

# **EMPOWERING ENDOWMENTS & OTHER SHORT/LONG-TERM FUNDS**

UPDATED APRIL 25, 2024

**“The Community Foundation’s  
Professional Investment Process”**



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# Community Foundation Investment Committee



**Bob Jensen**  
President  
Temp Associates  
& RJK Inc.



**David Jones**  
Chief Financial Officer  
KENT Corporation



**Cindy Mays**  
Retired Market President  
MidWestOne Bank



**Dr. Jim Stein**  
Chairman Emeritus  
Central Bancshares, Inc.



**Mike Wilson**  
Accounting Services Manager  
Community Foundation  
of Greater Muscatine



**Charla Schafer**  
President  
Community Foundation  
of Greater Muscatine



**Jamie Leza**  
VP, Operations  
Community Foundation of  
Greater Muscatine

## EMPOWERING ENDOWMENTS & OTHER SHORT/LONG-TERM FUNDS

This document represents a comprehensive overview of the principal financial and investment philosophies and practices of the Community Foundation of Greater Muscatine, its Investment Committee, and its independent professional investment management firm along with the evolution and historical performance of its evolving professional investing process.

### Community Foundations

Community foundations are tax-exempt charitable organizations created by and for the people of their respective communities or counties. The mission of the Community Foundation of Greater Muscatine is to actively work to improve the quality of life through philanthropy in Muscatine and Louisa Counties.

Community foundations provide personalized service to their donors to achieve charitable and financial goals by offering tools and resources that make giving easy, flexible, effective, and productive.

Funds at the Community Foundation represent a collection of endowed and non-endowed funds. Endowed funds enable annual grants to provide financial resources for charitable support of community initiatives in perpetuity.

As an accredited Community Foundation, donors receive the most favorable tax advantages allowed by law. For example, in Iowa, the Endow Iowa Tax Credit may provide up to a 25% state tax credit for donations to endowments even if they don't itemize – this is in addition to the federal charitable income tax deduction.

### People Make the Difference

We suggest the most important consideration in determining the effectiveness of any community foundation is the quality of the organization and people behind it. The Community Foundation of Greater Muscatine has given highest priority to attracting a high caliber Board of Directors, Board-appointed Investment Committee, executive staff, and independent investment manager. The Board and its Investment Committee members generously volunteer their time, knowledge, and leadership skills, which dramatically lowers the overhead cost of operating the Community Foundation. And professional executive staff makes it all happen!

### Investing with Conviction

The Community Foundation's Investment Committee, members of which are elected by the Community Foundation's Board of Directors, are delegated full power and authority to make decisions related to investments of the Community Foundation's investible assets, consistent with the Investment Policy approved and adopted by the Board. The Investment Committee consists of not less than five nor more than seven members, at least one of whom serves on the Community Foundation's Board. Members of the Investment Committee are people with distinguished knowledge and experience with investing and investment practices. The President of the Community Foundation is an ex-officio non-voting member of the Investment Committee. The Investment Committee works closely with the Community Foundation's President, Vice President of Operations, and Accounting Manager, all of whom regularly attend Investment Committee meetings, in performing its investment advisory function.

All independent volunteer committee members are active community leaders who have been selected for their professional financial and investment expertise AND extensive record of community service which gives them a deep-seated understanding of the serious fiduciary responsibility inherent in investing charitable dollars. The Investment Committee meets routinely on a quarterly basis, but is also available on an ad hoc basis, as warranted. The Investment Committee's investment methodology and sophistication evolved over time as Community Foundation investible assets continued to increase and grow. As investible assets increased, the decision was eventually made to broaden the investment securities beyond certificates of deposit. It was at this time that The Vanguard Group was

selected as the Foundation's mutual fund company of choice which proved over time to be most fortuitous. The Investment Committee utilized a combination of fixed income and equity mutual funds along with bank certificates of deposit to develop model investment portfolios that permitted the Community Foundation and its donors to begin benefitting from higher yielding equity and fixed income securities. These models were structured to offer differing portfolio or fund aligned degrees of investment risk/reward.

The development of equity/fixed income investment portfolios along with utilizing highly respected mutual funds enabled the Community Foundation to attract increasingly larger charitable donations as time passed. As the amount of investible assets eventually grew to reach \$60 million, which occurred in 2022, the Investment Committee felt that managing a portfolio of this size needed access to informational and analytical resources that were simply beyond the reach of the Investment Committee. Furthermore, the size of the investment portfolio could now realistically financially justify retaining a professional investment manager. An independent professional investment manager could not only provide access to state-of-the-art investment resources but would also be able to focus on managing the Community Foundation's model investment portfolios every day the market is open rather than having to rely on Investment Committee quarterly reviews. This latter benefit is of increasing importance in today's dynamic, volatile, and tumultuous world!

After careful review, the Investment Committee recommended that the Community Foundation expand its service relationship with The Vanguard Group. This decision was the culmination of a comprehensive review initiated and directed in the summer and fall of 2022 by the Investment Committee based on the timing and opportunity around such a move.

The Community Foundation Board subsequently approved the Investment Committee's recommendation with an added provision that certificates of deposits be retained as a preferred security of choice for short-term investments and to utilize local area financial institutions for acquiring such securities. So, this means the Community Foundation's short-term model portfolio will continue to be managed in-house.

With this Board direction, effective July 3, 2023, all Foundation long-term investible assets were rolled over to Vanguard Institutional Advisory Services for management. On December 5, 2023, Vanguard announced it had reached agreement to sell Vanguard Institutional Advisory Services (VIAS), Vanguard's institutional outsourced chief investment officer (OCIO) business, to Mercer Investments LLC. The sale was completed on March 15, 2024, making Mercer Investments LLC the Community Foundation's Investment Manager.

This new professional investment manager relationship essentially means that the Community Foundation is moving from being a retail client to becoming an institutional client. This change now permits Community Foundation access to larger and even lower cost institutional mutual/ETF funds. In addition, this new relationship means a slightly different role for the Investment Committee, however, its proven Investment Policy and philosophies will continue to guide investment management and the Committee will retain responsibility for monitoring investing compliance and performance.

There are four key investment-related documents that support the newly expanded investment manager relationship that are available to donors or prospective donors that are all online on the Community Foundation's website at: [www.givinggreater.org/about-us](http://www.givinggreater.org/about-us). They are: Investment Policy, Model Investment Portfolios and Securities, Investment Committee Charter and this document, Empowering Endowments.

**“Despite employing the best investment practices, it is inevitable that markets routinely go up and down in value and that investing inherently involves risk of losing value. It is this risk factor that also creates market rewards!”**

## **Community Foundation Investment Practices and Preferences**

Community Foundation investment funds are pooled for investing purposes. The power of pooling enables greater buying power than would be possible by any individual investor. This allows for investing in a wider range of securities more effectively than would be possible singularly which also has portfolio diversification benefits.

Investment portfolios and securities are broadly diversified into equity and fixed income asset and sub-asset classes, investment categories, investment styles and investment sectors to average returns, minimize risk and to mitigate loss. This is recognition that the most important investment decision, in terms of longer-term performance results, lie with the asset allocation strategies employed in the model portfolios.

The Community Foundation favors a “buy and hold” long-term investment strategy, but also favors making timely portfolio changes that are based on sound professional evaluations of major national and international market shifts and trends over time. However, the investment focus is long-term future oriented with less reliance on current or past considerations.

Because of their charitable nature, Community Foundation investments are exempt from federal and state income taxes thus no tax reporting is required. It also means that there is no need to invest in lower yielding tax- free securities or to consider the tax impact of rebalancing the investment portfolio.

## INVESTMENT COMMITTEE

### Core Investment Principles

- **Capitalism:** an enduring belief in capitalism and how free capital markets function.
- **Capital Markets:** belief that capital markets are relatively efficient, that is, capital markets discount, or reflect, all widely known information at all times.
- **Simplicity:** keeping investment strategies and models as simple and straightforward as possible.
- **Equities:** an ardent belief in equities – they have proven to deliver the highest net investment returns over time compared to any other investment alternative, but invest in high-quality securities.
- **Quality:** invest in quality investments and proven mutual funds or exchange-traded funds and favor a mix of passive low-cost index and actively-managed funds.
- **Time:** time in the market is what matters, not timing! Favor a “buy and hold” long-term investment strategy, utilizing dollar-cost averaging whenever possible, and staying fully invested at all times.
- **Pooling:** pooling funds benefit through economies of scale, investment diversification, and investment return.
- **Diversification:** diversify each investment portfolio not to boost performance – it won’t ensure gains or guarantee against losses – but to help set the appropriate level of risk for the investment’s time horizon, financial goals, and tolerance for portfolio volatility. Diversification can be achieved by investing in different asset and sub-asset classes, investment categories, funds with differing investment styles, fund investing in different sectors of the market, and choosing funds by geography.
- **Asset Mix/Rebalance:** employ asset allocation target mixes, faithfully ladder fixed income securities and routinely monitor and rebalance investment portfolios to their respective model portfolio.
- **Earnings:** earnings drive investment valuations. Funds and stock prices may deviate from a reasonable relationship to profits in the short-term, but in the long-term, they match up fairly well.
- **Market Risk:** it is a certainty that investment returns will fluctuate! Even following time-proven investment principles does not assure a profit or protect against a loss in a declining market and past performance is no guarantee of future results.
- **Confidence:** finally have confidence that patience and exercising good investment judgment will be rewarded.

*The effectiveness of applying these core investment principles is highly dependent on employing unwavering “investment discipline” to faithfully apply them regardless of the prevailing or anticipated broader economic/financial environment.*



## MODEL PORTFOLIO OPTIONS

The Community Foundation has one short-term and three long-term model investment portfolios available for investing donor funds. Although, new portfolios may be designed and added to address special investment needs. Regardless of the investment portfolio, each intentionally represents a different risk/return profile.

### **Description of Short-Term Model Investment Portfolios**

The Community Foundation's short-term model portfolio is its Liquid Model Portfolio. The investment objective of this short-term model portfolio is to maintain fund liquidity and to protect asset principal from loss.

A component fund may be invested in one or a combination of short-term model and long-term model portfolios.

### **Short-Term Liquid Model Portfolio – 100% Fixed Income Investments**



This is the Community Foundation's most conservative investment model portfolio and is most applicable for the investment of short-term assets when liquidity and security of principal are of paramount importance and investment return is secondary.

This model portfolio invests 100% of its assets in fixed income securities: cash, bank checking and money market accounts and certificates of deposit, and a Federal Money Market Fund.

The stated investment objective of the Federal Money Market Fund is to seek current income while maintaining liquidity and a stable share price of \$1. The fund invests at least 99.5% of its total assets in cash and U.S. government securities that are collateralized solely by the U.S. government securities or cash.

This model portfolio is managed in-house by Community Foundation staff with routine oversight and approval of the Investment Committee.

The short-term investment goal is to match or exceed the prevailing interest rate on risk-free short-term certificates of deposits.

## **Description of Long-Term Model Investment Portfolios**

The three current long-term model investment portfolios: Conservative Growth, Active Growth and Dynamic Growth, all invest in many of the same or similar investment securities, but with different asset allocation mixes (percentages). The purpose of fund and mix differences is to change the investment risk/return character of the portfolios. So, each of the model portfolios is intentionally designed to offer a different risk/return profile.

The investment risk/return of all long-term model portfolios are managed through a combination of five different asset allocation strategies: (1) the percentage of the portfolio allocated between fixed income and equity securities; (2) the sub-asset classes chosen; (3) the investment categories chosen; and (4) the specific securities chosen and (5) their respective target weighting in the portfolio.

Donor assets may be invested in multiple model portfolios simultaneously including both short- and long-term portfolios.

### **Conservative Growth Model Portfolio – 40% Equities & 60% Fixed Income Investments**



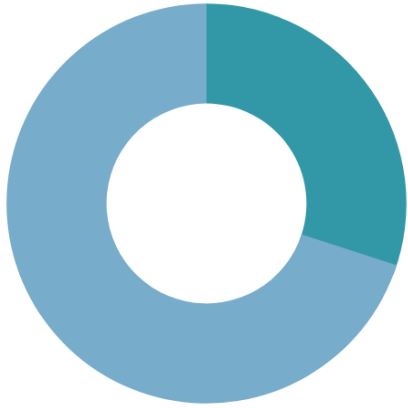
This model portfolio is designed to be a more conservative long-term investment portfolio option with its 40% equity and 60% fixed income allocation. The higher the fixed income allocation the lower the portfolio investment risk.

This portfolio may employ similar equity and fixed income funds as being utilized in either or both of the Active or Dynamic Growth Model Portfolios, but with different asset weightings. Its equity securities include a diversified mix of domestic and international funds. Its fixed income securities represent a diversified mix of short- and intermediate-term domestic and international mutual bond funds.

This model portfolio provides the opportunity for long-term assets to be invested with a strong conservative bias yet provide important potential portfolio asset growth that has historically been attributed to equity securities. This portfolio is managed by Mercer Investments LLC with routine oversight and approval of the Community Foundation's Investment Committee.

The long-term investment goal of this portfolio for the current decade is to exceed the annual rate of inflation by a minimum of 2% with a longer-term (10 years+) target of a compounded annual growth rate of 3-5%.

### **Active Growth Model Portfolio – 70% Equities & 30% Fixed Income Investments**



This portfolio is the “default” long-term investment portfolio for continuing charitable funds and endowment funds for long-term capital growth.

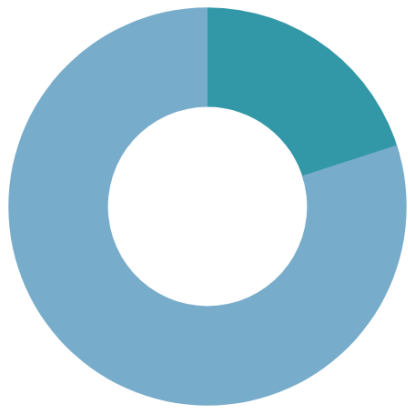
Most Community Foundation long-term assets are currently invested in this model portfolio. So, this portfolio holds the largest asset base of the three long-term models. The portfolio is comprised of approximately 70% equities and 30% fixed income investments. Again, this model portfolio employs similar securities as employed in the other two long-term model portfolios, but again with differing asset allocation strategies.

This model portfolio with its increased security allocation to equities is most applicable for the investment of long-term assets that are seeking long-term growth, but yet preserves the downside protection of the more conservative fixed income securities.

This model portfolio encompasses a broad mix of domestic and international equity mutual funds and a broad mix of fixed income short-, intermediate- and long-term domestic and international mutual bond funds. This portfolio is managed by Mercer Investments LLC with routine oversight and approval of the Community Foundation’s Investment Committee.

The long-term investment goal of this portfolio for the current decade is to exceed the annual rate of inflation by a minimum of 2% with a longer-term (10+ years) target of a compounded annual growth rate of 5-7%.

### **Dynamic Growth Model Portfolio – 80% Equities & 20% Fixed Income Investments**



This is a bolder “growth-oriented” long-term investment model for the investment of continuing charitable funds and endowment funds invested for long-term capital growth.

This model portfolio is designed for the portion of funds that can tolerate the volatility of the equity market with expectations of benefiting from the higher long-term capital appreciation that equities have historically delivered.

It consists of approximately 80% equities and 20% fixed income securities including several higher risk/return equity securities. Once again, this model portfolio holds similar equity and fixed income securities as the other two long-term model portfolios, but with differing asset allocation strategies.

This model portfolio is the Community Foundation’s most aggressive investment portfolio partially due to its asset allocation between fixed income and equity securities and its larger asset allocation to international securities. This portfolio is managed by Mercer Investments LLC with routine oversight and approval of the Community Foundation’s Investment Committee.

The long-term investment goal of this portfolio for the current decade is to exceed the annual rate of inflation by a minimum of 2% with a longer-term (10+ years) target of a compounded annual growth rate of 7-9%.

### **Rebalancing Actual Portfolios to their Respective Model Portfolio**

Each model investment portfolio, both short- and long-term, essentially represents the “portfolio index” for its respective portfolio. In other words, each model portfolio represents the “targeted” asset allocations for the portfolio.

Normal and routine operational portfolio inflows and outflows coupled with ongoing dynamic market valuation changes inevitably cause the actual portfolio to get out-of-balance with its respective model portfolio. Thus, this out-of-balance situation requires periodic rebalancing of the portfolios.

Investment portfolios are subject to quarterly review as standard practice. If any asset class (equity or fixed income) is +/-5% from its target weighting, it will normally be rebalanced, and rebalancing will have no transaction cost or tax implications.

Thus, portfolio rebalancing will automatically result in buying/selling securities amongst those being held within the actual portfolio.

### **Reporting of Actual Investment Portfolio Performance to Donors**

Actual investment portfolio performance and Community Foundation management fees for all model portfolios for the current year are available to donor representatives online or via an account statement at least quarterly. Actual gross model investment portfolio performance for each model portfolio is also posted on the Community Foundation’s website page at: [www.givinggreater.org/about-us](http://www.givinggreater.org/about-us).

The Community Foundation also welcomes donor representatives to call, email, meet or stop by the office at any time if there are questions or additional information is desired.

### **The Reward!**

The Community Foundation firmly believes making good quality diversified investments as represented by its model investment portfolios represent the best investment offense and defense. Discipline, patience, confidence and exercising good commonsense judgment will be rewarded.

### **INVESTING WORDS OF WISDOM**

“The stock market is the only market where things go on sale and all the customers run out of the store.” *Nick Murray, July 2020, Client’s Corner, Beware the Confirmation Bias*

“All of us would be better investors if we just made fewer decisions.” *Nick Murray, August 2020, Client’s Corner, Don’t Just Do Something: Stand There*

“Investing is a marathon, not a race, it should be boring, not exciting!” *Author, Unknown*

“Volatility isn’t the same as risk, and temporary decline isn’t the same as permanent loss – unless and until you sell! *Author, Unknown*

**COMMUNITY FOUNDATION OF GREATER MUSCATINE**  
**MODEL INVESTMENT PORTFOLIOS and SECURITIES**  
Effective: July 3, 2023

**SHORT-TERM MODEL PORTFOLIO**

<u>Sub-Asset Class</u>	<u>Category</u>	<u>Fund</u>	<u>Ticker</u>	<u>Invest. Style</u>	<u>Portfolio Weight</u>
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**Short-Term Liquid Model Portfolio**

**Fixed Income: (100%)**

Cash & Equiv.	Cash / MM.	Cash, Bank Checking & Money Market & Vanguard Money Market			
Cash & Equiv.	CD's	Certificates of Deposit			100.0%

**LONG-TERM MODEL PORTFOLIOS**

**Conservative Growth Model Portfolio**

**Equity: (40%)**

U.S. Equity	Lge. Blend	Total Stock Market Index Institutional	VITSX	Index	24.0%
Int'l Equity	For. Lge Bld	Total International Stock Index Fund Inst.	VTSNX	Index	16.0%

**Fixed Income: (60%)**

U.S. Aggreg.	I/T Bond	Total Bond Market Index Admiral	VBTIX	Index	21.0%
U.S. S/T Cr.	S/T Bond	Short-Term Investment Grade Admiral	VFSUX	Active	9.0%
U.S. I/T Cr.	I/T Bond	Intermediate-Term Investment Grade Adm.	VFIDX	Active	8.0%
U.S. L/T Cr.	L/T Bond	Long-Term Investment Grade Admiral	VWETX	Active	4.0%
Int'l Aggreg.	World Bd.	Total International Bond Market Index Adm.	VTABX	Index	18.0%

**Active Growth Model Portfolio**

**Equity: (70%)**

U.S. Equity	Lge. Blend	Total Stock Market Index Institutional	VITSX	Index	21.0%
U.S. Equity	Lge. Blend	PRIMECAP Core	VPCCX	Active	10.5%
U.S. Equity	Lge. Grow.	U.S. Growth Fund Admiral	VWUAX	Active	4.2%
U.S. Equity	Lge. Value	Equity Income Fund Admiral	VEIRX	Active	4.2%
U.S. Equity	Small Gro.	Explorer Fund Admiral	VEXRX	Active	2.1%
Int'l Equity	For. Lge Bld	Total International Stock Index Fund Inst.	VTSNX	Index	14.0%
Int'l Equity	For. Lge Valu	International Value Fund	VTRIX	Active	7.0%
Int'l Equity	For. Lge Gro	International Growth Fund Admiral	VWILX	Active	7.0%

**Fixed Income: (30%)**

U.S. Aggreg	I/T Bond	Total Bond Market Index Admiral	VBTIX	Index	10.5%
U.S. S/T Cr.	S/T Bond	Short-term Investment Grade Admiral	VFSUX	Active	4.5%
U.S. I/T Cr.	I/T Bond	Intermediate-Term Investment Grade Adm.	VFIDX	Active	4.0%
U.S. L/T Cr.	L/T Bond	Long-Term Investment Grade Admiral	VWETX	Active	2.0%
Int'l Aggreg.	World Bond	Total International Bond Market Index	VTABX	Index	9.0%

## LONG-TERM MODEL PORTFOLIOS (Continued)

Sub-Asset Class	Category	Fund	Ticker	Invest. Style	Portfolio Weight
<b>Dynamic Growth Model Portfolio</b>					
<b>Equity: (80%)</b>					
U.S. Equity	Lge. Blend	Total Stock Market Index Institutional	VITSX	Index	24.0%
U.S. Equity	Lge. Blend	PRIMECAP Core	VPCCX	Active	12.0%
U.S. Equity	Lge. Grow.	U.S. Growth Fund Admiral	VWUAX	Active	4.8%
U.S. Equity	Lge. Value	Equity Income Fund Admiral	VEIRX	Active	4.8%
U.S. Equity	Small Gro.	Explorer Fund Admiral	VEIRX	Active	2.4%
Int'l Equity	For. Lge Bld	Total International Stock Index Fund Inst.	VTSNX	Index	16.0%
Int'l Equity	For. Lge Valu	International Value Fund	VTRIX	Active	8.0%
Int'l Equity	For. Lge Gro	International Growth Fund Admiral	VWILX	Active	8.0%
<b>Fixed Income: (20%)</b>					
U.S. Aggreg.	I/T Core Bd.	Core Bond Fund Admiral	VCOBX	Active	14.0%
Int't Aggreg.	World Bond	Total International Bond Market Index	VTABX	Index	6.0%

### Portfolio Asset Allocation Strategies

**Asset Classes:** Equities and Fixed Income.

**Sub-Asset Classes:**

**Cash & Equivalents:** Cash, Checking & Money Market Accounts, Certificates of Deposit

**Equities:** U.S. Equities, Small-Cap Stocks, Value Stocks, Growth Stocks, International Equities & Emerging Markets.

**Bonds:** Short-Term Credit, Intermediate-Term Credit, Long-Term Credit, Investment-Grade, Agency, Corporate, High-Yield, U.S. Aggregate Bonds, Global & International Aggregate.

**Investment Categories:**

**Money Market:** Tax-Free Money Market.

**Equities:** Large Value, Large Blend, Large Growth, Mid-Cap Value, Mid-Cap Blend, Mid-Cap Growth, Small Value, Small Blend, Small Growth, Foreign Large Value, Foreign Large Blend, Foreign Large Growth, Foreign Small/Mid Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, World Stock, and Diversified Emerging Markets.

**Fixed Income:** Long Government, Intermediate Government, Short Government, Long-Term Bond, Intermediate-Term Bond, Short-Term Bond, Ultrashort Bond, High Yield Bond, Multisector Bond, World Bond, Emerging-Markets Bond, and Inflation-Protected Bond.

**Fund Investment Styles:** a fund is either passively-managed (indexed) or actively-managed.

**Fund Investment Sectors:** (typically each equity & fixed income mutual fund invests in multiple sectors):

**Equities:** Basic Materials, Consumer Cyclical, Financial Services, Real Estate, Communication Services, Energy, Industrials, Technology, Consumer Defensive, Healthcare and Utilities.

**Fixed Income:** Government, Municipal, Corporate, Securitized, Cash & Equivalents and Other.

**Portfolio Weights:** there two different model portfolio weights: (1) weight allocated to the valuation of equity funds verses fixed income funds in the portfolio (i.e., 70% equities, 30% fixed income); and (2) weight allocated to each individual fund in the portfolio (i.e., Total Stock Market Index Institutional 16.0% indicates 16% of the portfolio's value is to be invested in this fund – this is that particular fund's targeted allocation).

## MODEL INVESTMENT PORTFOLIO ANALYTICS

### Model Portfolios Condensed Profiles, as of July 3, 2023

- S/T Liquid: is 100% invested in fixed income securities: cash, bank checking & money market accounts, certificates of deposit and in a federal money market fund.
- L/T Conservative Growth (40%/60%): approximately 40% invested in a mix of diversified equity mutual funds and 60% invested in a broad range of bond mutual funds.
- L/T Active Growth (70%/30%): this portfolio serves as the “default equity portfolio” and is approximately 70% invested in a broad mix of diversified domestic and international equity mutual funds and 30% in fixed income securities with a mix of short-, intermediate- and long-term domestic and international bond mutual funds.
- L/T Dynamic Growth (80%/20%): approximately 80% invested in a broad mix of diversified domestic and international equity mutual funds and 20% invested in fixed income securities with a mix of domestic and international bond mutual funds.

#### Short-Term Model Portfolio Securities: Index vs. Managed Funds (as of July 3, 2023)

<u>Model Portfolio</u>	<u>% Index Funds</u>	<u>% Managed Funds</u>	<u>Total Portfolio</u>
<b><u>Liquid</u></b>		100.0%	100.0%

#### Long-Term Model Portfolio Securities: Index vs. Managed Funds (as of July 3, 2023)

<u>Model Portfolio</u>	<u>% Index Funds</u>	<u>% Managed Funds</u>	<u>Total Portfolio</u>
<b><u>Conservative Growth</u></b>			
Equities	40.0%	0.00%	40.0%
Fixed Income	<u>39.0%</u>	<u>21.0%</u>	<u>60.0%</u>
Total	79.0%	21.0%	100.0%
<b><u>Active Growth</u></b>			
Equities	35.0%	35.0%	70.0%
Fixed Income	<u>19.5%</u>	<u>10.5%</u>	<u>30.0%</u>
Total	54.5%	45.5%	100.0%
<b><u>Dynamic Growth</u></b>			
Equities	40.0%	40.0%	80.0%
Fixed Income	<u>6.0%</u>	<u>14.0%</u>	<u>20.0%</u>
Total	46.0%	54.0%	100.0%

An “index” mutual fund is a lower cost type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the S&P 500. Whereas a “managed” mutual fund is a type of mutual fund with a portfolio manager(s) that actively manages the fund and selects investments that seek to outperform a benchmark.

**Long-Term Model Portfolio Securities: Domestic vs. International (as of July 3, 2023)**

<u>Model Portfolio</u>	<u>% Domestic</u>	<u>% International</u>	<u>Total Portfolio</u>
<u>Conservative Growth</u>			
Equities	24.0%	16.0%	40.0%
Fixed Income	<u>42.0%</u>	<u>18.0%</u>	<u>60.0%</u>
Total	66.0%	34.0%	100.0%
<u>Active Growth</u>			
Equities	42.0%	28.0%	70.0%
Fixed Income	<u>21.0%</u>	<u>9.0%</u>	<u>30.0%</u>
Total	63.0%	37.0%	100.0%
<u>Dynamic Growth</u>			
Equities	48.0%	32.0%	80.0%
Fixed Income	<u>14.0%</u>	<u>6.0%</u>	<u>20.0%</u>
Total	62.0%	38.0%	100.0%

**Long-Term Model Portfolio Securities: Investment Category\* (as of January 1, 2024)**

**EQUITIES**

<u>Model Portfolio</u>	<u>Large Blend</u>	<u>Large Growth</u>	<u>Large Value</u>	<u>Small Growth</u>	<u>Foreign Lge. Blend</u>	<u>Foreign Lge. Growth</u>	<u>Foreign Lge. Value</u>	<u>Total</u>
Conservative Growth	24.0%				16.0%			40.0%
Active Growth	31.5%	4.2%	4.2%	2.1%	14.0%	7.0%	7.0%	70.0%
Dynamic Growth	36.0%	4.8%	4.8%	2.4%	16.0%	8.0%	8.0%	80.0%

**FIXED INCOME**

<u>Model Portfolio</u>	<u>S/T Bond</u>	<u>Corp. Bond</u>	<u>I/T Core</u>	<u>L/T Bond</u>	<u>Global Bond</u>	<u>Total</u>
Conservative Growth	9.0%	8.0%		4.0%	18.0%	60.0%
Active Growth	4.5%	4.0%		2.0%	9.0%	30.0%
Dynamic Growth			14.0%		6.0%	20.0%



**Long-Term Model Portfolio Securities: Investment Sector\* (as of January 1, 2024)**

<b>EQUITIES</b>	<b><u>Conservative Growth</u></b>	<b><u>Active Growth</u></b>	<b><u>Dynamic Growth</u></b>
<u>Sector</u>			
Basic Materials	1.84%	2.79%	3.18%
Consumer Cyclical	4.41%	8.71%	9.95%
Financial Services	6.18%	9.55%	10.92%
Real Estate	1.23%	1.39%	1.59%
Communication Services	2.77%	4.56%	5.21%
Energy	1.91%	3.27%	3.74%
Industrials	4.58%	8.80%	10.05%
Technology	8.91%	15.21%	17.38%
Consumer Defensive	2.61%	3.88%	4.44%
Healthcare	4.49%	10.39%	11.87%
Utilities	<u>1.06%</u>	<u>1.47%</u>	<u>1.68%</u>
Total	40.00%	70.00%	80.00%
<b>FIXED INCOME</b>			
<u>Sector</u>			
Government	20.63%	10.31%	7.80%
Municipal	0.54%	0.27%	0.00%
Corporate	25.18%	12.59%	5.16%
Securitized	5.55%	2.78%	4.28%
Cash & Equiv.	0.59%	0.30%	0.24%
Other	<u>7.51%</u>	<u>3.75%</u>	<u>2.51%</u>
Total	60.00%	30.00%	20.00%
<b>TOTAL PORTFOLIO</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\* Data Source: Morningstar

## COMMUNITY FOUNDATION PORTFOLIO PERFORMANCE REPORTING & METRICS

### Tracking & Reporting Investment Performance

Mercer Investments LLC, the Community Foundation’s independent Investment manager, provides the Community Foundation with condensed monthly model/actual portfolio performance reports and, on a quarterly basis, provides comprehensive portfolio performance reports along with a range of comparative market analytical data and commentary. The Community Foundation’s Investment Committee routinely monitors the investment performance of each portfolio and security by comparing its respective performance against its benchmark and with other market indices. The Community Foundation’s equity and fixed income mutual funds are a combination of indexed and actively-managed funds, but all funds have a relevant performance benchmark.

Empowering endowments, using a baseball analogy, is to routinely hit base runs to score rather than go for home runs and strike out more! The long-term investment character of the Community Foundation’s long-term model portfolios reduces the emphasis on short-term market behavior.

**It is important to be reminded that compounding growth over time is powerful stuff!** It is also important that the reader of the Community Foundation’s actual historical annual performance of its investment portfolios be reminded that until July 3, 2023, the Community Foundation’s Investment Committee solely managed all of the model portfolios. Thus, all historical performance data reported for calendar years 2008 through 2022 in this document fall in this category. Vanguard Institutional Advisory Services/Mercer Investments LLC began managing all of the long-term model portfolios on July 3, 2023.

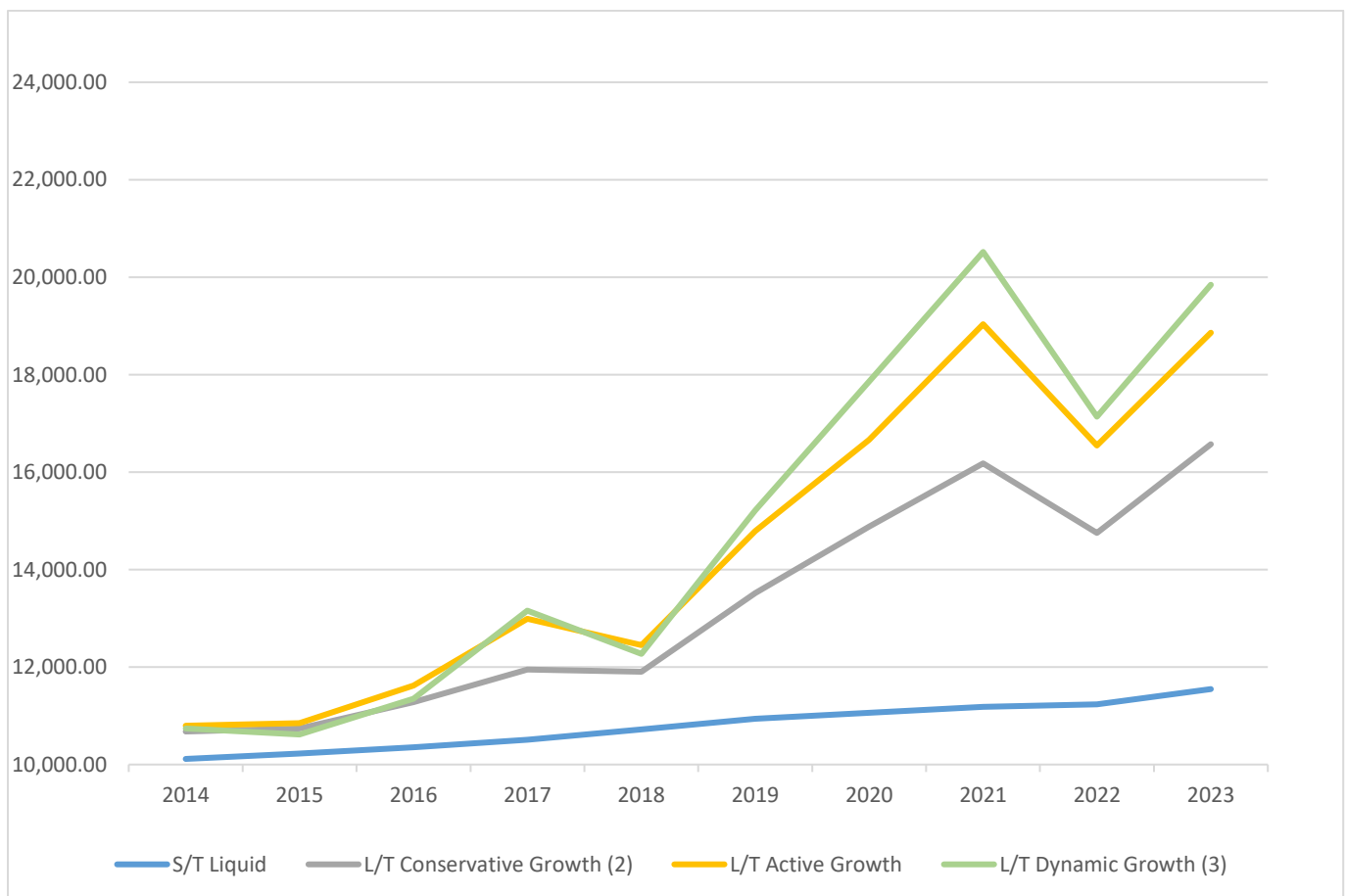
### Short- and Long-Term Portfolio Gross Historical Annual Performance (2008-2023) \* (Prior to Applicable Annual Community Foundation Service Fees)

Year	Liquid	Conservative Growth	Active Growth	Dynamic Growth
2008	2.96%	-12.81%	-21.67%	-29.41%
2009	1.56%	15.42%	16.13%	28.60%
2010	1.27%	9.43%	9.93%	16.47%
2011	1.11%	1.68%	-0.66%	0.04%
2012	1.14%	7.99%	8.19%	14.09%
2013	1.29%	10.23%	16.39%	17.90%
2014	1.15%	6.78%	7.96%	7.42%
2015	1.10%	0.58%	0.48%	-1.17%
2016	1.25%	5.04%	7.13%	6.92%
2017	1.47%	5.94%	11.79%	15.92%
2018	2.04%	-0.40%	-4.15%	-6.75%
2019	2.03%	13.59%	18.78%	24.03%
2020	1.14%	10.08%	12.66%	17.35%
2021	1.12%	8.71%	14.24%	14.90%
2022	0.42%	-8.84%	-13.08%	-16.48%
2023	3.31%	12.36%	14.00%	15.79%

\* Portfolios were launched at different times so performance data is “as if” each portfolio had been launched and effective as of 1-1-2008.

### Hypothetical Growth of Portfolios Assuming \$10,000 Invested on January 1, 2014 and Held for Cumulative Growth (10 Years)

<u>Growth Portfolio</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
S/T Liquid	\$10,115	\$10,226	\$10,354	\$10,506	\$10,720	\$10,938	\$11,062	\$11,186	\$11,233	\$11,605
L/T Conservative Growth	\$10,678	\$10,739	\$11,281	\$11,951	\$11,903	\$13,521	\$14,884	\$16,180	\$14,750	\$16,573
L/T Active Growth	\$10,796	\$10,847	\$11,621	\$12,991	\$12,452	\$14,790	\$16,663	\$19,036	\$16,546	\$18,862
L/T Dynamic Growth	\$10,742	\$10,616	\$11,350	\$13,158	\$12,269	\$15,218	\$17,858	\$20,519	\$17,138	\$19,844



## Compounded Annual Growth Rate (CAGR) of Portfolios \*

<u>Growth Portfolio</u>	<u>(2021 – 2023) Last 3-Years</u>	<u>(2019 – 2023) Last 5-Year</u>	<u>(2014 - 2023) Last 10-Years</u>	<u>(2009 – 2023) ** Last 15-Years</u>	<u>Portfolio Investment Goal</u>
S/T Liquid	1.61%	1.60%	1.50%	1.42%	Match or better prevailing interest rate on S/T CD's
L/T Conservative Growth	3.65%	6.84%	5.18%	6.39%	Exceed annual rate of inflation by min. 2.0%, longer-term target of compounded 3.0-5.0%
L/T Active Growth	4.22%	8.66%	6.55%	7.72%	Exceed annual rate of inflation by min. 2.0%, longer-term target of compounded 5.0- 7.0%
L/T Dynamic Growth	3.58%	10.09%	7.09%	9.68%	Exceed annual rate of inflation by min. 2.0%, longer-term target of compounded 7.0- 9.0%

### \* Compounded Annual Growth Rate (CAGR)

The CAGR is a mathematical formula that provides a “smoother” annual rate of return. It is really a pro forma number that tells what an investment yielded on an annually compounded basis indicating to investors what they really earned at the end of the investment period. The CAGR does not reflect investment risk, it smoothes volatility. Investment returns are volatile, meaning that they can and do vary significantly over time. The CAGR gives the illusion that there is a steady growth rate even when the value of the underlying investment varied significantly from year-to-year over the life of the investment. It is a useful and more easily understood measure of growth over multiple time periods.

### \*\* The Lessons of 2008-09 Major Market Correction

It is important to recognize that 2008 was one of the world’s worst market crashes of all time which is why it is included in the above performance data to illustrate how dramatic its impact was to even the Community Foundation’s long-term portfolios. This market crash is a good proxy for a “worst case” bad market cycle and investment timing (i.e., starting the measurement period with a major market loss). It is important as an informed investor to understand the significant impact such a devastating market cycle can have even on a well-designed diversified investment portfolio.

On Sept. 16, 2008, massive failures of financial institutions in the U.S., due primarily to exposure of securities of packaged subprime loans and credit default swaps issued to insure these loans and their issuers, rapidly evolved into a global crisis resulting in a number of bank failures in Europe and sharp reductions in the value of equities and commodities worldwide. On Oct. 28, 2008, the International Monetary Fund warned that the world financial system was teetering on the “brink of systemic meltdown.” This economic crisis caused countries to temporarily close their markets. In December 2008, the Federal Reserve dropped the Fed funds rate to zero, its lowest level in history. The Dow Jones Industrial Average Index (DJIA) ended 2008 at 8,776.39, down nearly 34% for the year and the S&P 500 Index ended at 903.25 down nearly 39%. By March 6, 2009, the DJIA had dropped 54% to 6,469 before beginning to recover from its peak of 14,164 on October 9, 2007, a span of 17 months.

**There is no doubt** that the 2008-09 dramatic market correction challenged the faith and confidence of many investors. In fact, many individual investors bailed and never returned. We witnessed years of market appreciation literally erased in a matter of a few months. So, what did this experience teach us?

It confirmed every one of the Investment Committee's core investment principles. Most notably the importance of portfolio diversification and confidence in the capital market to eventually self-correct. In this instance, the Community Foundation's significant allocations to fixed income assets in its long-term portfolios dramatically reduced the impact of the devastating equity market. The Active Growth Portfolio achieved a loss of 21.67% for calendar year 2008 that was clearly shielded from the broader market loss of nearly 40% by its diversified asset allocation in fixed income securities. But the most challenging aspect of 2008-09 was to "stay the course." We have to assume that there will be another similar major market correction at some point, but there is no way to know what will cause it or when it may occur.

But, then came 2022! For equity investors, 2022 brought the steepest losses since the 2008 great financial crisis. For bond investors, this was the worst year on record for the Barley's U.S. Aggregate Bond Index since it began over 45 years ago. The combination of having both stocks and bonds reporting losses for the year meant there was no place to hide!  
**To recover from markets like 2008 and 2022, make it critical to have a sound and proven long-term investment plan!**

For more historical factual information about past stock market disruptions, please read "Putting the U.S. Stock Market in Rational Perspective" that follows. This information is critically important to be reminded of especially during periods of stock market hysteria.

## Putting the U.S. Stock Market in Rational Perspective

Investing in the stock market is as much a psychological event as it is a financial event. U.S. stock market behavior is influenced by many geopolitical and global economic factors. These complex factors and their interpretations drive markets up and down each trading day.

While the market seeks rationality, it is often irrational. It is understandable why the immediate response of many investors is to panic as a response to the suddenness and often severity of market downturns. Thus, a major challenge to investing is to not panic when they occur, even dramatic downturns, and get out of the market at the most inopportune time. For sure, it takes a deep faith and understanding of the market to hold and wait for the market to eventually recover when the market appears to be in chaos seemingly with no end in sight. But, the serious evidence to date suggests this is the most financially productive stance.

To help put the U.S. stock market in a rational perspective, below are important “nuggets” of factual information provided by Nick Murray and published in July 2017 in his article “Client’s Corner: Of Corrections, Recessions, Bear Markets and Other Distractions” that even the most seasoned investor needs to be reminded of, especially when chaotic market events occur, which are fundamentally just a natural part of long-term investing:

- All stock market corrections so far have been temporary. So have all economic recessions and bear markets in stocks. Each has given way in time to the resumption of a major long-term uptrend.
- During the 71 years 1946-2016, there were 57 stock market corrections which are usually defined as declines in the S&P 500 Index of ten percent or more on a closing basis. *That’s an average of about one every fifteen months.*
- During this same 71-year period, there have been eleven economic recessions, usually defined as a decline in U.S. GDP lasting for at least two calendar quarters. *That’s an average of about one every six and a half years.*
- The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP. (Another way of looking at this is to consider that there were 852 months in the 71 years and that the economy was in recession for 121 of them, or 14%. The other 86% of the time, the economy was growing.)
- During these 71 years, there have been 14 bear markets in stocks, usually defined as a decline in the Index of 20% or more on a closing basis. *That’s an average of about one every five years.*
- During these 71 years, when stocks were correcting 57 times, and experiencing 14 bear markets, the S&P 500 Index went from 15 to 2,240, an increase of about 150 times.
- During the same 71 years, while the economy was experiencing 11 recessions, real (inflation-adjusted) U.S. Gross Domestic Product went from about \$2 trillion to nearly \$17 trillion. That’s a multiple of more than 8 times in a country whose population grew less than two and a half times, so per capita real GDP growth has been pretty darn terrific.
- Inference: for these 71 years, an equity investor who stayed focused on the long-term trends – the 86% of the time the economy was expanding, probably did well. But the investor who got panicked over one of the temporary declines in the economy in stock prices probably did a whole lot less well.
- The Ibbotson/Morningstar Yearbook states, from the beginning of 1926 through the end of 2020, the average annual compound return of the S&P 500 Stock Index was just a tad in excess of 10%.

## Investment Risk Disclosure

Below is a comprehensive investment disclosure that applies to all mutual fund fixed income and equity securities utilized in the Community Foundation's model investment portfolios. This disclosure simply reflects the unknowable nature of what the future holds. Investing inherently involves risk and risk comes in a variety of forms!

"Investments are subject to market risk, including the possible loss of the money you invest. Past performance is no guarantee of future returns. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Investments in stocks issued by non-U.S. companies are subject to risks including country/regional risk, which is the chance that political upheaval, financial troubles, or natural disasters will adversely affect the value of securities issued by companies in foreign countries or regions; and currency risk, which is the chance that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates. Stocks of companies based in emerging markets are subject to national and regional political and economic risks and to the risk of currency fluctuations. These risks are especially high in emerging markets.

Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share-price fluctuations. Because high-yield bonds are considered speculative, investors should be prepared to assume a substantially greater level of credit risk than with other types of bonds. Diversification does not ensure a profit or protect against a loss in a declining market. Performance data shown represent past performance, which is no guarantee of future results."

The Community Foundation of Greater Muscatine will continue to invest with conviction to fulfill its mission to improve the quality of life in all of the communities it serves. We are grateful for your trust, confidence, and partnership!

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***The dominant determinant of long-term, real-life outcomes is not the performance of markets, but the behavior of investors. The bitterest and by far the longest-lasting emotion in investing is neither fear nor greed, but regret.***

*Nick Murray, March/June 2019*