



Independent Investment Consultants for Institutions



Board Meeting

Trust, Process, Results

VEBA Trust & Unrestricted Assets - Investment Portfolio Review
Neil Heppler, Co – President
September 7, 2023

Fiscal Year Market Review

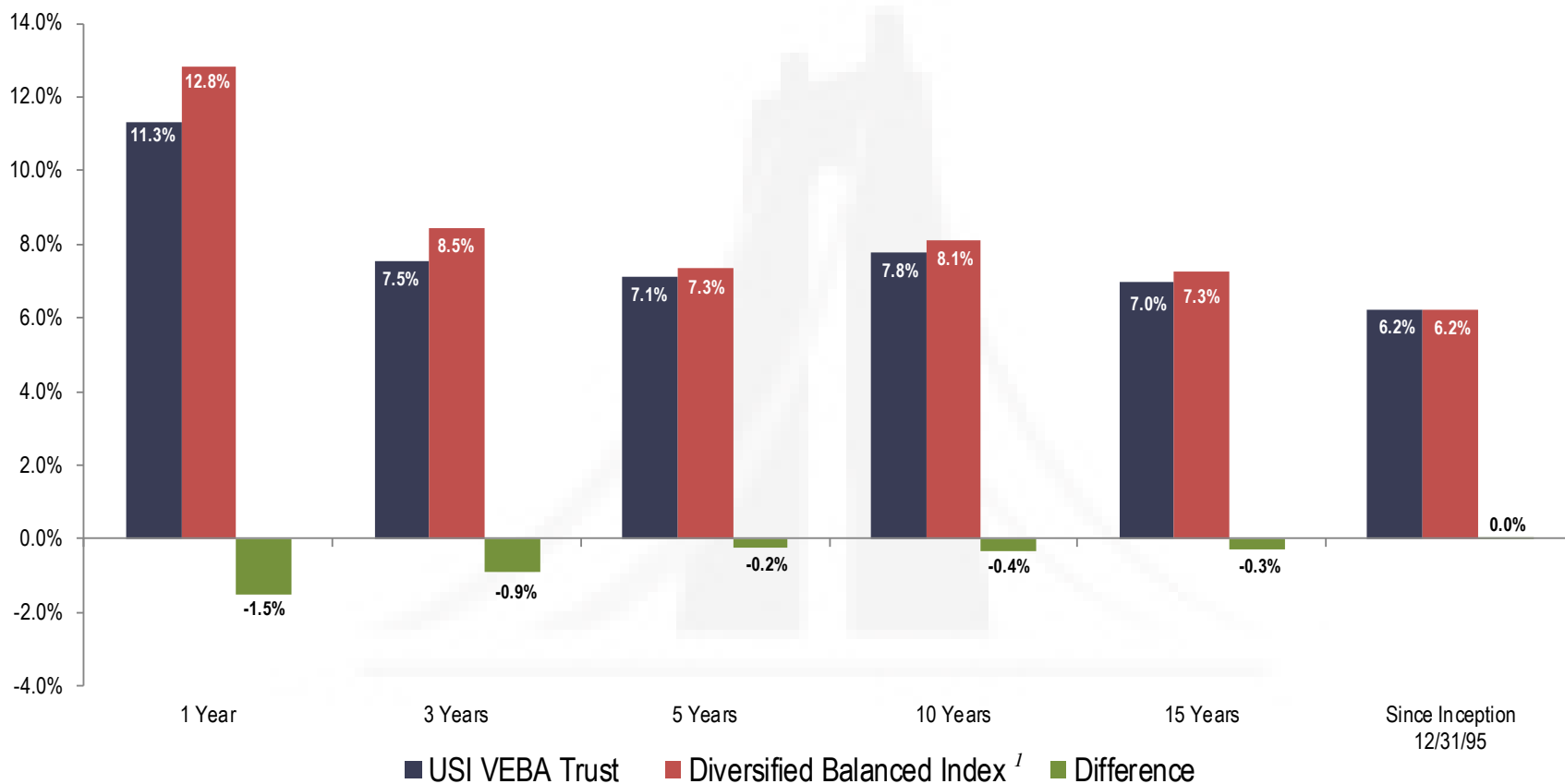
	<u>Calendar</u>	<u>Fiscal Year</u>		<u>Calendar</u>	<u>Fiscal Year</u>
<u>Equities</u>	<u>YTD '23</u>	<u>2023</u>	<u>Fixed Income</u>	<u>YTD '23</u>	<u>2023</u>
U.S. Large Cap	16.9%	19.6%	Inv. Grade Bonds	2.1%	-0.9%
U.S. Mid Cap	9.0%	14.9%	Inv. Grade Intermediate Bonds	1.5%	-0.1%
U.S. Small Cap	8.1%	12.3%	Inv. Grade Credit	3.1%	1.4%
Int'l Equity	9.5%	12.7%	Government Bonds	1.6%	-2.1%
			3 Month Treasury Bill	2.3%	3.6%

- After a difficult first quarter in FY 2022-2023, equity markets bottomed in October of 2022 and rallied nicely through the end of the FY as investors shifted to a risk-on posture amid a continued strong labor market, declining inflation, positive GDP growth, and favorable consumer data.
- Headline inflation (CPI) eased to 3.0% year-over-year in June, the lowest since March 2021, but the pace of deceleration was slower for core consumer prices (ex food and energy) (+4.8%) and remained well above the Fed's 2% target, as shelter costs have remained sticky.
- The large-cap S&P 500 Index led markets in the FY (+19.6%), outperforming smaller domestic equities and international equities. Mega-cap growth stocks (information technology, consumer discretionary, and communications services) were the primary contributors to performance, particularly in the first half of calendar 2023 as seven stocks (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla) now make up about 25% of this large-cap index.
- The Federal Reserve raised short-term rates another 3.5% in FY 22/23 to a range of 5.00%-5.25% with their final raise of the FY in May, then paused at their June meeting. The median projection for short term interest rates at 2023 calendar year-end is 5.6%.
- Intermediate-term yield-to-maturities were approx. 5% at FY end with current yields at 3.5%. Cash yields were 5% at FY end.

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Investment Portfolio Performance Summary Table

For Periods Ended June 30, 2023*



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

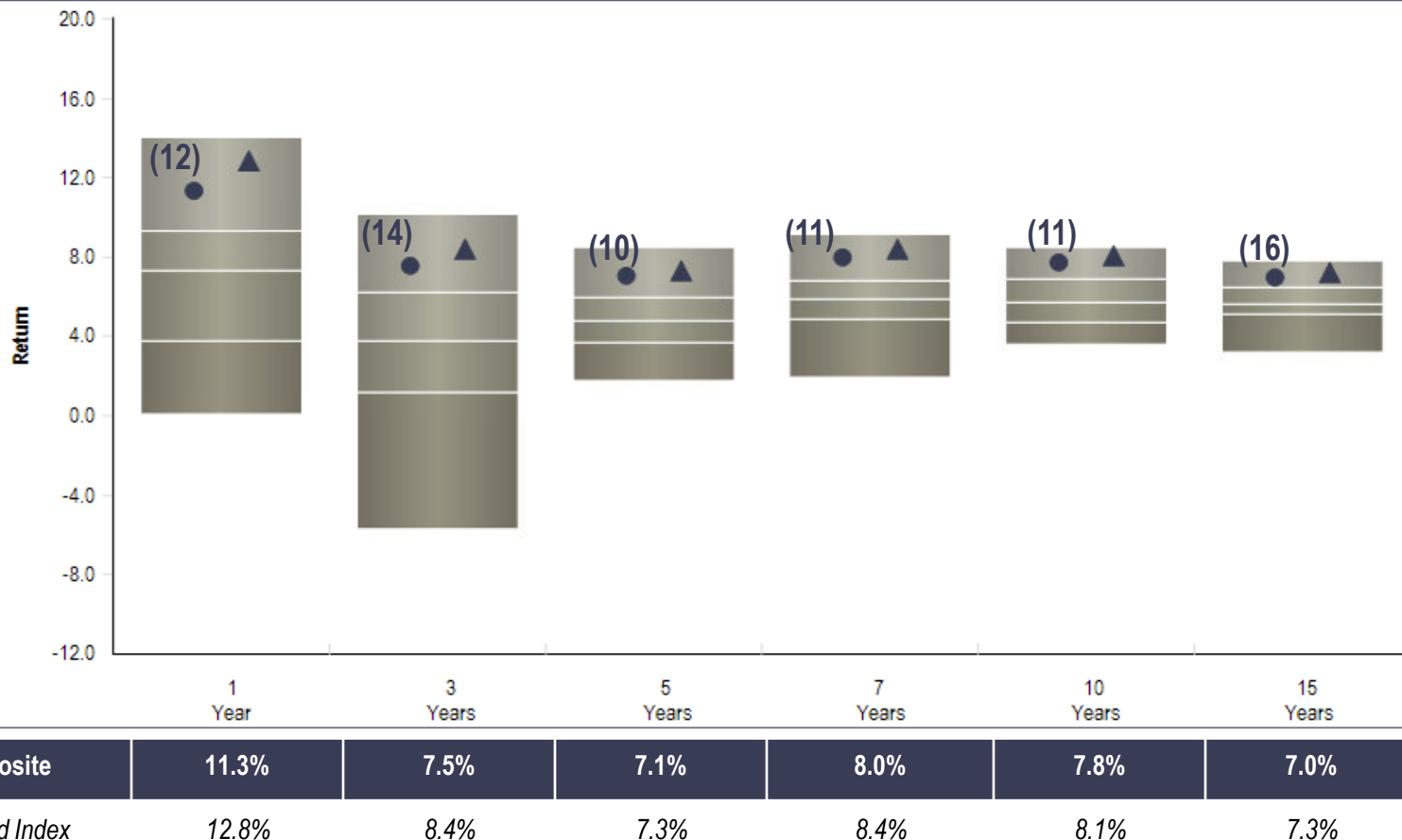
¹ The Diversified Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt/Corp Index, 42% S&P 500 Stock Index, 18% MSCI EAFE Index, and 10% Russell 2000 Index from 1/1/2001 to 9/30/14. From September 30, 2014 to September 30, 2017, 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.

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Performance Comparison to Peers

Top Quintile Performance Over Long-Term Trailing Periods

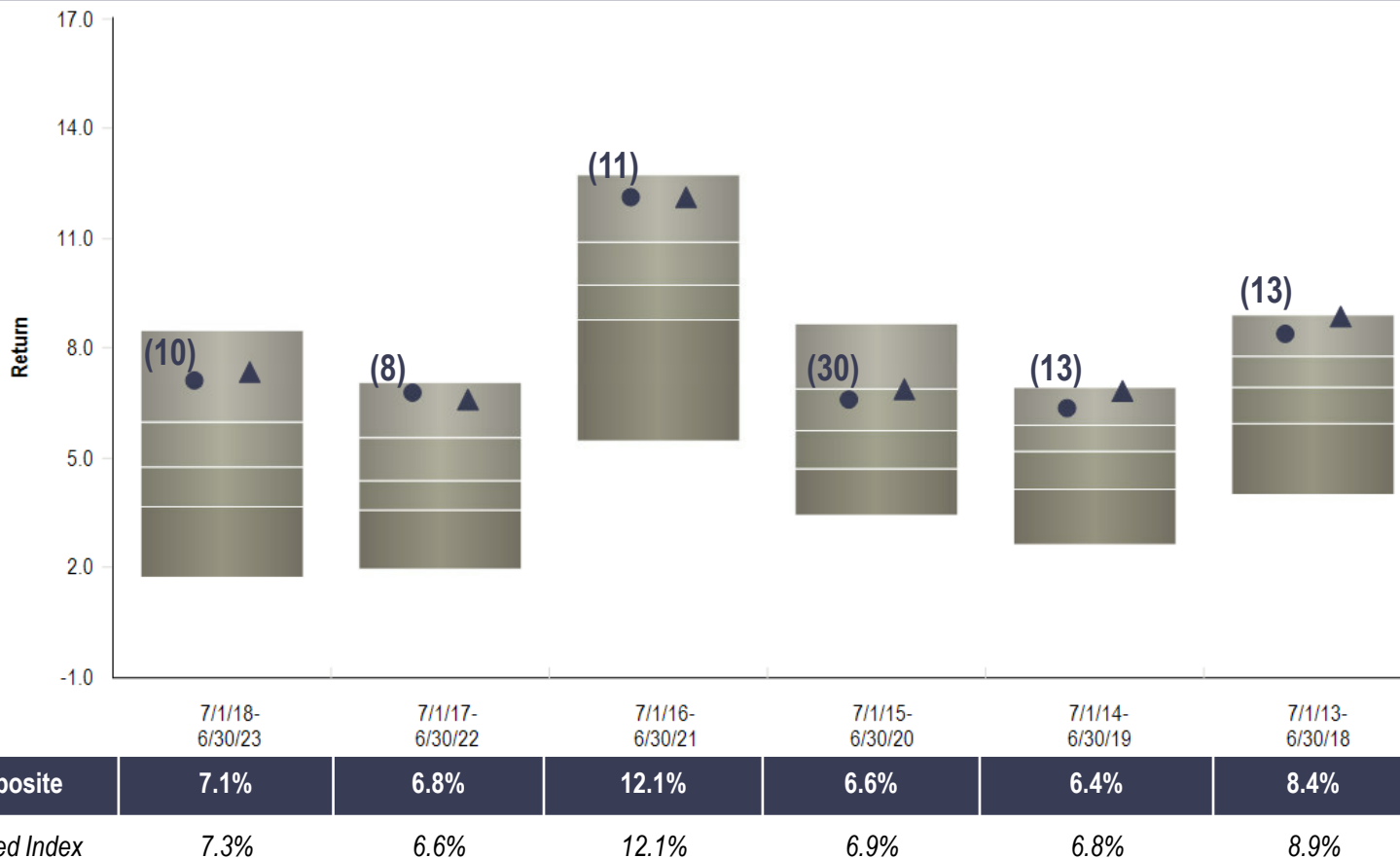
IM Corp DB < \$50mm Net
Ending June 30, 2023



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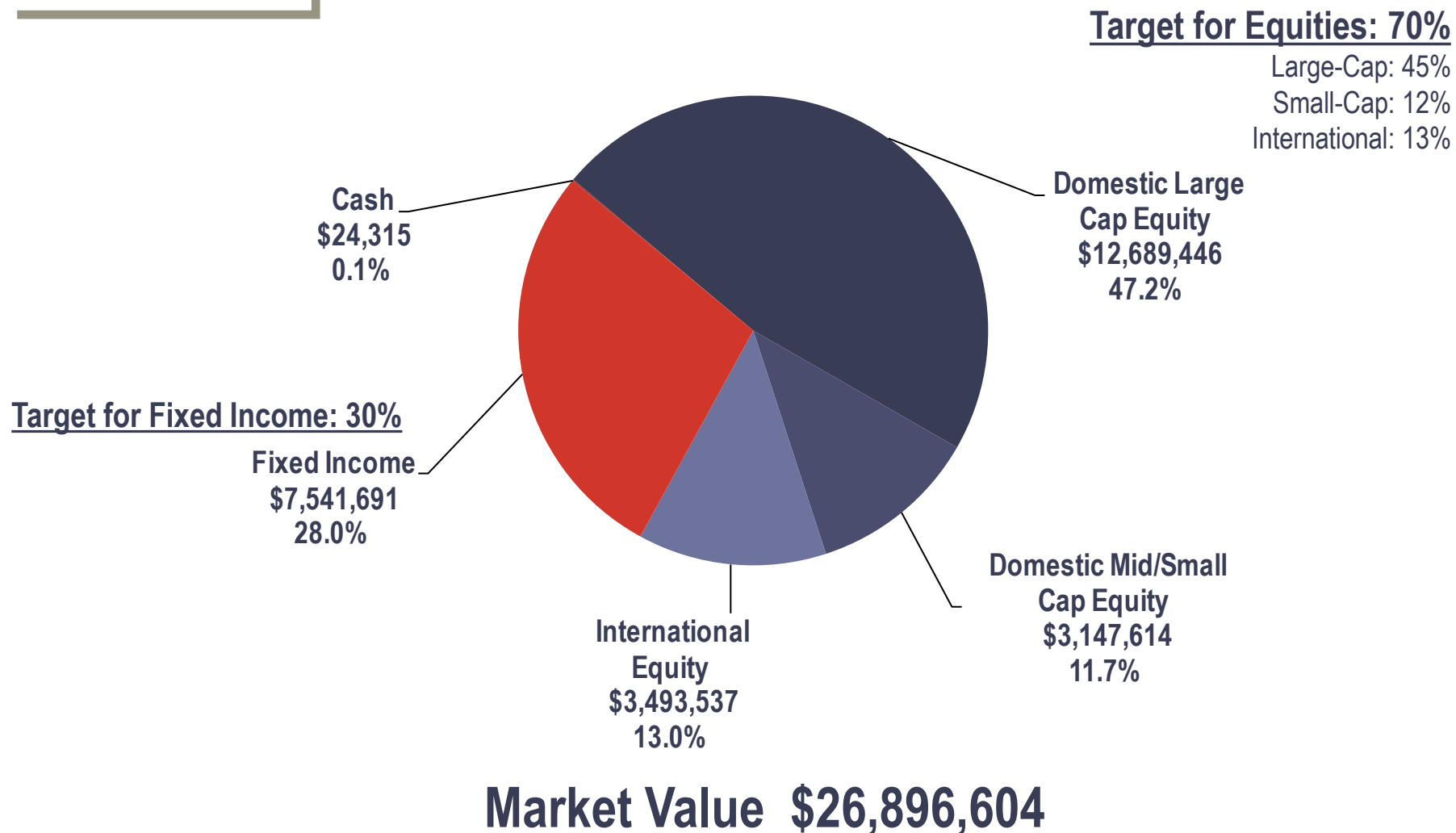
Rolling 5 Year Return Comparison

IM Corp DB < \$50mm Net
Ending June 30, 2023



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Asset Allocation as of June 30, 2023



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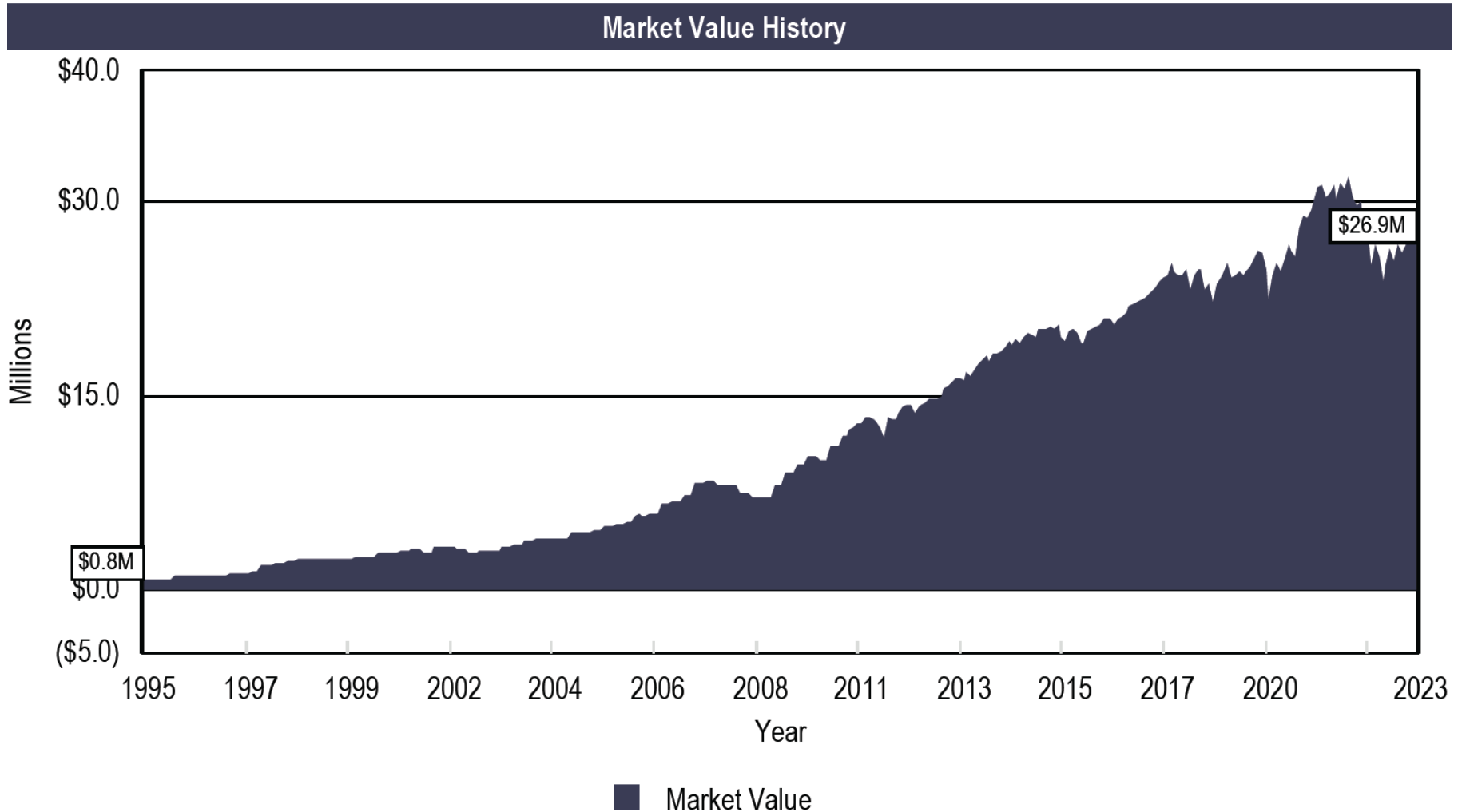
Summary of Portfolio Cash Flows

Summary of Cash Flows

	One Year	Three Years	Five Years	Inception 12/31/95
Beginning Market Value	\$25,156,539	\$24,573,464	\$23,148,580	\$806,117
Net Cash Flow	(\$1,102,732)	(\$3,559,250)	(\$5,882,563)	\$2,677,164
Net Investment Change	\$2,842,797	\$5,882,390	\$9,630,587	\$23,413,324
Ending Market Value	\$26,896,604	\$26,896,604	\$26,896,604	\$26,896,604

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Portfolio Market Value History



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Investment Manager Changes

PORTFOLIO MANAGER CHANGES - Past Year

None

MANAGERS ON WATCH LIST - CURRENT

Old National Bank Fixed Income – Trailing the benchmark by only 3 basis points over 3-year time period

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Investment Program Fee Analysis

	Manager Fee	Asset Allocation (\$26.9 M)	Fee Percentage	Manager Fees (\$)
<u>Large Cap</u>				
Fifth Third Bank	0.32%	23.5%	0.075%	\$ 20,243
Fidelity Spartan 500 Index	0.02%	23.7%	0.004%	\$ 955
<u>Small Cap</u>				
Ivy Small Cap Growth	0.89%	5.5%	0.049%	\$ 13,070
Segall Bryant & Hamill	0.99%	6.2%	0.062%	\$ 16,623
<u>International</u>				
American Funds Europacific	0.47%	6.3%	0.030%	\$ 7,992
Hartford International	0.79%	6.7%	0.053%	\$ 14,166
<u>Fixed Income</u>				
Old National Bank	0.15%	18.8%	0.028%	\$ 7,590
Baird Intermediate	0.30%	9.2%	0.028%	\$ 7,445
Total Manager Fees			0.33%	\$ 88,083
Fourth Street Consulting Fee			0.04%	\$ 10,000
Custodial Fees			0.10%	\$ 26,897
<u>Total Fee</u>			<u>0.46%</u>	<u>\$ 124,980</u>

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Investment Policy Recommendation

Page 3-4: Investment Restrictions

Any investment manager is specifically prohibited from investing trust assets in the following securities and transactions:

- (1) Short sales or purchases on margin
- (2) Purchase of options
- (3) Direct investments in commodities or real estate
- (4) Letter stock or other unregistered securities
- (5) Private placements
- (6) Bonds rated less than ~~"A"~~ "BBB/Baa"
- (7) Foreign debt issues
- (8) Derivatives for speculative purposes
- (9) Other investments which would appear to violate the fiduciary responsibility of the fund

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Investment Policy Recommendation

Page 4: Performance Objectives

International Equity

The annualized total return of international equity portfolios should equal or exceed the annualized total return generated by the Morgan Stanley Capital International ~~Europe, Australia, Far East (EAFE)~~ All Country World ex – U.S. (ACWI ex-US) Index, net of fees, and provide positive risk-adjusted returns. Investment managers' and mutual funds' returns in this category should exceed the median of a peer group of international equity mutual funds utilizing a similar investment style.

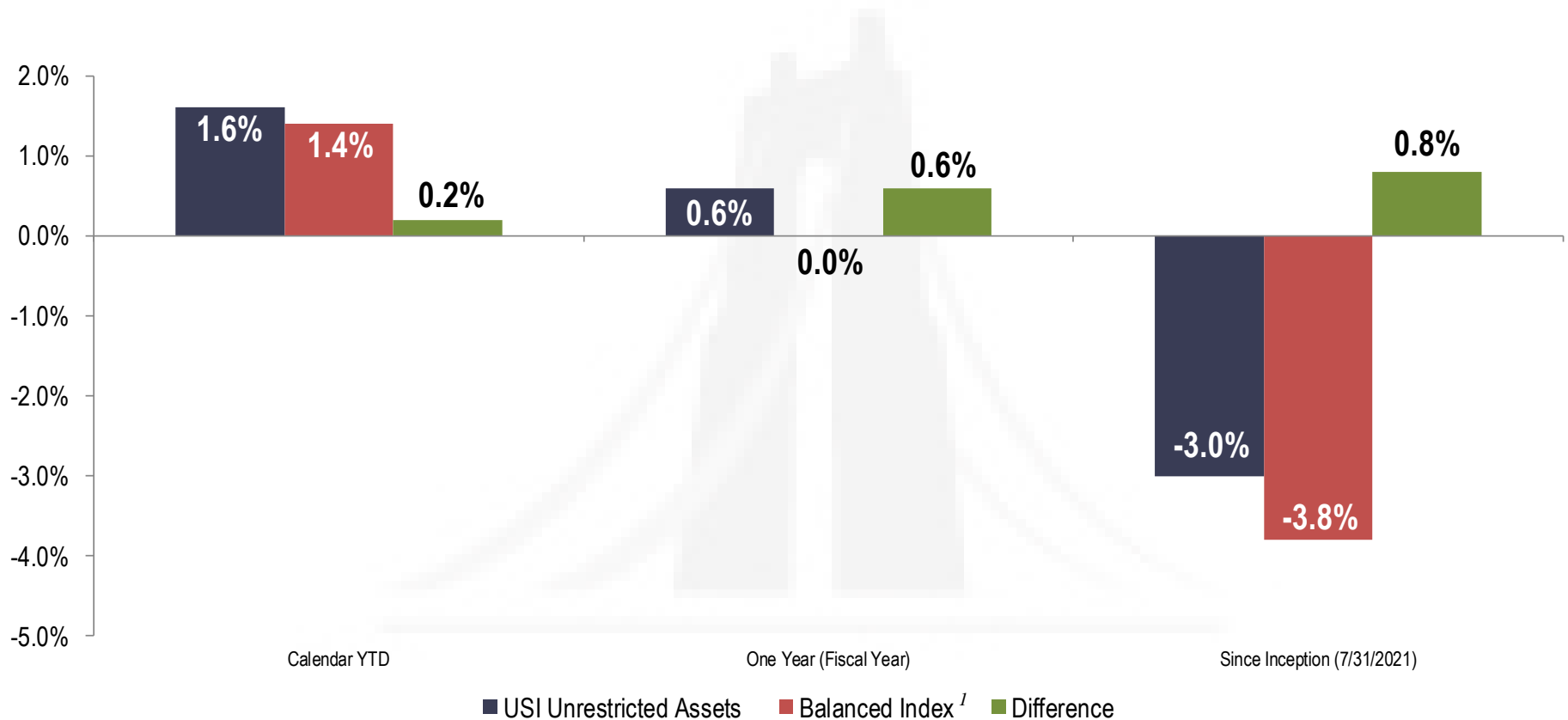
U.S. Intermediate Fixed Income

The annualized total return of domestic intermediate fixed income portfolios should equal or exceed the annualized total return generated by the Bloomberg ~~Barclay's~~ Intermediate Government/Credit Index, net of fees, and provide positive risk-adjusted returns. Investment managers' and mutual funds' returns in this category should exceed the median of a peer group of investment advisors or funds utilizing a similar investment style.

USI Unrestricted Assets

Investment Portfolio Performance Summary Table

For Periods Ended June 30, 2023*



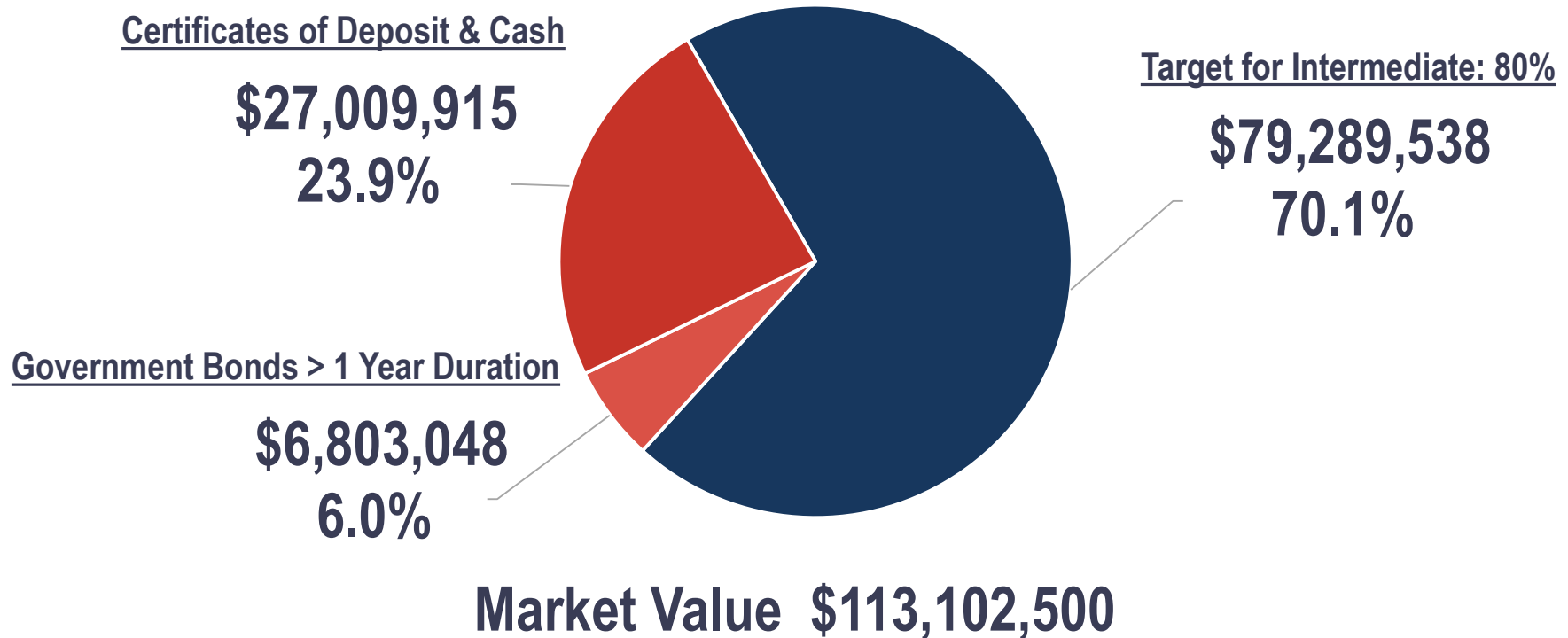
*Returns are presented net of investment management fees.

¹ 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

Asset Allocation as of June 30, 2023

Target for Short Duration: 20%



USI Unrestricted Assets

Summary of Portfolio Cash Flows

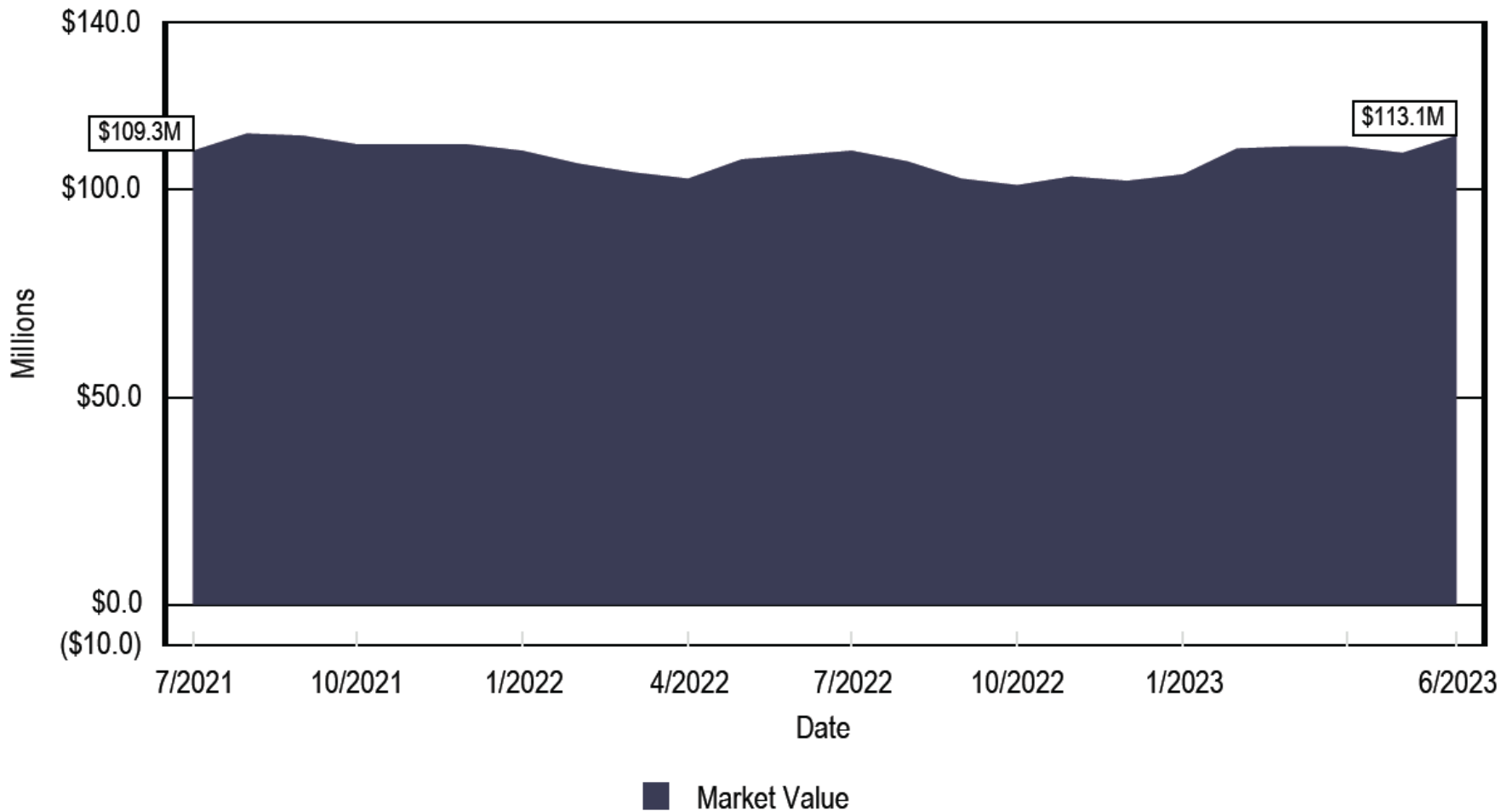
Summary of Cash Flows

	Calendar Year-To-Date	One Year	Inception 7/31/21
Beginning Market Value	\$102,168,730	\$108,348,871	\$109,336,566
Contributions	\$13,200,839	\$13,201,052	\$25,833,982
Distributions	(\$3,910,255)	(\$9,034,551)	(\$15,844,211)
Net Cash Flows	\$9,290,584	\$4,166,502	\$9,989,771
Income	\$1,482,036	\$2,831,376	\$5,035,645
Net Investment Change	\$1,643,187	\$587,128	(\$6,223,837)
Fees	(\$96,863)	(\$188,572)	(\$338,113)
Ending Market Value	\$113,102,500	\$113,102,500	\$113,102,500

USI Unrestricted Assets

Portfolio Market Value History

Market Value History



USI Unrestricted Assets

Investment Manager Changes

PORTFOLIO MANAGER CHANGES - Past Year

None

MANAGERS ON WATCH LIST - CURRENT

None

USI Unrestricted Assets

Intermediate Fixed Income Manager Performance

Performance Summary Table

	2023 Q2 (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date	Market Value	% of Portfolio
Intermediate Fixed Income Securities	-0.8	1.5	-0.1	-	-	-	-4.4	Aug-21	\$79,289,538	70.1
<i>Blmbg. Intermed. U.S. Government/Credit</i>	-0.8	1.5	-0.1	-2.5	1.2	1.4	-4.3			
Fifth Third Bank	-0.2	2.1	0.8	-1.6	1.7	1.6	-3.4	Sep-21	\$9,383,271	8.3
<i>Blmbg. Intermed. U.S. Government/Credit</i>	-0.8	1.5	-0.1	-2.5	1.2	1.4	-4.4			
Johnson Asset Mgmt.	-0.7	1.6	0.0	-2.9	1.2	1.7	-4.9	Aug-21	\$27,268,361	24.1
<i>Blmbg. Intermed. U.S. Government/Credit</i>	-0.8	1.5	-0.1	-2.5	1.2	1.4	-4.3			
Longfellow Investment Mgmt.	-1.1	1.4	-0.3	-2.3	1.0	1.5	-4.5	Aug-21	\$27,478,620	24.3
<i>Blmbg. Intermed. U.S. Government/Credit</i>	-0.8	1.5	-0.1	-2.5	1.2	1.4	-4.3			
Old National Bank	-0.7	1.4	0.0	-2.3	1.1	1.5	-3.8	Dec-21	\$15,159,285	13.4
<i>Blmbg. Intermed. U.S. Government/Credit</i>	-0.8	1.5	-0.1	-2.5	1.2	1.4	-4.5			

➤ Have implemented annual due diligence meetings with each of the intermediate term fixed income managers

USI Unrestricted Assets

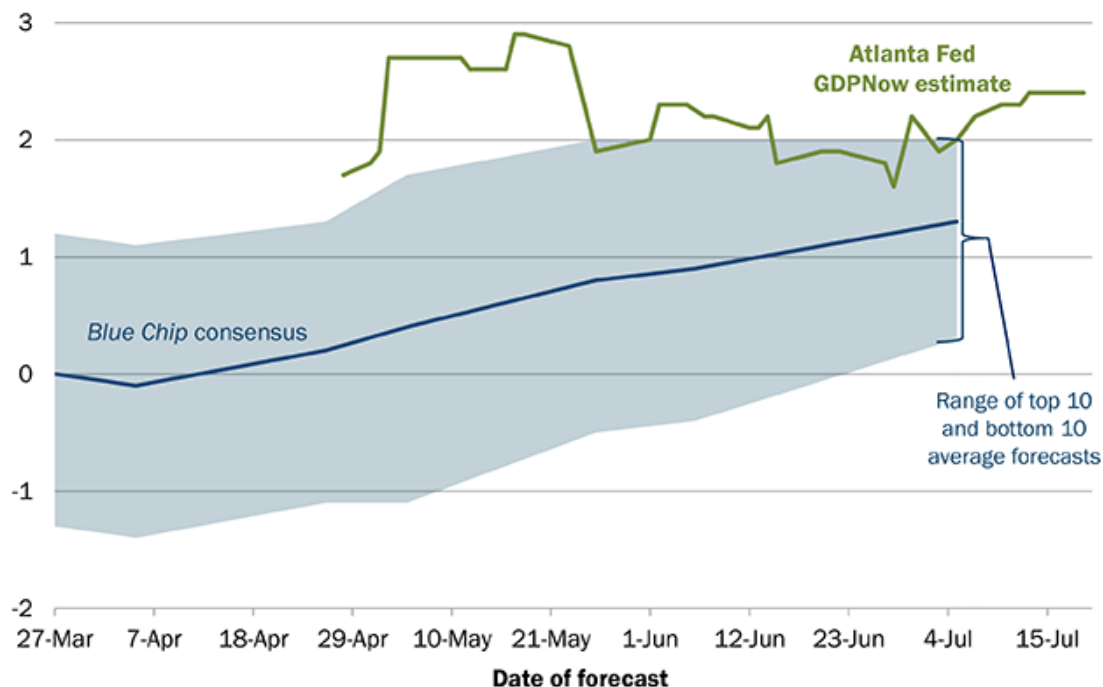
Investment Program Fee Analysis

	Manager Fee	Asset Allocation (\$79.1 M)	Fee Percentage	Manager Fees (\$)
<u>Intermediate Fixed Income</u>				
Fifth Third Bank	0.20%	11.8%	0.024%	\$ 18,760
Johnson Asset Mgmt.	0.20%	34.4%	0.069%	\$ 54,535
Longfellow Investment Mgmt.	0.25%	34.7%	0.087%	\$ 68,704
Old National Bank	0.20%	19.1%	0.038%	\$ 30,320
	Total Manager Fees		0.22%	\$ 172,320
	Fourth Street Consulting Fee		0.05%	\$ 39,645
	Custodial Fees		0.03%	\$ 16,454
	<u>Total Fee</u>		<u>0.29%</u>	<u>\$ 228,418</u>

Real Growth Stronger in Q2

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q2

Quarterly percent change (SAAR)



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.

- Q1 2023 Real GDP grew at +2.0% annualized rate
- Initial estimate of Q2 GDP was +2.4%

Real GDP (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Qtr/Qtr (saar)	-1.6	-0.6	3.2	2.6	2.0	2.4
Year/Year	3.7	1.8	1.9	0.9	1.8	2.6

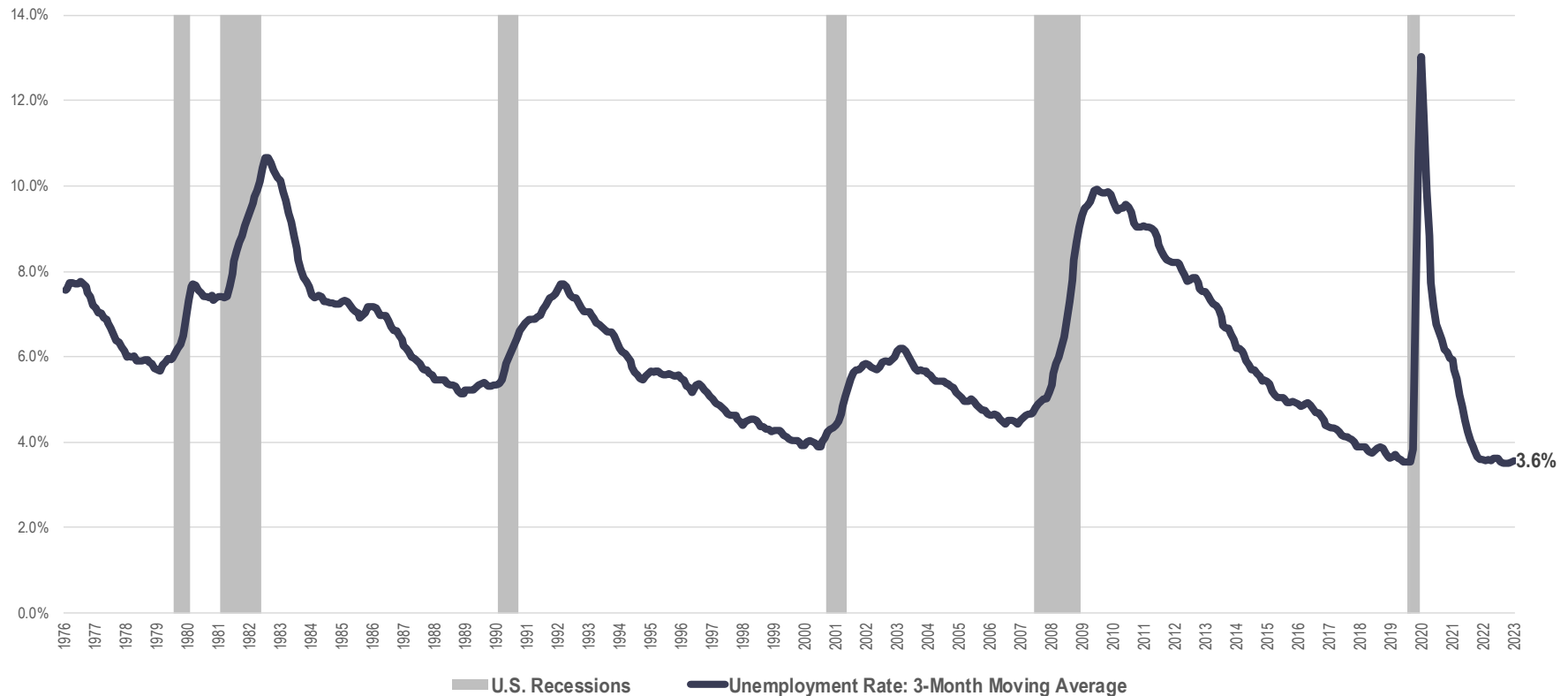
2-Year/10-Year Treasury Yield Spread



➤ **Current Spread is -91 bps (through 7/31)**

Unemployment Rate

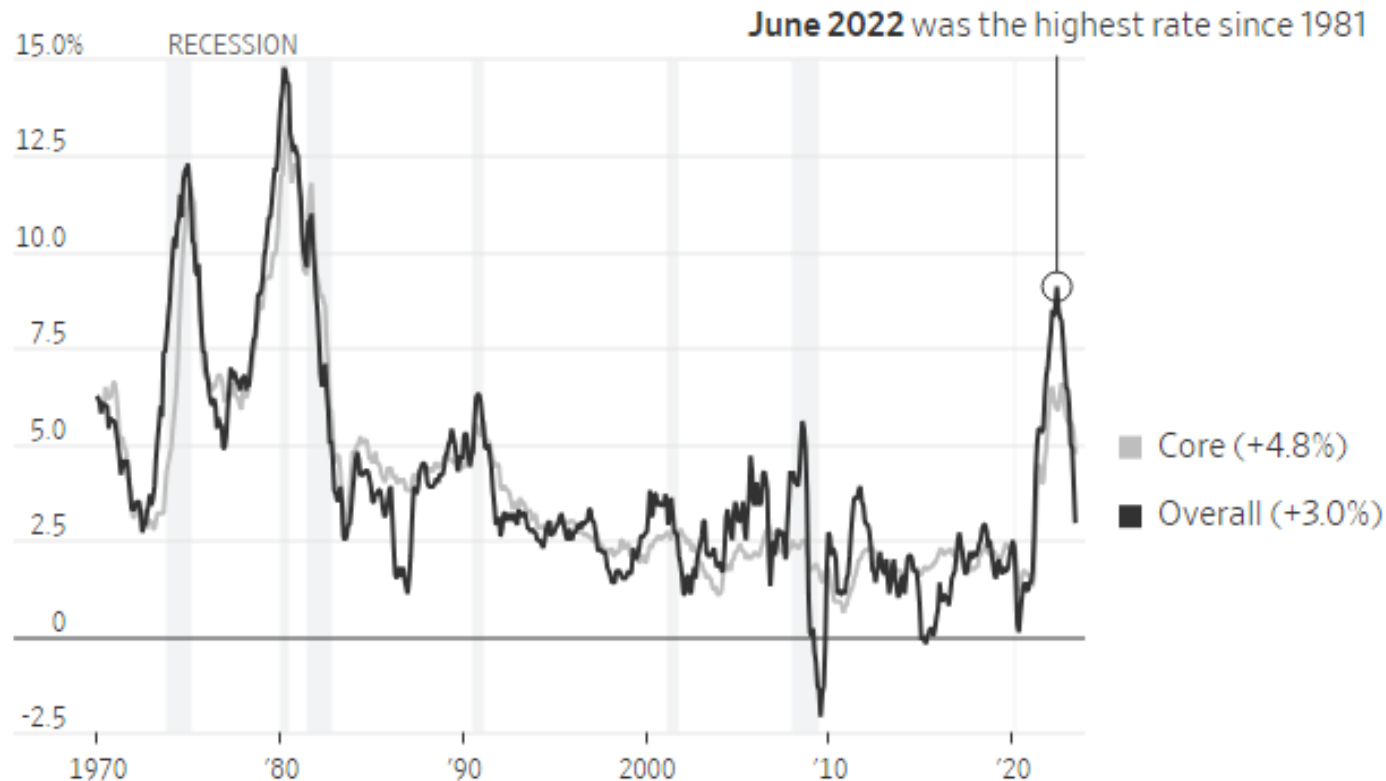
Recession Indicator



- From World War II to 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%; June unemployment rate was 3.6%

Inflation Easing But Core Still Elevated

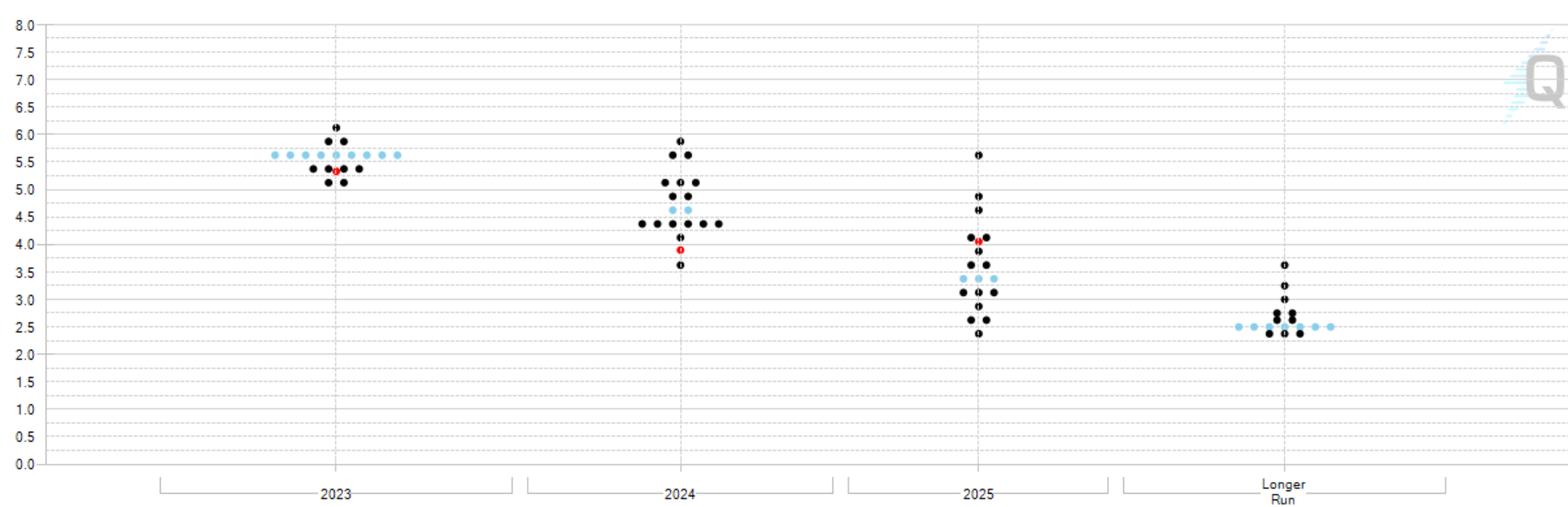
Consumer-price index, change from a year earlier



Source: Labor Department

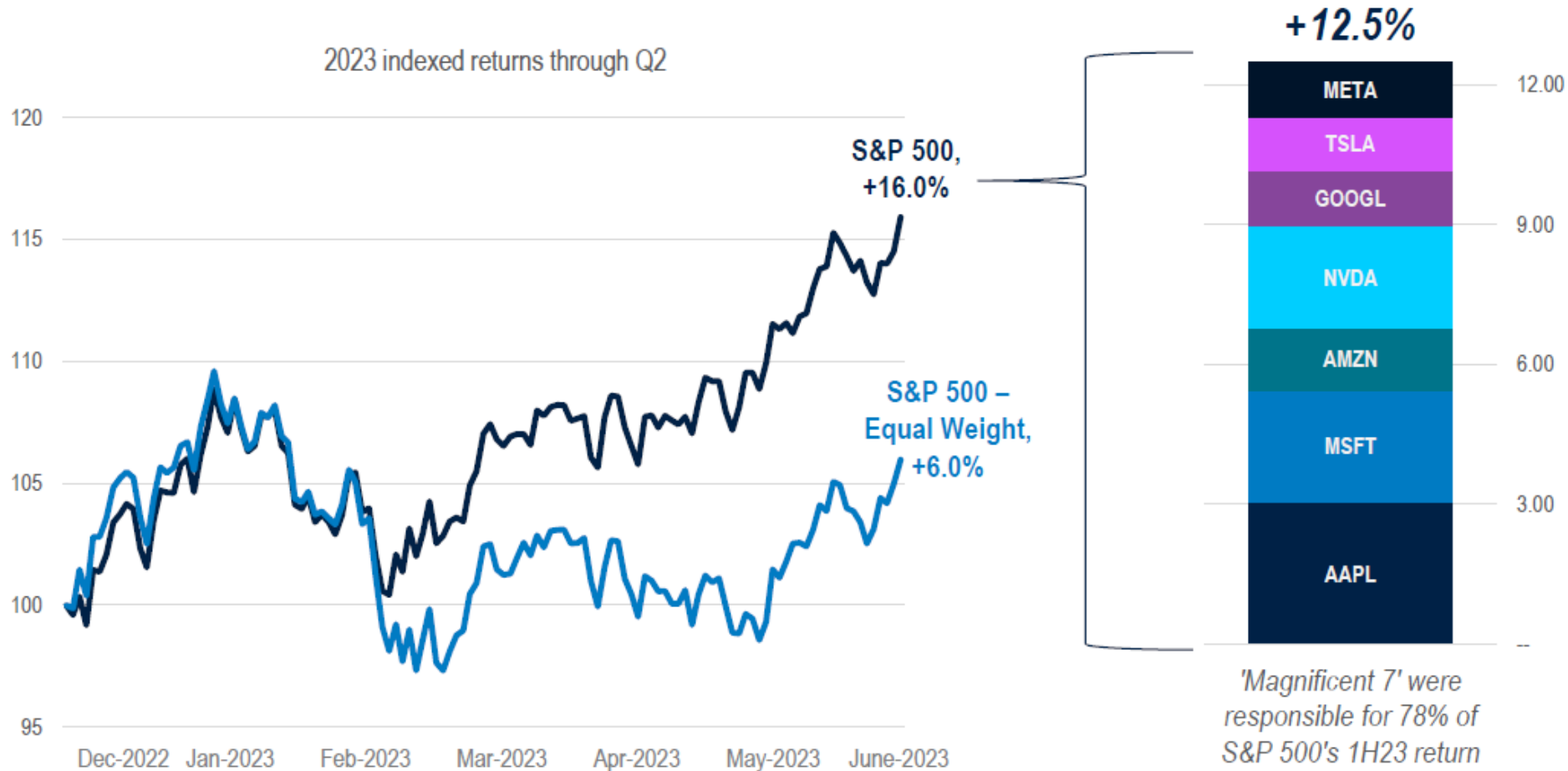
Interest Rates Projected to Decline in 2024

FOMC Participants' Assessments of Appropriate Monetary Policy



- Blue dots indicate the median projection. Red dots indicate the effective rate implied by the year-end Fed Fund future price

“Magnificent Seven” Lead the Way in 2023



Market Cap Weighted vs. Equal Weighted

	S&P:500 Equal Wt Six Month Relative Return Vs. Cap Weighted	Next Month	Next 3 Months	Next 6 Months	Next 9 months	Next 12 months
3/31/2020	-10.05	1.44	0.98	-1.04	4.53	9.76
12/31/1999	-9.49	-0.97	-2.73	-0.12	6.84	20.62
9/30/1990	-9.14	-3.08	-0.32	5.31	6.14	5.33
3/31/2000	-9.12	4.09	2.69	9.83	24.00	33.98
9/30/1998	-8.80	0.50	-3.37	-6.91	-1.20	-4.28
6/30/2023	-8.44					
	Avg Relative Return	0.39	-0.55	1.41	8.06	13.08
	Median Relative Return	0.50	-0.32	-0.12	6.14	9.76

- Relative returns for Equal Weighted S&P 500 have historically been good following these difficult six-month periods

Stocks Are Getting Pricier

S&P 500 Valuation Levels

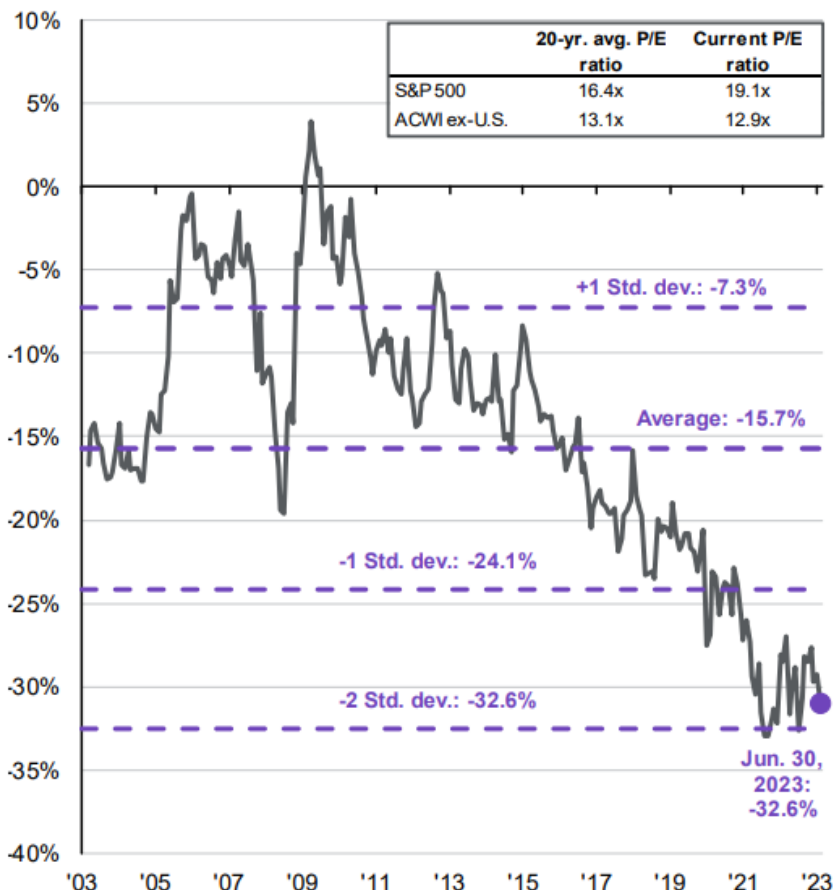
S&P 500 Index: Forward P/E ratio



International Valuations Remain Attractive

International: Price-to-earnings discount vs. U.S.

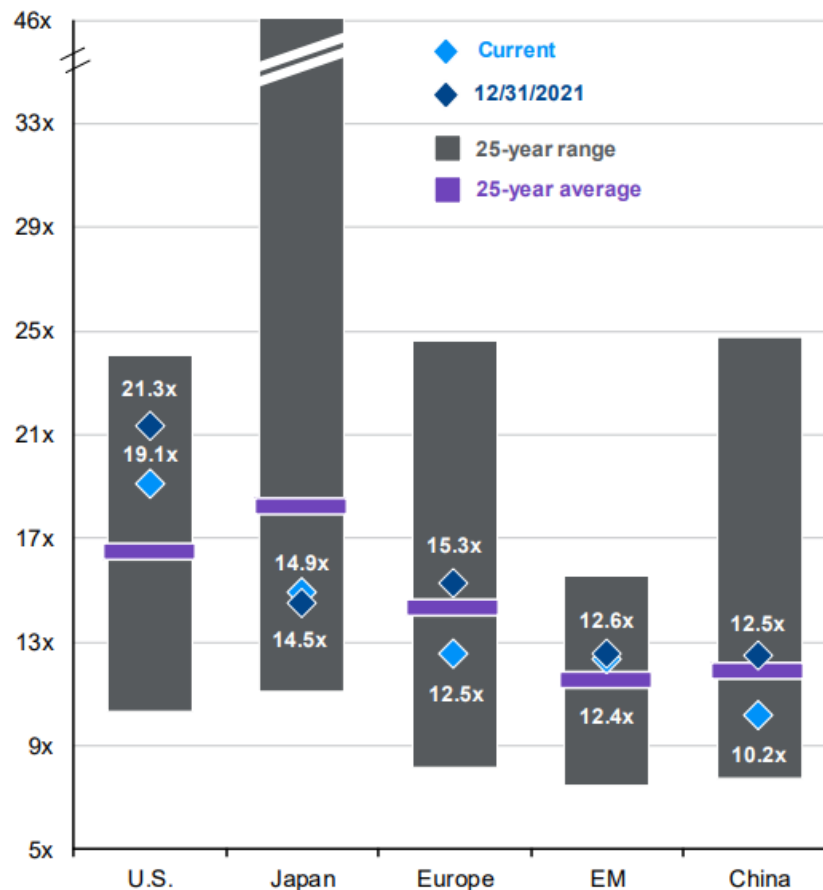
MSCI All Country World ex-U.S. vs. S&P 500, next 12 months



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Guideto the Markets – U.S. Data are as of June 30, 2023.

Global valuations

Current and 25-year next 12 months price-to-earnings ratio

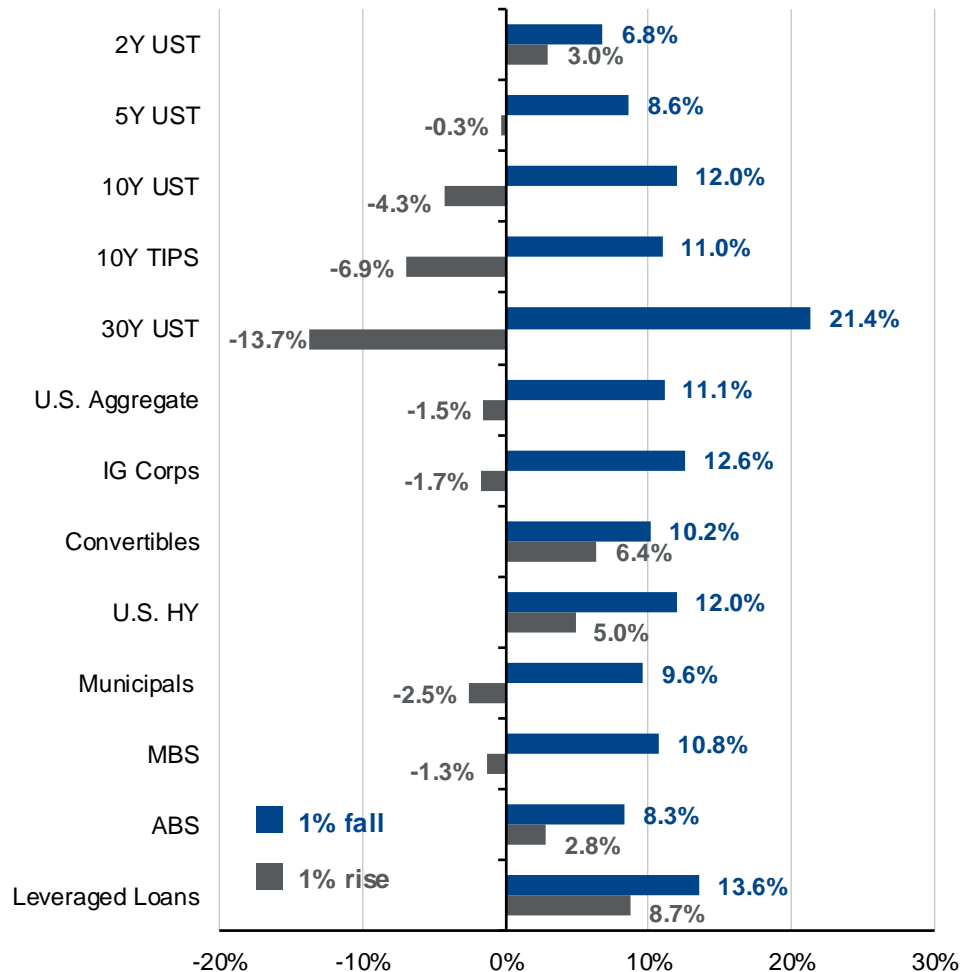


Interest Rate Risk Skewed to Upside

Higher Yields Offset Downside Price Sensitivity

Impact of a 1% rise or fall in interest rates

Total return, assumes a parallel shift in the yield curve



Statement of Disclosures and Disclaimer

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