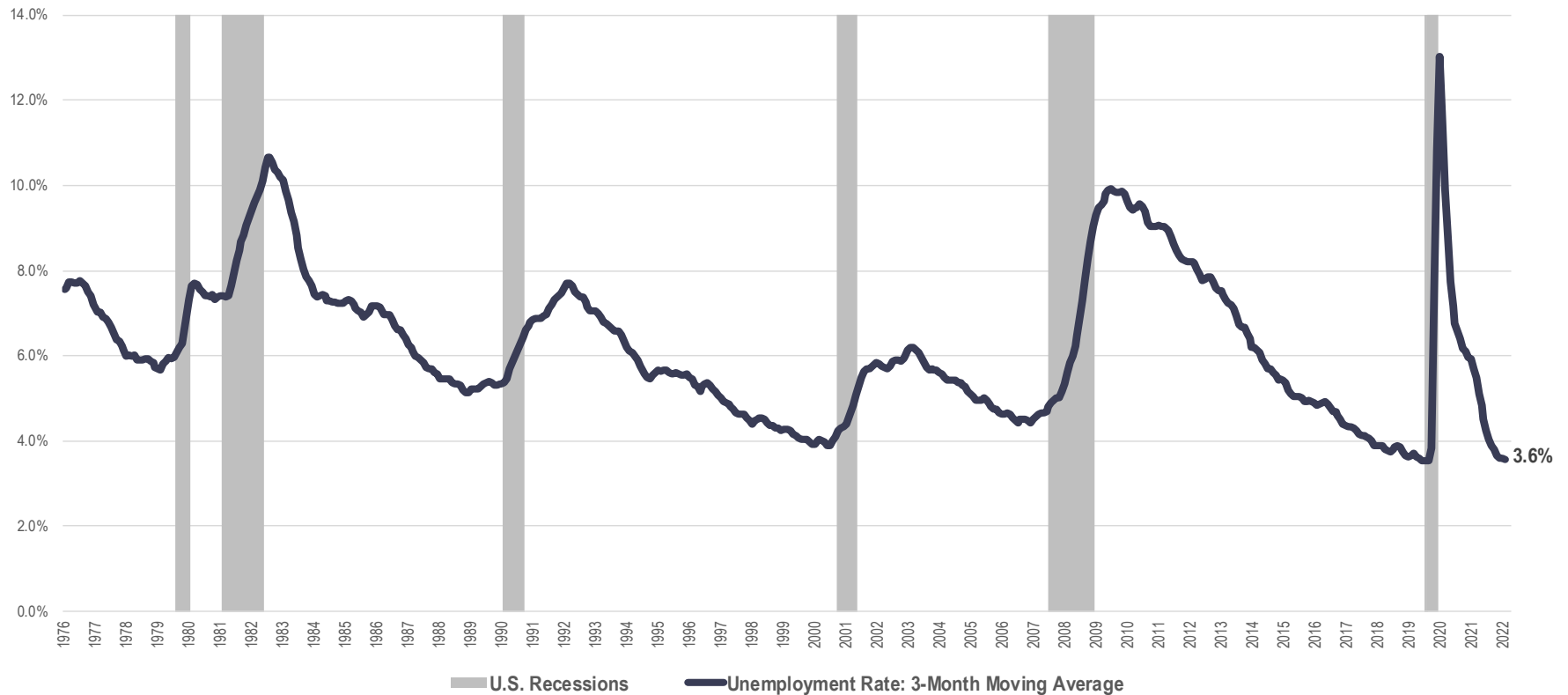
FOMC and market expectations for the federal funds rate



FOMC June 2022 forecasts				
Percent	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	1.7	1.7	1.9	1.8
Unemployment rate, 4Q	3.7	3.9	4.1	4.0
Headline PCE inflation, 4Q to 4Q	5.2	2.6	2.2	2.0

# Unemployment Rate

## Recession Indicator: No Recession

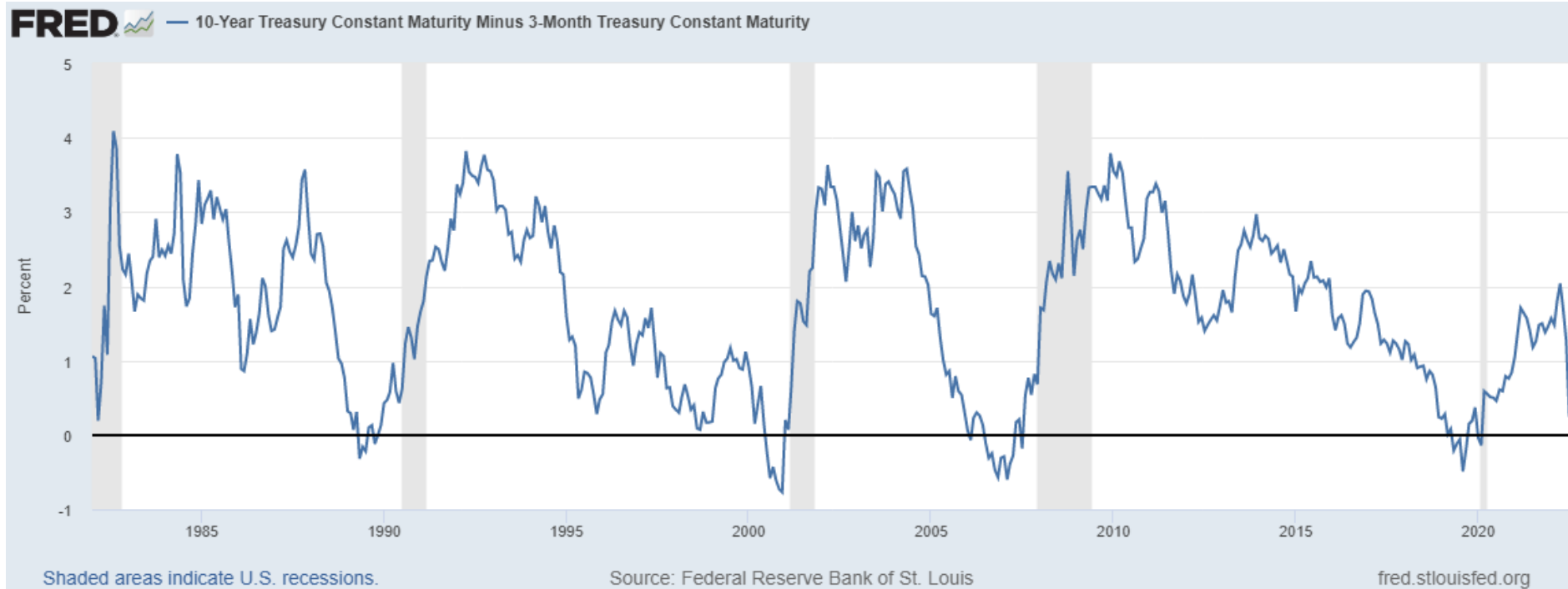


- From World War II up until the Covid-19 pandemic, every time the three-month average of the unemployment rate has ticked higher by 0.3% a recession has followed
- Current three-month average unemployment is 3.6%; July unemployment rate matched the 50 year low of 3.5% reached in early 2020 prior to the pandemic



# 3-Month/10-Year Treasury Yield Spread

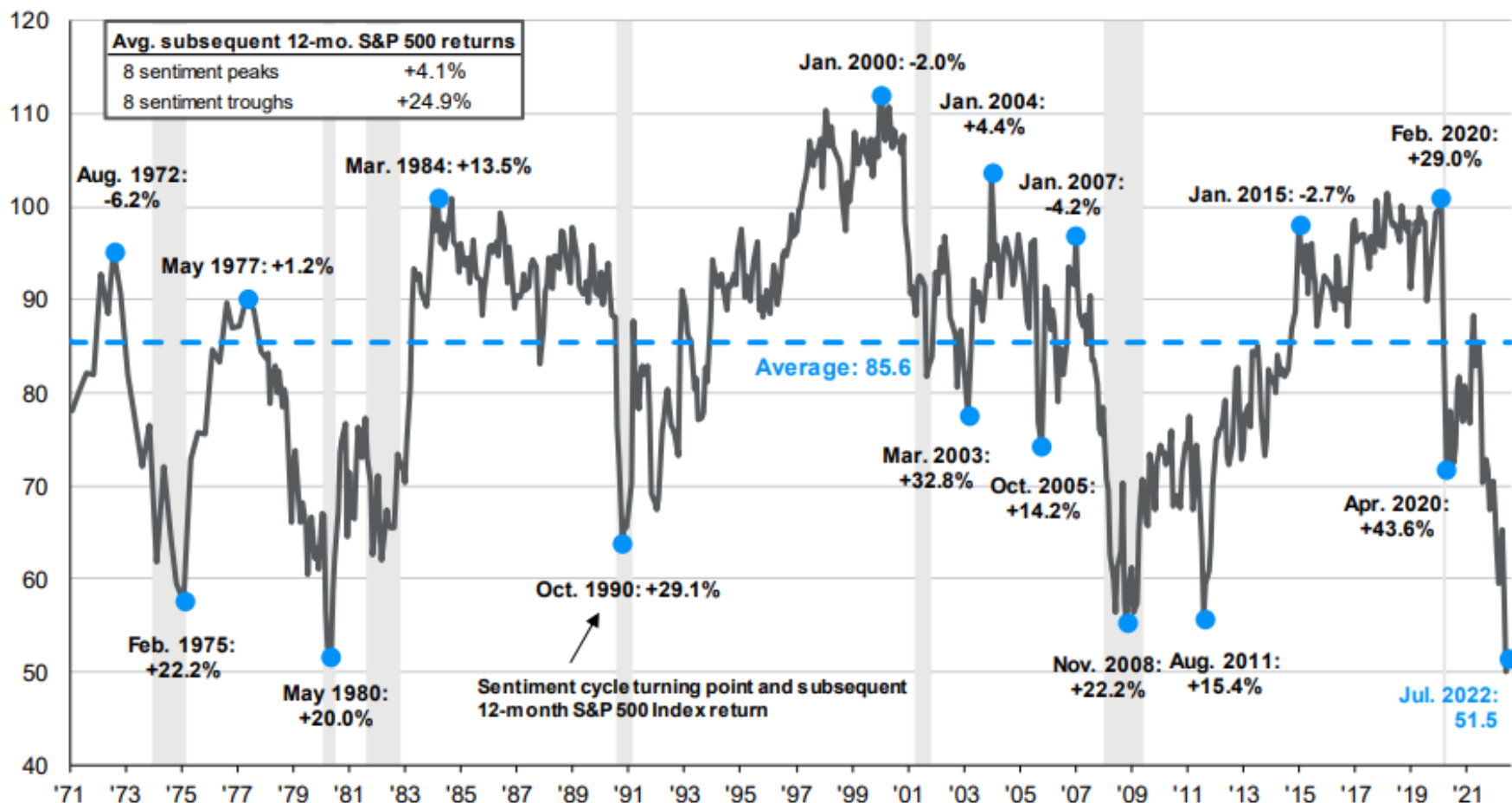
## Recession Indicator: No Recession (Yet)



- 130 bp spread at 6/30/22; spread has now declined to 25 bps as of 8/5/22
- Inverted yield curve between 10's and 30-day Bills has preceded every recession since WWII
- But not every inversion of the yield curve was followed by recession; "False Positives"

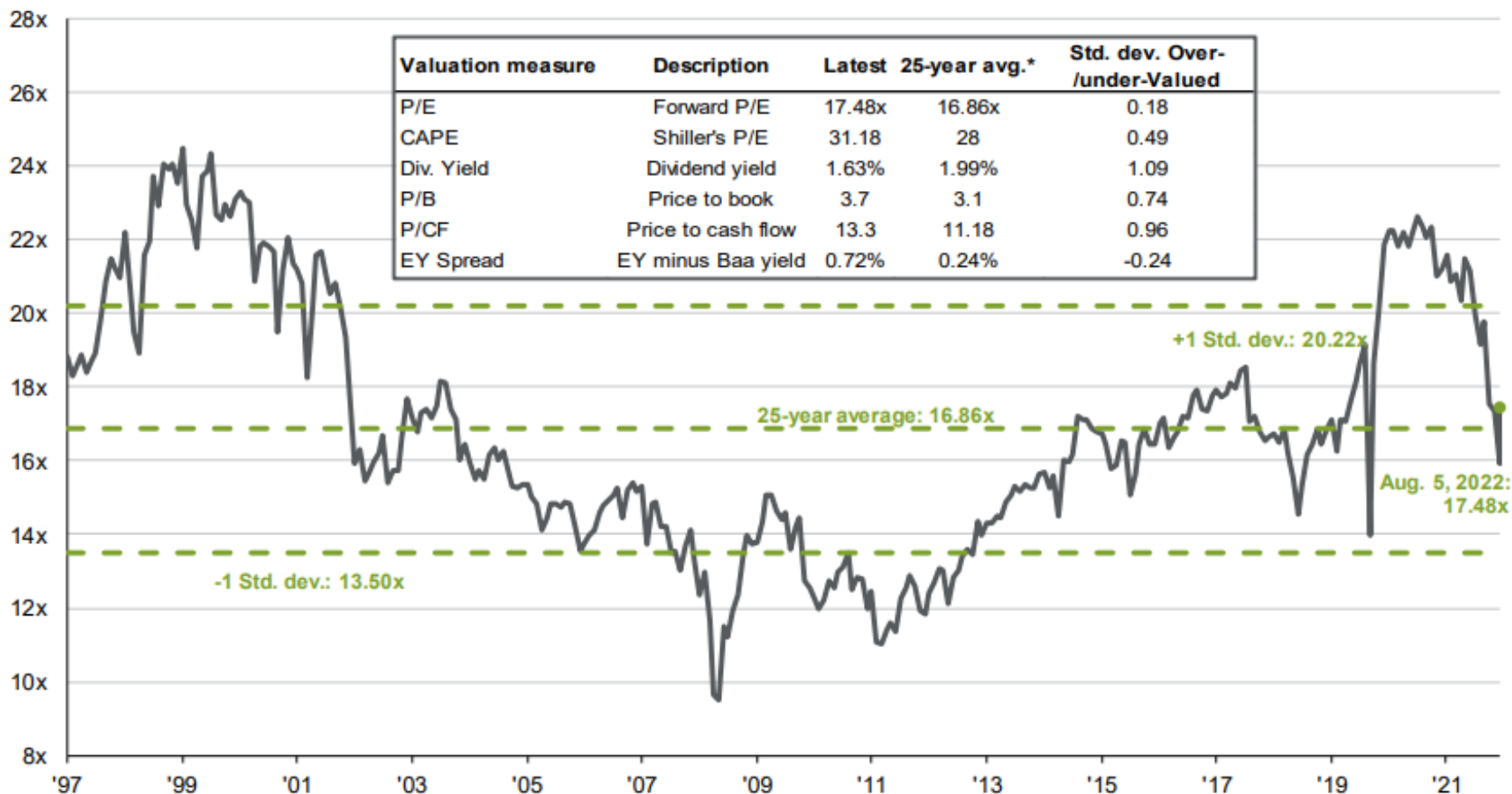
# Consumer Sentiment is Historically Low

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



# S&P 500 Valuation Near Its 25-Year Average

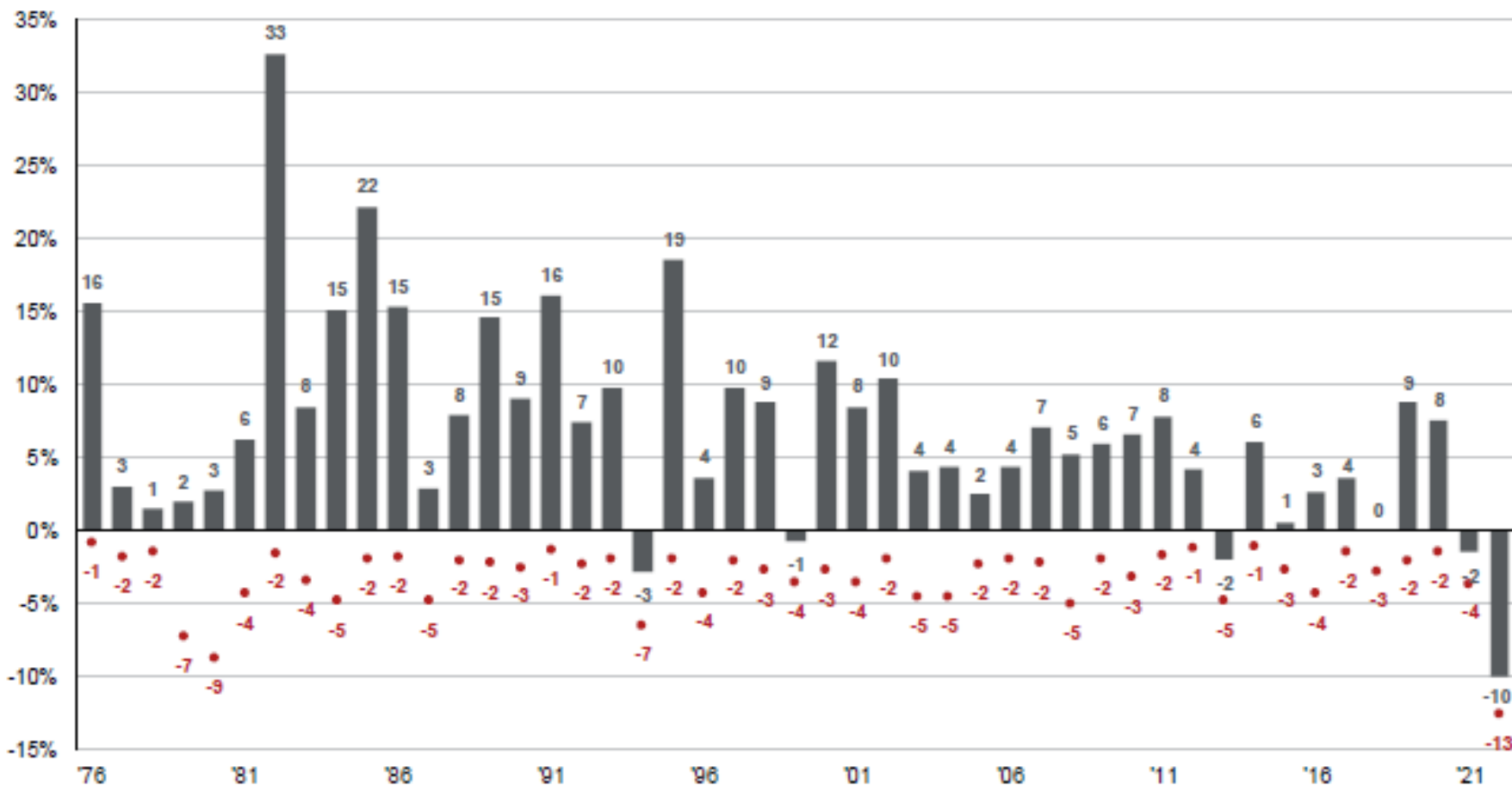
S&P 500 Index: Forward P/E ratio



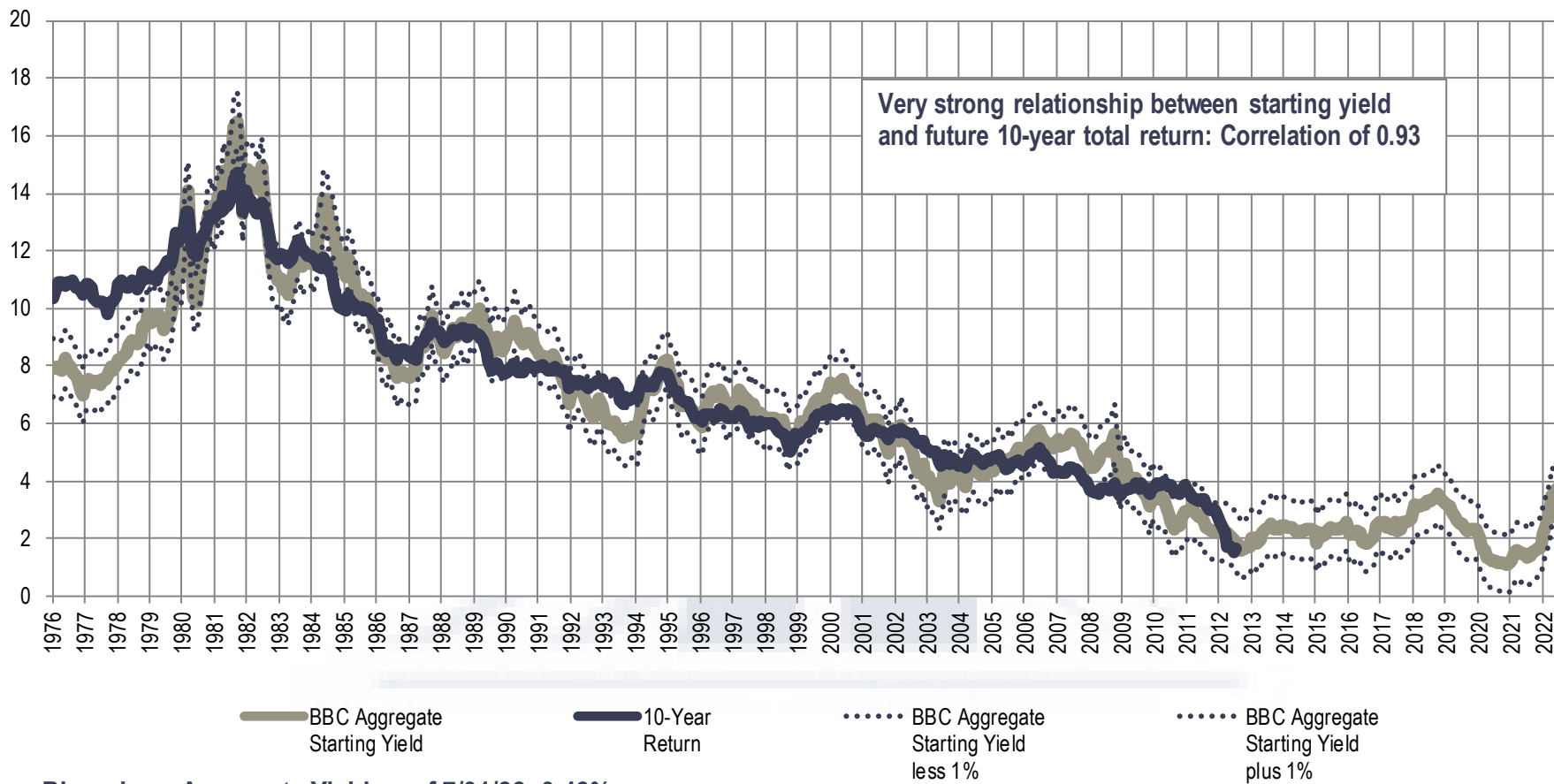
# Historic Declines for I.G. Bonds

## Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.1%, annual returns positive in 42 of 48 years



# Bond Performance Follows Yields

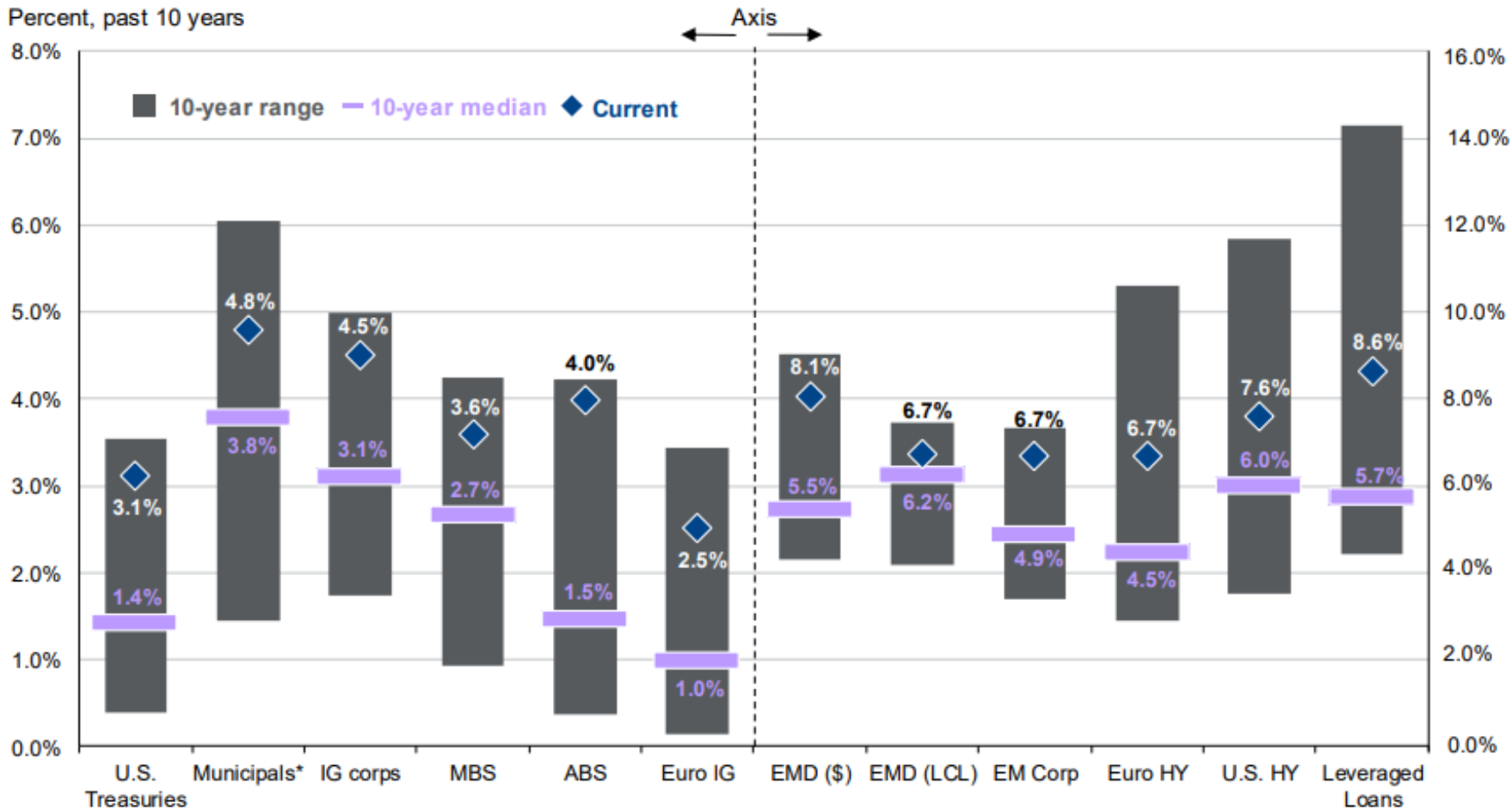


- **Bloomberg Aggregate Yield as of 7/31/22: 3.42%.**
- **Yield @ 7/31/2012 = 1.82%**
- **10 Year Annualized Return @ 7/31/2022: 1.65%**

# Bonds More Attractive

## Yield-to-worst across fixed income sectors

Percent, past 10 years



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