



Independent  
Investment  
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Institutions



Board Meeting

*Trust, Process, Results*

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

# Fiscal Year Market Review

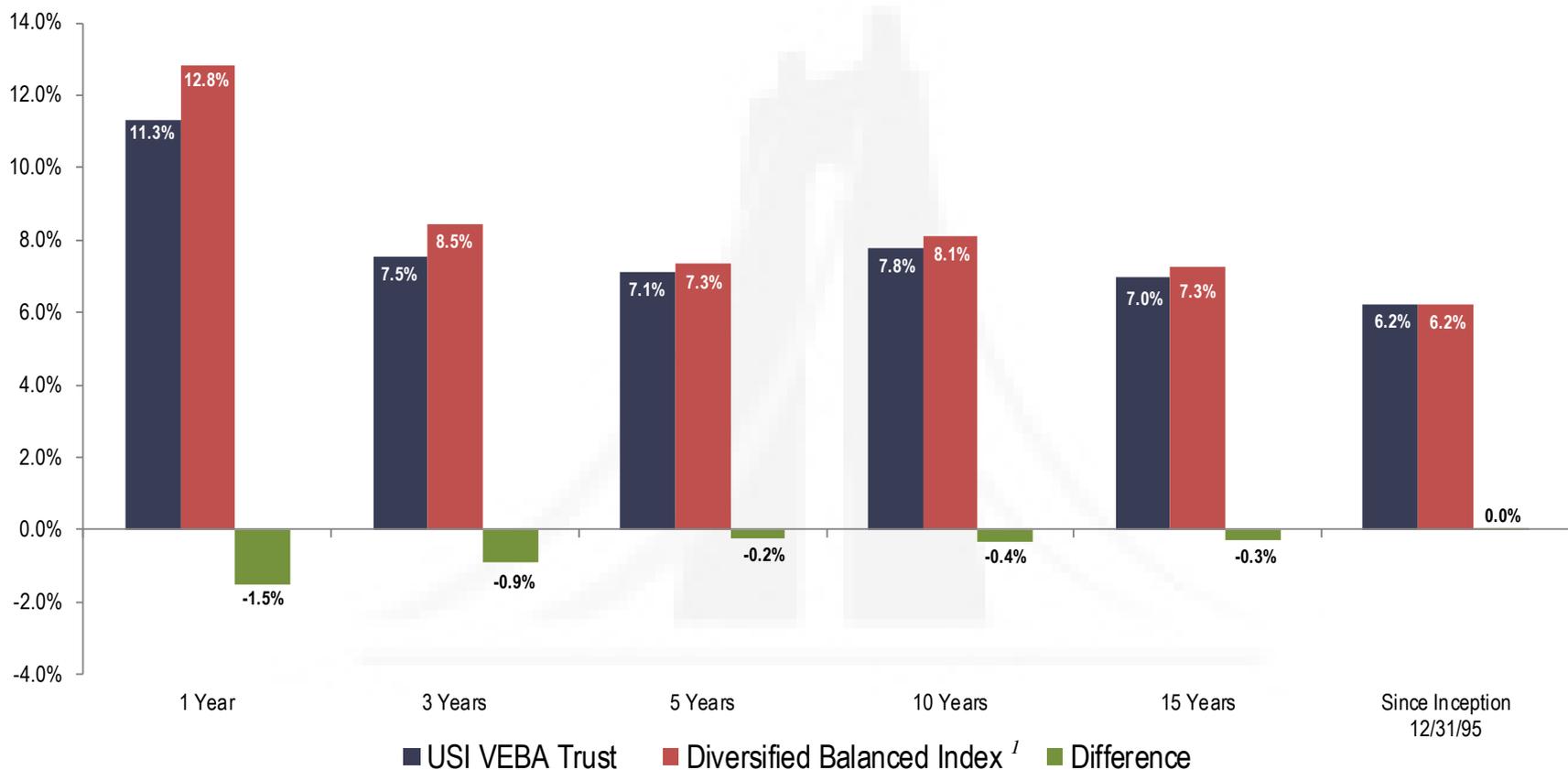
|                 | <u>Calendar</u> | <u>Fiscal Year</u> |                               | <u>Calendar</u> | <u>Fiscal Year</u> |
|-----------------|-----------------|--------------------|-------------------------------|-----------------|--------------------|
| <u>Equities</u> | <u>YTD '23</u>  | <u>2023</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.

# USI VEBA Trust

## 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.

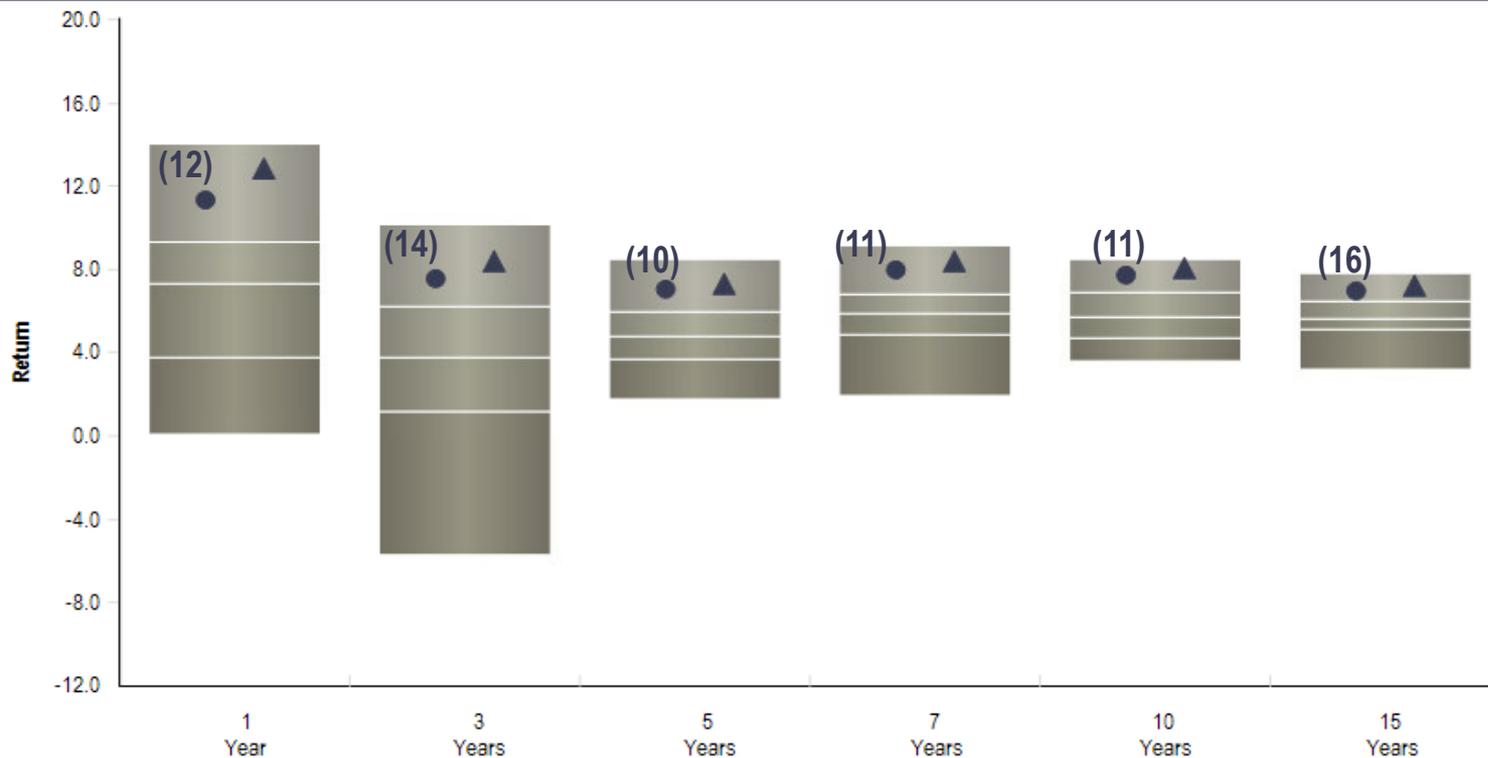
<sup>1</sup> The Diversified Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt/Corp Index, 42% S&P 500 Stock Index, 18% MSCI EAFE Index, and 10% Russell 2000 Index from 1/1/2001 to 9/30/14. From September 30, 2014 to September 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, 2023

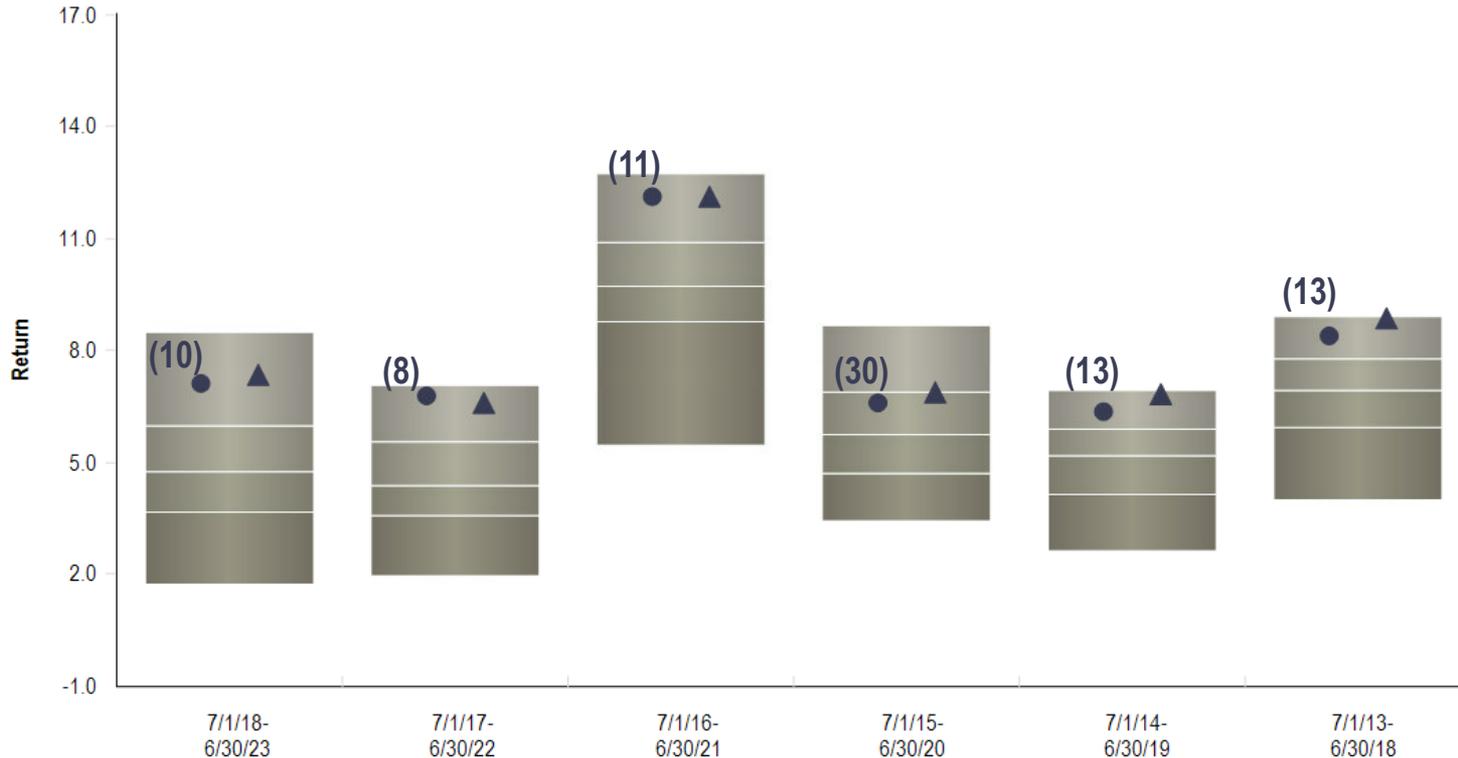


|                              | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 15 Years |
|------------------------------|--------|---------|---------|---------|----------|----------|
| ● VEBA Trust Composite       | 11.3%  | 7.5%    | 7.1%    | 8.0%    | 7.8%     | 7.0%     |
| ▲ Diversified Balanced Index | 12.8%  | 8.4%    | 7.3%    | 8.4%    | 8.1%     | 7.3%     |

# USI VEBA Trust

## Rolling 5 Year Return Comparison

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



|                              | 7/1/18-6/30/23 | 7/1/17-6/30/22 | 7/1/16-6/30/21 | 7/1/15-6/30/20 | 7/1/14-6/30/19 | 7/1/13-6/30/18 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| ● VEBA Trust Composite       | 7.1%           | 6.8%           | 12.1%          | 6.6%           | 6.4%           | 8.4%           |
| ▲ Diversified Balanced Index | 7.3%           | 6.6%           | 12.1%          | 6.9%           | 6.8%           | 8.9%           |

# USI VEBA Trust

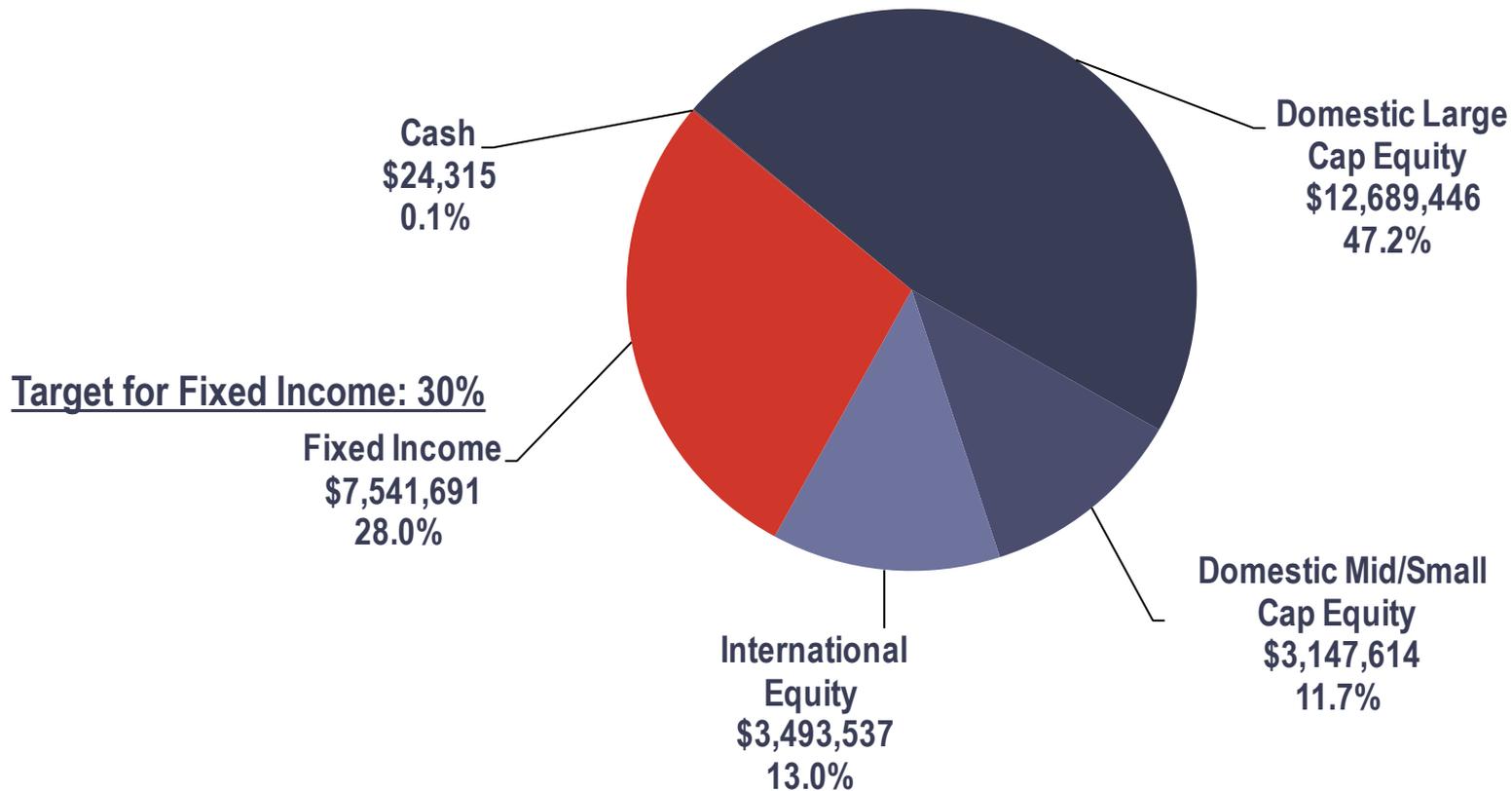
## Asset Allocation as of June 30, 2023

**Target for Equities: 70%**

Large-Cap: 45%

Small-Cap: 12%

International: 13%



**Target for Fixed Income: 30%**

**Market Value \$26,896,604**

# USI VEBA Trust

## Summary of Portfolio Cash Flows

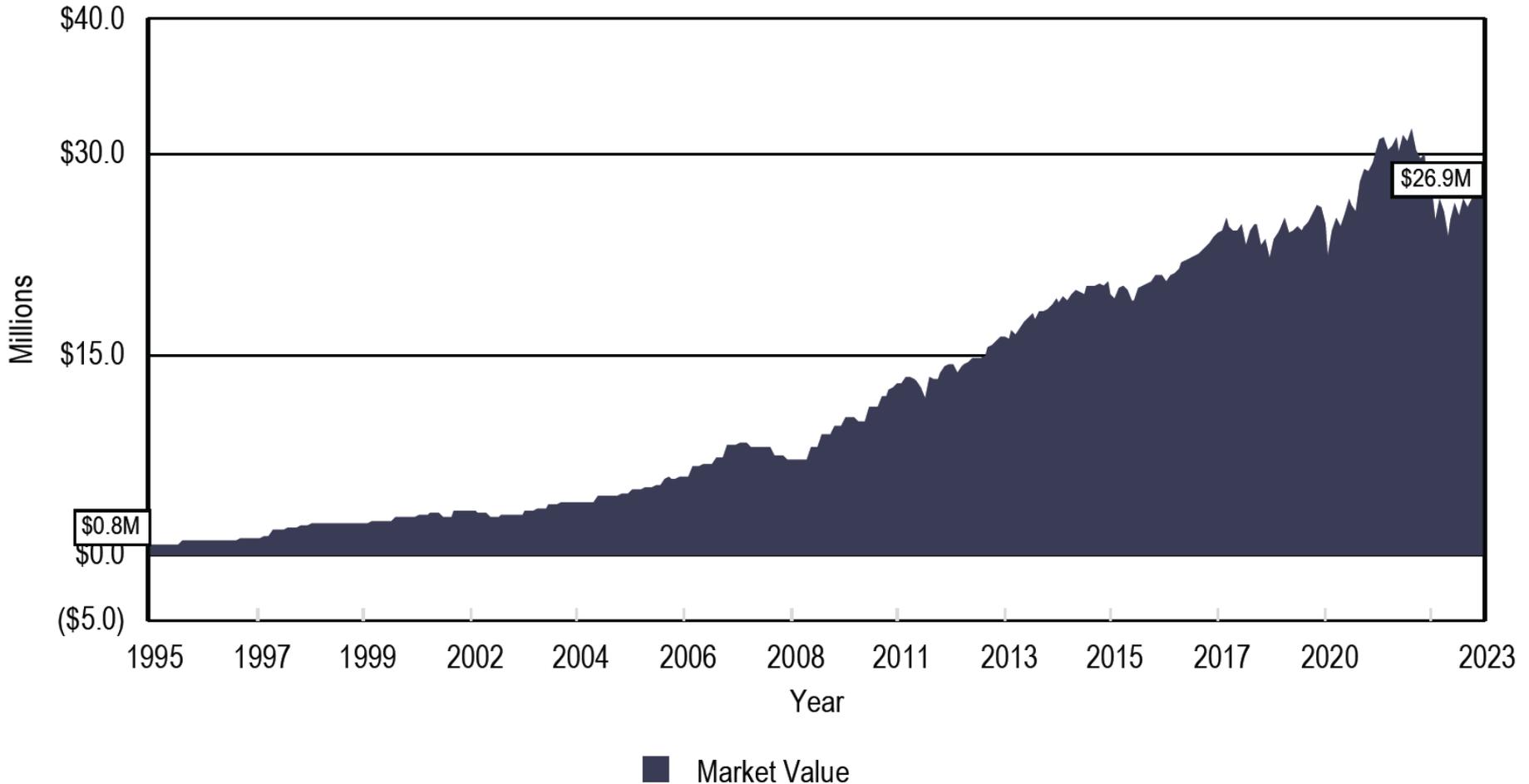
### Summary of Cash Flows

|                        | 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       |

# USI VEBA Trust

## Portfolio Market Value History

Market Value History



# USI VEBA Trust

## 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

# USI VEBA Trust

## Investment Program Fee Analysis

|                                     | Manager<br>Fee | Asset Allocation<br>(\$26.9 M) | Fee<br>Percentage   | Manager<br>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                 |
| <b>Total Manager Fees</b>           |                |                                | <b>0.33%</b>        | <b>\$ 88,083</b>         |
| <b>Fourth Street Consulting Fee</b> |                |                                | <b>0.04%</b>        | <b>\$ 10,000</b>         |
| <b>Custodial Fees</b>               |                |                                | <b>0.10%</b>        | <b>\$ 26,897</b>         |
| <b><u>Total Fee</u></b>             |                |                                | <b><u>0.46%</u></b> | <b><u>\$ 124,980</u></b> |

# USI VEBA Trust

## 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

# USI VEBA Trust

## 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.

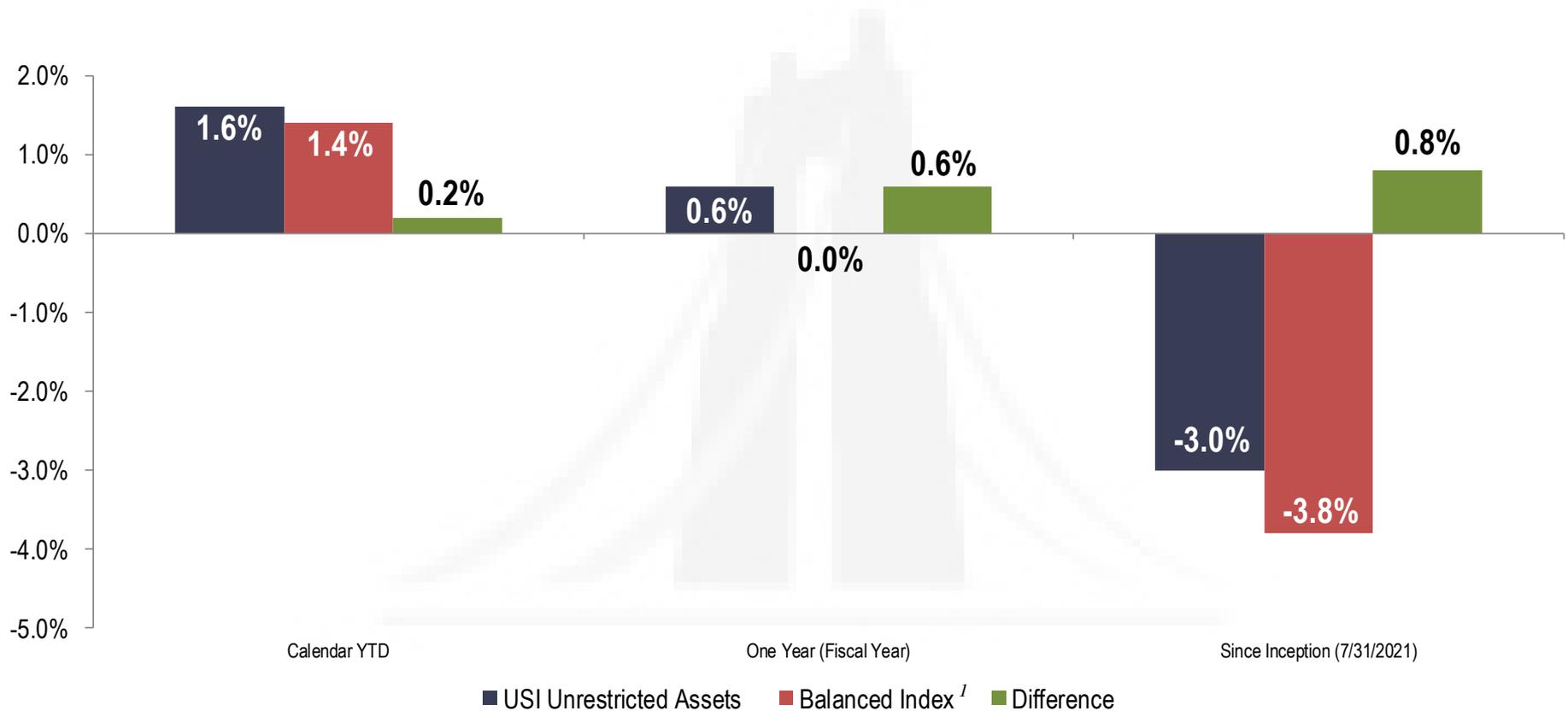
#### U.S. Intermediate Fixed Income

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\*



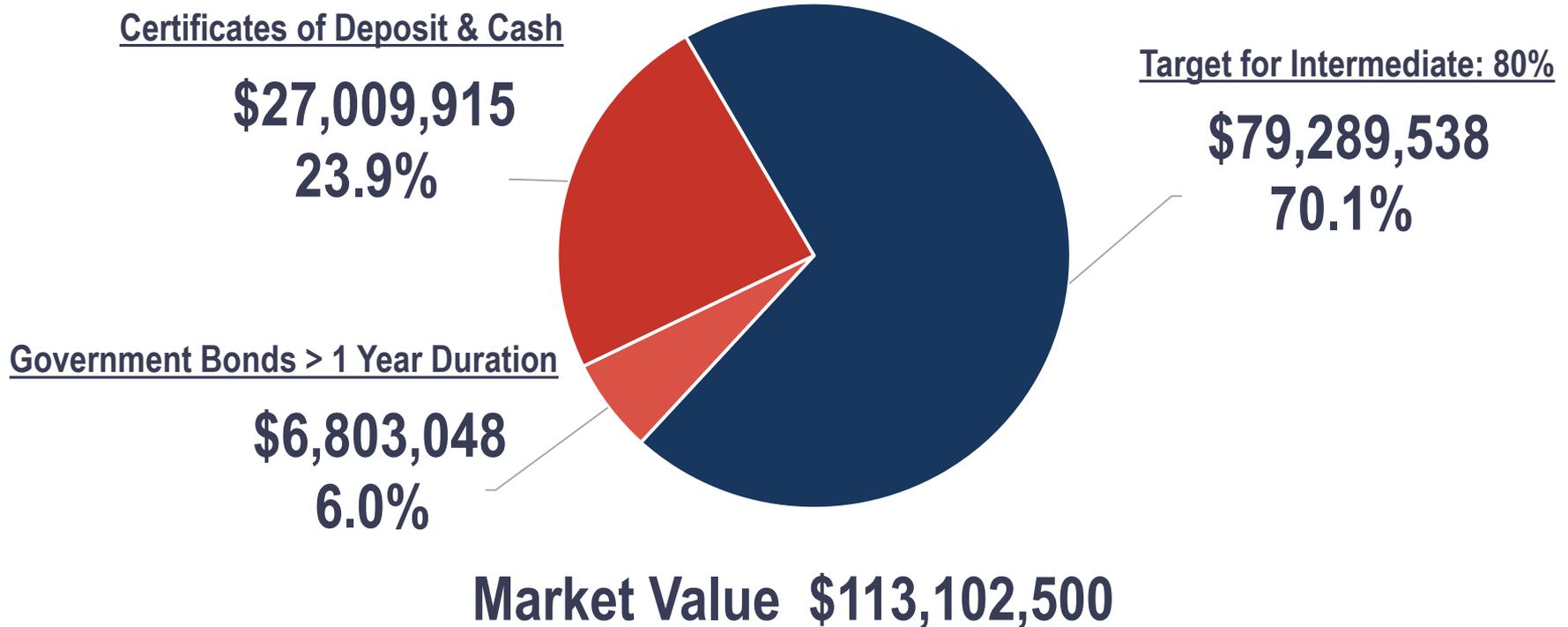
\*Returns are presented net of investment management fees.

<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

## Asset Allocation as of June 30, 2023

Target for Short Duration: 20%



# USI Unrestricted Assets

## Summary of Portfolio Cash Flows

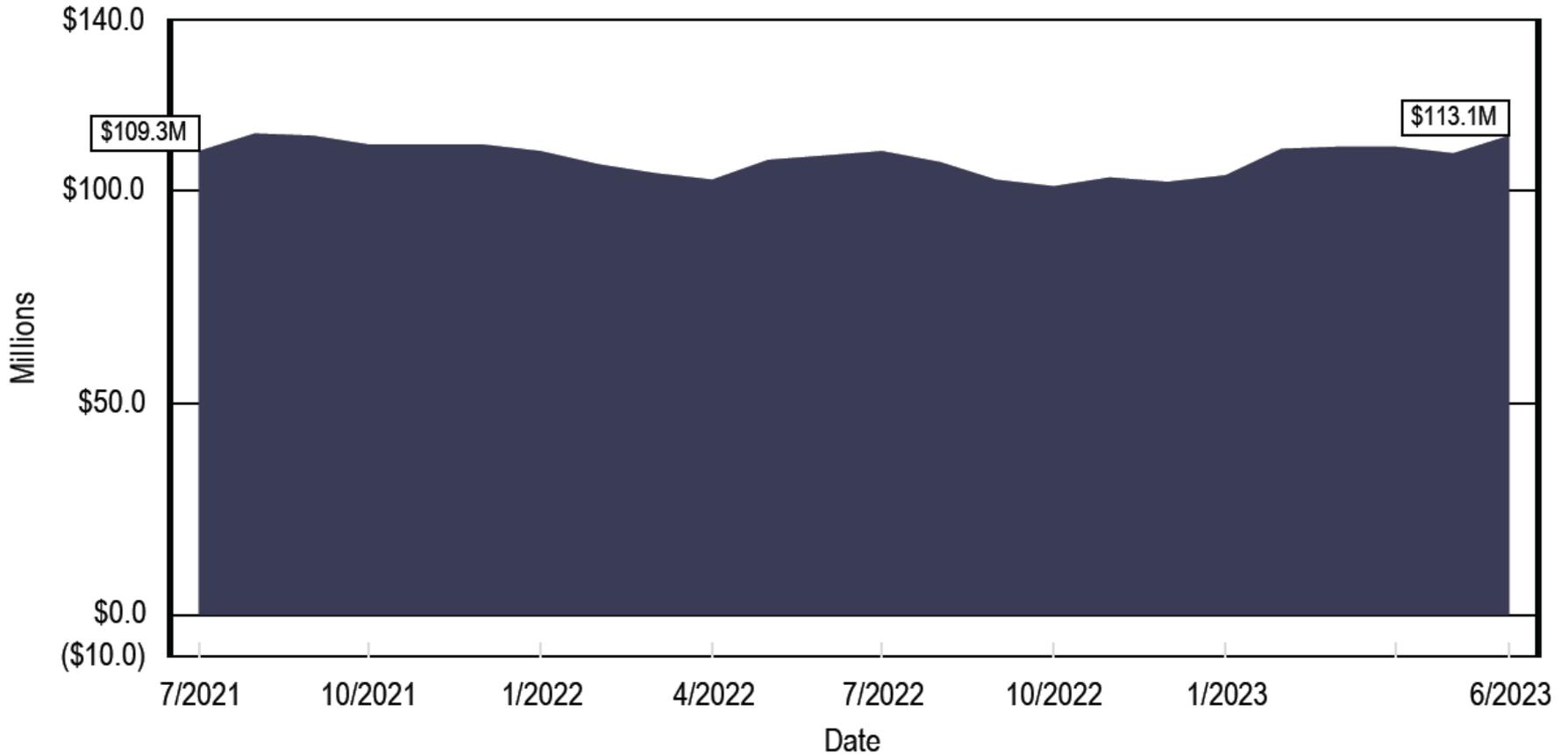
### Summary of Cash Flows

|                        | 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



■ Market Value

# 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<br>Q2<br>(%) | YTD<br>(%) | 1 Yr<br>(%) | 3 Yrs<br>(%) | 5 Yrs<br>(%) | 10 Yrs<br>(%) | Inception<br>(%) | Inception<br>Date | Market Value | % of<br>Portfolio |
|--|-------------------|------------|-------------|--------------|--------------|---------------|------------------|-------------------|--------------|-------------------|
| <b>Intermediate Fixed Income Securities</b>    | -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

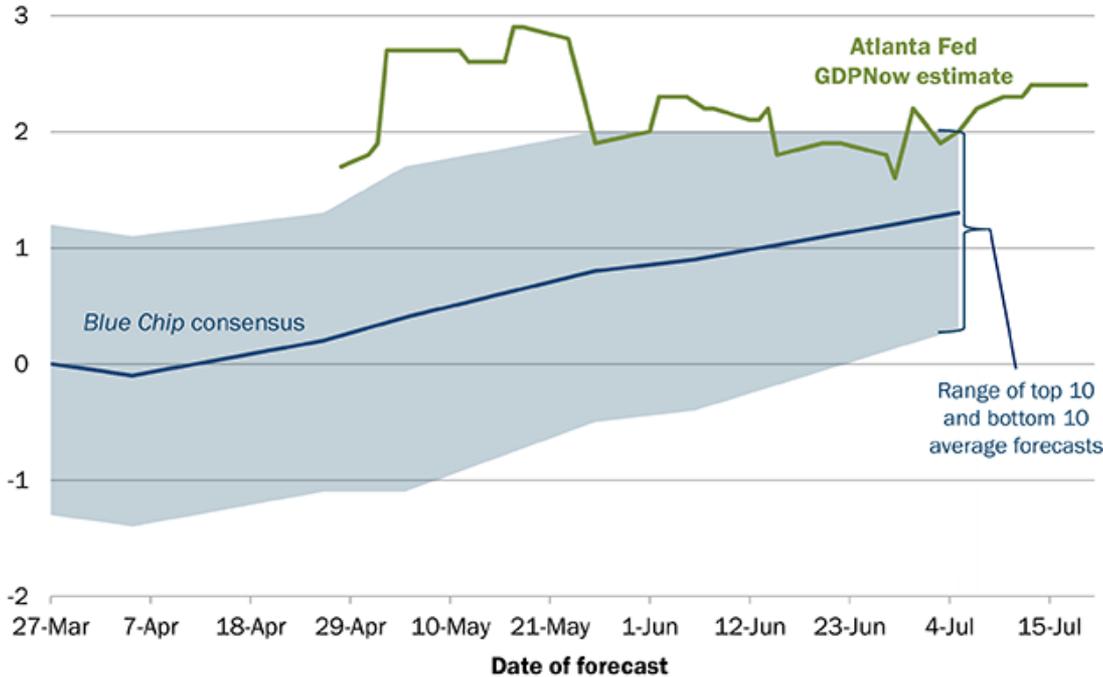


|                                  | Manager<br>Fee            | Asset Allocation<br>(\$79.1 M)      | Fee<br>Percentage   | Manager<br>Fees (\$)     |
|----------------------------------|---------------------------|-------------------------------------|---------------------|--------------------------|
| <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                |
|                                  | <b>Total Manager Fees</b> |                                     | <b>0.22%</b>        | <b>\$ 172,320</b>        |
|                                  |                           | <b>Fourth Street Consulting Fee</b> | <b>0.05%</b>        | <b>\$ 39,645</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>\$ 228,418</u></b> |

# Real Growth Stronger in Q2

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

Quarterly percent change (SAAR)



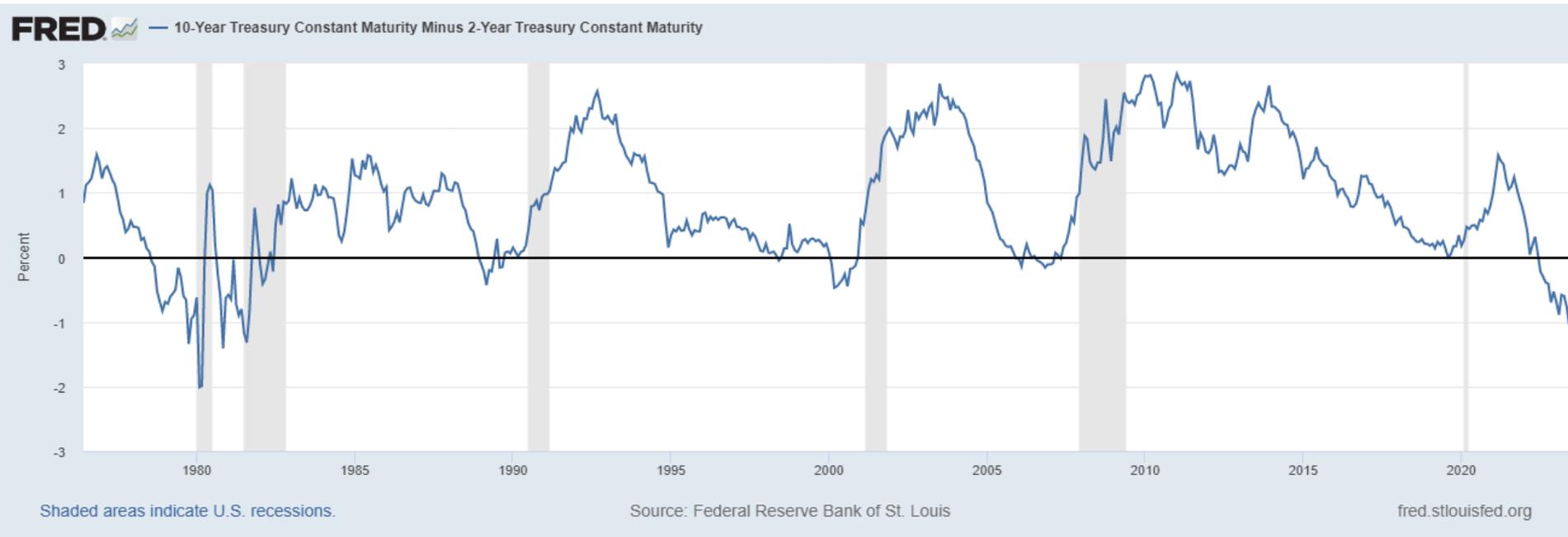
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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

| 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  |

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

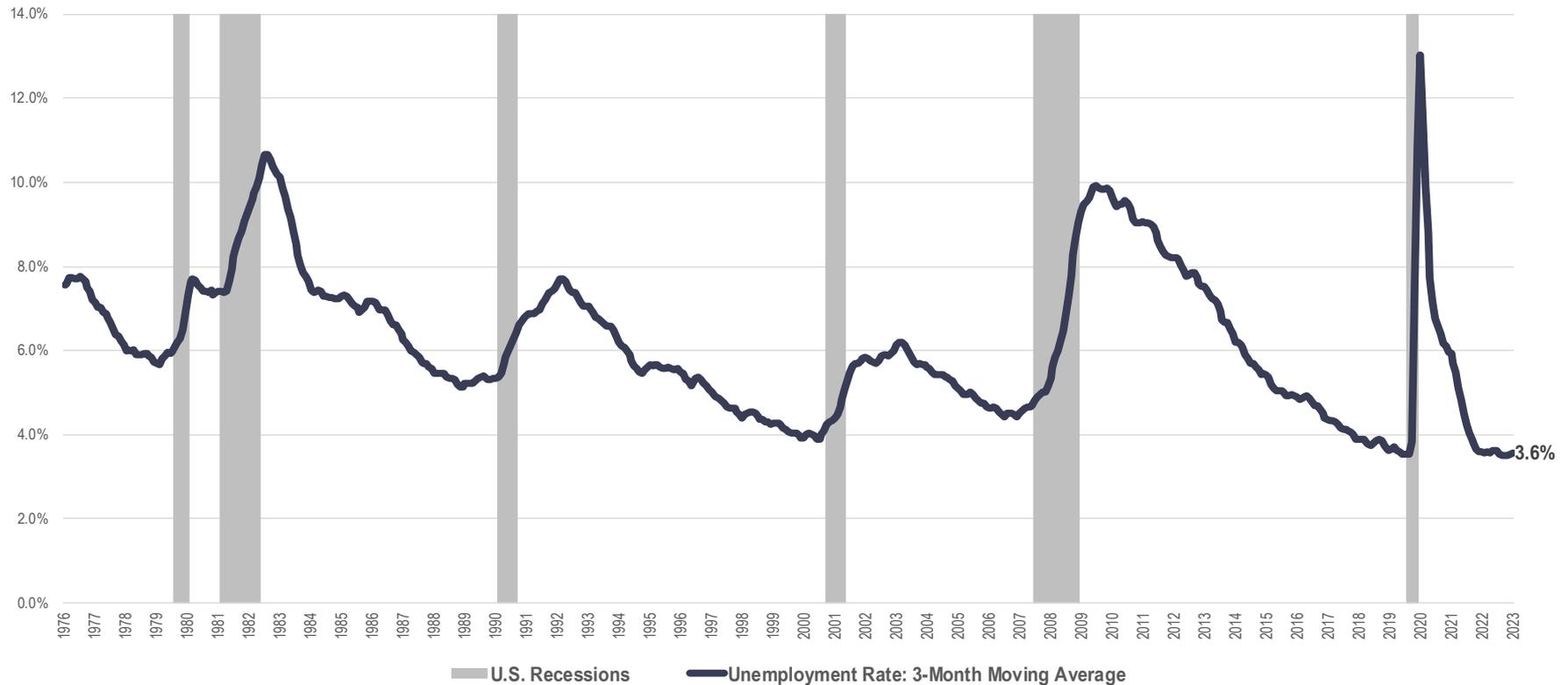
# 2-Year/10-Year Treasury Yield Spread



➤ **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

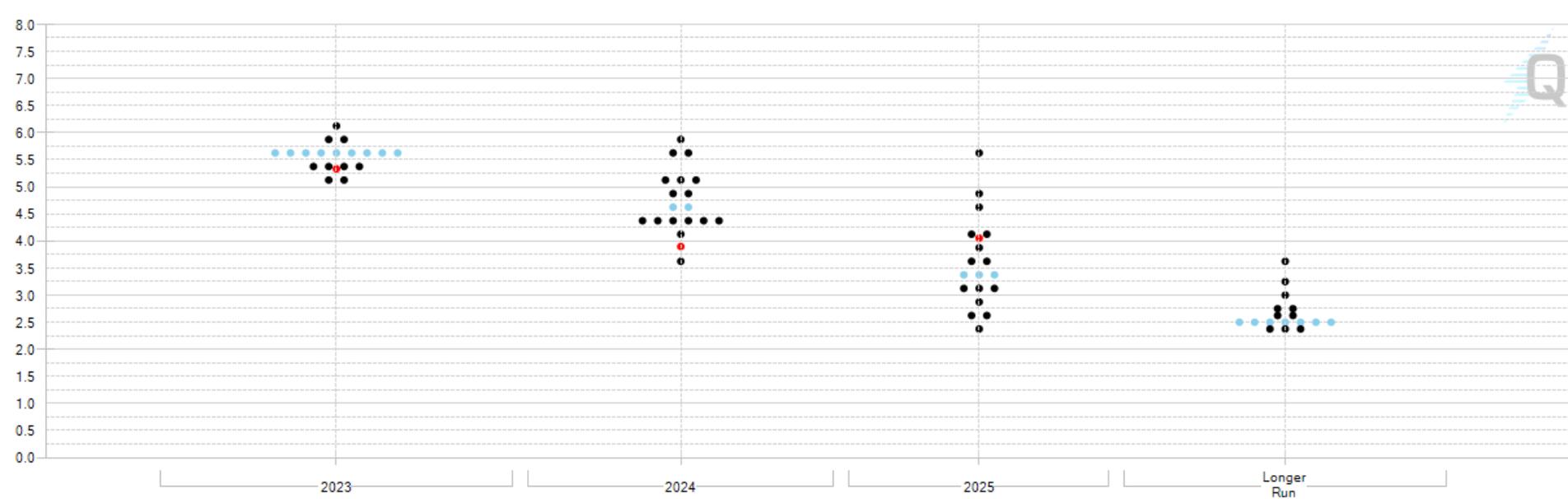
Consumer-price index, change from a year earlier



Source: Labor Department

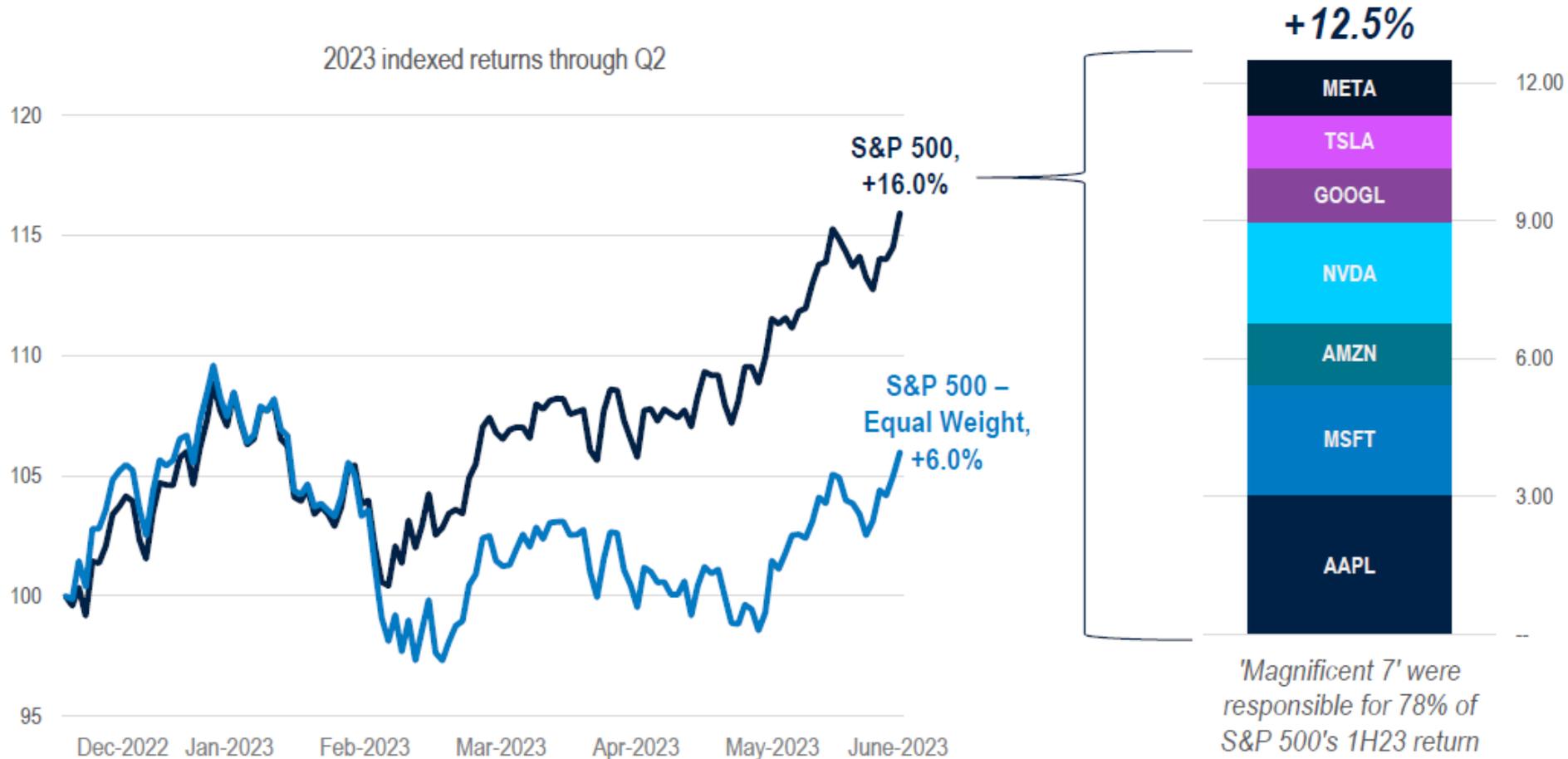
# Interest Rates Projected to Decline in 2024

## 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

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



FOURTH STREET  
PERFORMANCE PARTNERS

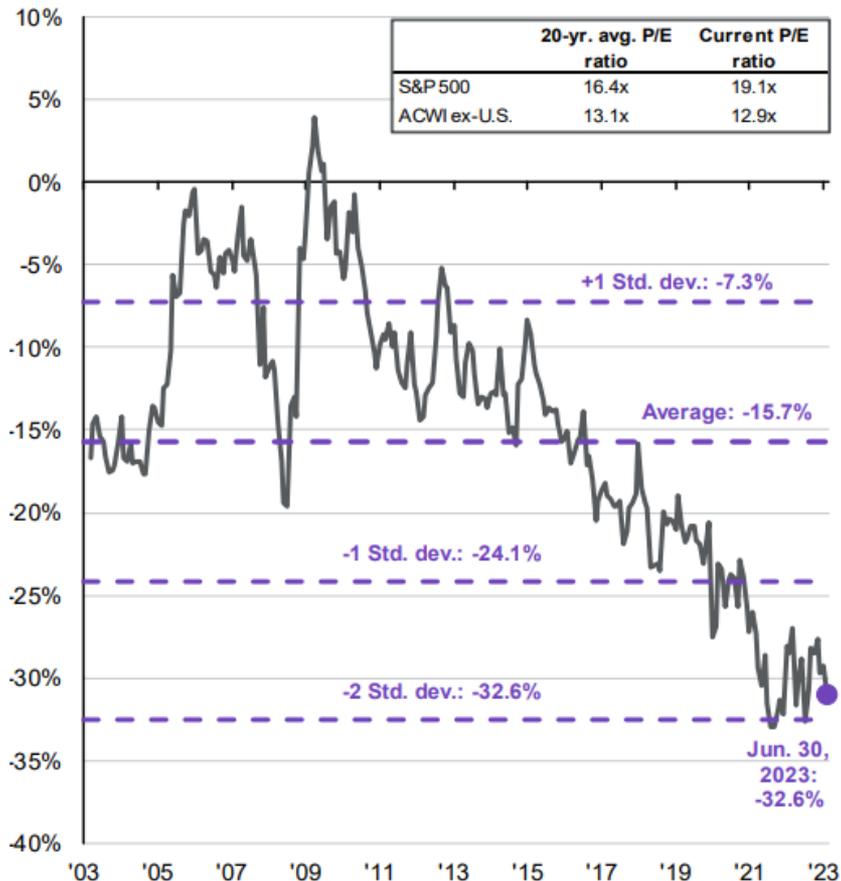
### S&P 500 Index: Forward P/E ratio



# International Valuations Remain Attractive

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

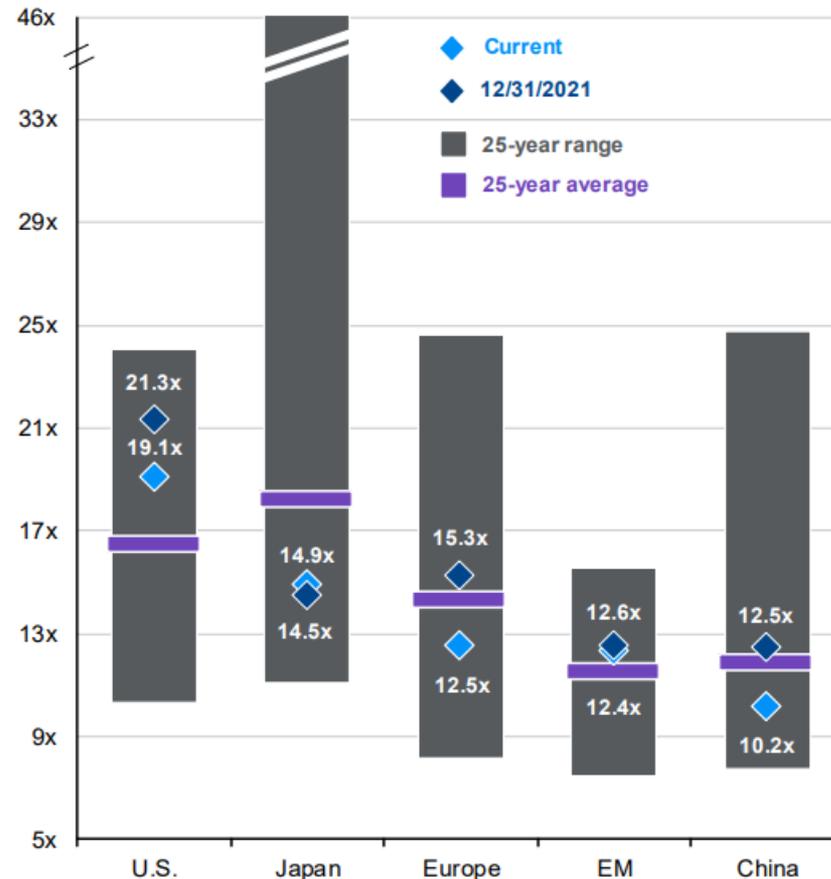
MSCI All Country World ex-U.S. vs. S&P 500, next 12 months



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

## Global valuations

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

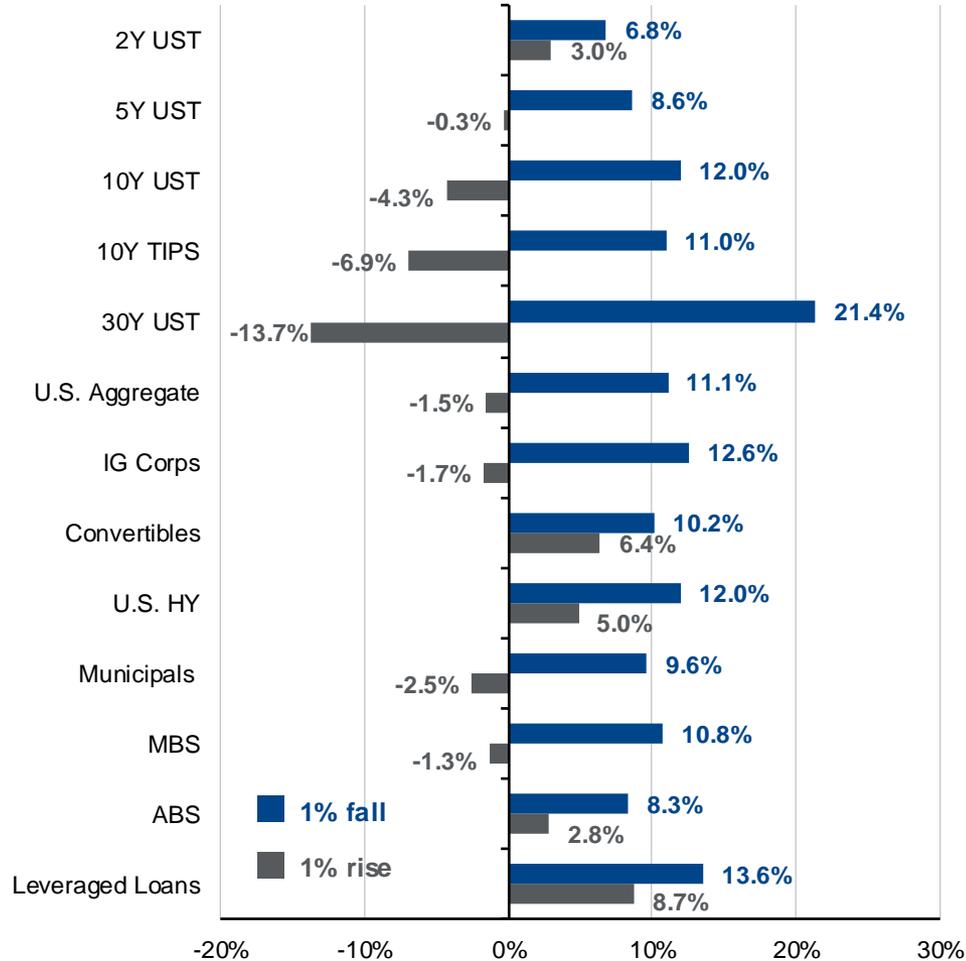


# Interest Rate Risk Skewed to Upside

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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