Understanding Investment Strategy Options at ACF

The Alaska Community Foundation

CONNECTING PEOPLE WHO CARE WITH CAUSES THAT MATTER SINCE 1995

Welcome and Introductions

Presenter:
Kevin Gray,
Chief Financial Officer (CFO)

- Overview of Investments at ACF
- The Long-Term Investment Pool
- The Short-Term Investment Pool
- Environmental, Social & Corporate Governance (ESG) Investment Pool
- Investments at ACF during Market Volatility

Investments at ACF

ACF Investment Policy Statement (IPS)

The ACF Board of Directors feels that the capacity for future grants is as important as grants made today.

To be here *in perpetuity*, the ACF Investment philosophy follows:

1) Long-Term Growth of Capital – Emphasize long-term growth of principal while avoiding excessive risk
2) Preservation of purchasing power (Inflation Proof)

Long-Term Investment Pool

Traditional Long-Term Pool

Global Equities (53.50%)

Intended to be the primary source of long-term capital appreciation for the portfolio. While having higher expected returns than fixed income, they also have higher expected volatilities. Sub-categories include both public and private equities, as well as hedged equity mandates.

Global Fixed Income (25%)

Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed-income (debt) securities (including TIPS) and can be categorized as interest-rate-sensitive and credit-sensitive. Sub-categories include both public and private debt.

Real Assets (9%)

Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes both public and private investments in real estate, natural resources (e.g., energy, agriculture, timber, commodities), and infrastructure.

Diversifying Strategies (10%)

Intended to provide diversification from systematic market risk, with the primary determinant of returns typically derived from manager skill (alpha) rather than the market (beta). Sub-categories include liquid and semi-liquid non-directional strategies that seek low correlations to the public equity and fixed-income markets.

Cash (2.5%)

Good, old-fashioned US Dollars.

Long-Term Pool

Focus: long-term growth of capital with a diversified risk profile.

- Main Investment Strategy of the Investment Policy Statement (IPS)
- Focus of the Investment Committee.

ACF Investment Portfolio Returns

As of 12/31/2023	1 Year	3 Years	5 Years
Total Portfolio	14.28%	4.190%	8.44%
Balanced Index	15.06%	2.27%	7.56%
Investment Objective	8.33%	2.32%	7.14%

As of 03/31/2024	QTD	1 Year	3 Years	5 Years
Total Portfolio	5.06%	14.99%	4.63%	7.93%
Balanced Index	4.59%	13.97%	3.29%	6.79%
Investment Objective	4.32%	13.15%	3.24%	6.41%

Balanced Index consists of 30% BB Aggregate, 10% BB US Treasury TIPS, 60% MSCI ACWI

Investment Objective reflects benchmarks specific to each of our underlying investments

Environmental, Social & Governance Investment Pool

Environmental, Social & Corporate Governance Investing

- A set of standards for a company's operations that socially-conscious investors use to screen potential investments.
- Investing with a purpose

<u>Environmental Criteria</u>

- How does a company perform as a steward of nature

<u>Social Criteria</u>

- How a company manages relationships with employees, suppliers, customers and the communities where it operates.

<u>Governance</u>

- Company's leadership, executive pay, Board involvement, audits, and shareholder rights.

Investments at ACF

ESG Pool – investing with a purpose

Allows fundholders at ACF to select an alternate investment style for their fund.

Analyzes investments in entities that positively display responsiveness to environmental, social, and governance factors.

Rejects investments in entities that operate in civilian firearms, controversial weapons, oil sands, thermal coal, and tobacco.

Investments at ACF - Asset Allocation Models

Traditional Long-Term Pool

Global Equities 53.5%

Global Fixed Income 25%

Real Assets 9%

Diversifying Strategies 10%

ESG Pool

Global Equities 60%

Global Fixed Income 40%

ESG Pool Specifics

Ticker Symbol EAOR – part of the ESG-oriented ETF suite with target-risk strategies offered by Blackrock iShares.

Ticker	Description	Overview	% of EAOR	# Holdings
ESGU	iShares ESG Aware MSCI USA ETF	Large to Mid-cap US Stocks with favorable ESG practices	39.18%	64,664
ESGD	iShares ESG Aware MSCI EAFE ETF	Large to Mid-cap stocks in Europe, Australia, Asia, Far East Favorable ESG	14.32%	34,010
ESGE	iShares ESG Aware MSCI EM	Large to Mid-cap Emerging Market stocks, Favorable ESG	5.75%	33,841
ESML	iShares ESG Aware MSCI USA Small Cap	Small-cap US stocks with favorable ESG practices	3.90%	18,392
EAGG	iShares ESG Aware US Agg Bond ETF	Investment Grade Bonds from issuers with favorable ESG	36.61%	45,900
	Cash	Cash or derivatives	0.24%	

For more information and prospectus, see:
https://www.blackrock.com/us/individual/products/314409/ishares-esg-aware-growth-allocation-etf-fund

Investments at ACF

Why EAOR?

1. A simple way to invest in a diversified, sustainable portfolio based on growth using one fund.
2. Access a broad mix of global stocks and bonds while seeking similar risk and return to traditional growth allocation portfolios.
3. Use to establish a long-term, balanced, sustainable portfolio with exposure to companies with favorable environmental, social, and governance (ESG) ratings.

Investment Objective

The iShares ESG Aware Growth Allocation ETF seeks to track the investment results of an index composed of a portfolio of underlying equity and fixed-income funds with positive environmental, social, and governance characteristics intended to represent a growth risk profile.

Sustainable Screens

As part of its investment methodology, this fund provides exposure to a portfolio of underlying funds with positive environmental, social, and governance characteristics. The underlying ESG funds each seek to track an index that applies the following business involvement screens: civilian firearms, controversial weapons, oil sands, thermal coal, and tobacco. The business involvement screens are based on revenue or percentage of revenue thresholds for certain categories and categorical exclusions for others. Please read the definition for each screen here.

ESG Pool

Focus: a diversified, sustainable portfolio based on growth within an ESG lens – investing with a purpose.

ACF ESG Portfolio Returns

As of 12/31/2023	Q4	1 Year	From 07/31/2022
Total Portfolio	9.17%	14.64%	6.16%
Balanced Index	9.33%	15.24%	6.79%

As of 03/31/2024	Q1	1 Year	From 07/31/2022
Total Portfolio	4.42%	13.42%	7.98%
Balanced Index	4.51%	14.11%	8.59%

Balanced Index consists of 30MSCI ACWI-Net, 40% BB Aggregate

More Information

1) Long-Term Pool – See ACF's Investment Policy Statement (IPS)

2) ESG Pool

   a) Formed in July 2022

   b) Investing with a different purpose in mind

3) Short-Term Pool – Accommodates funds that are generally shot-term in nature and focused on investment with minimal risk and returns.

Questions regarding the investment pool(s)?

Investing at ACF during Market Volatility

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Market Volatility – an S&P 500 historical perspective

From 1926 to 2022, the S&P Composite returned an annual return of 9.7%

Trivia Question:
Over this same period, how often did the S&P return actually fall between a window of 8% to 12% in a single year?

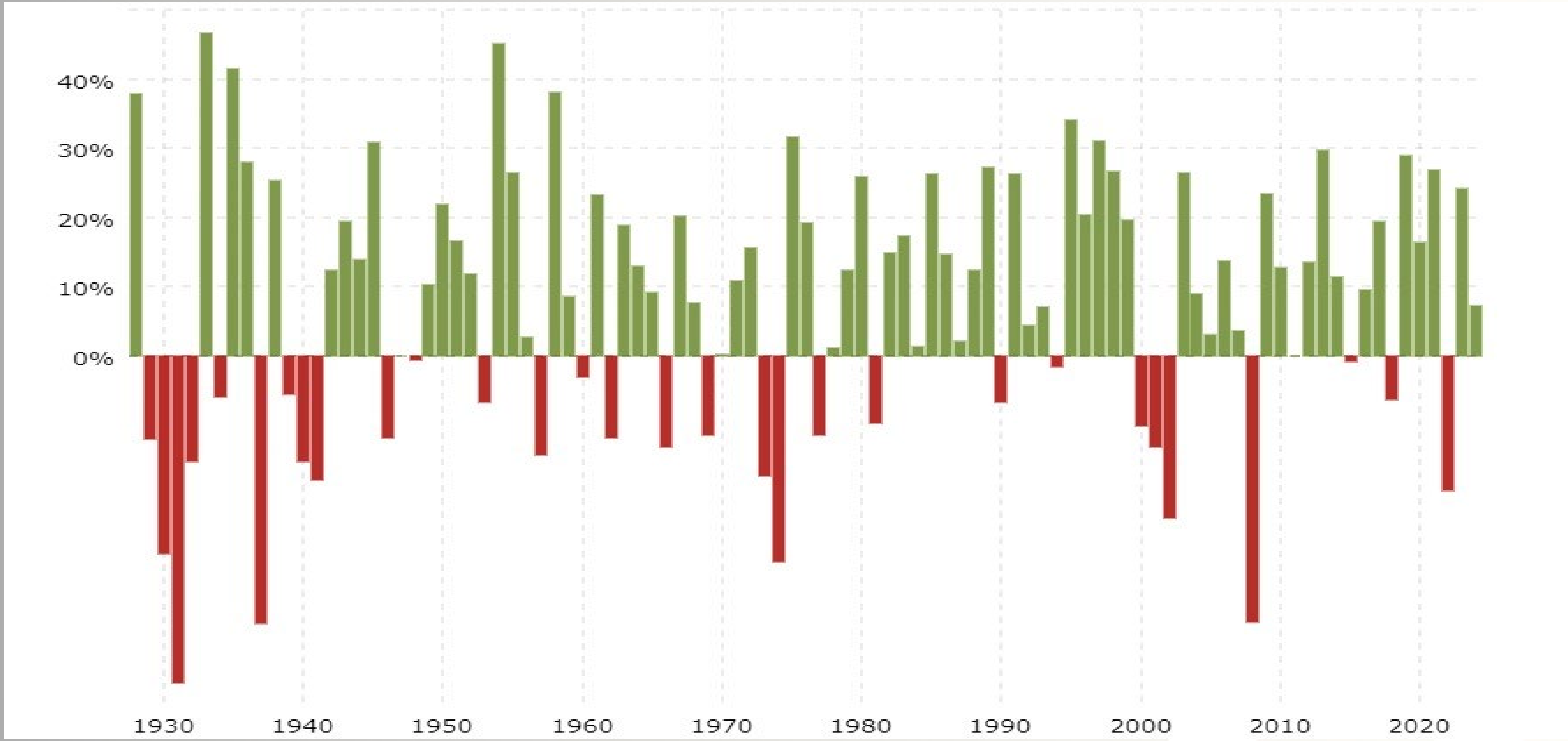
Answer

Out of 91 calendar years from 1926 through 2016, the S&P Composite returned between 8% and 12% in only 6 of those years.

The reality is that stock markets have generally fluctuated widely. The chart on the following page shows all calendar year returns.

S&P COMPOSITE

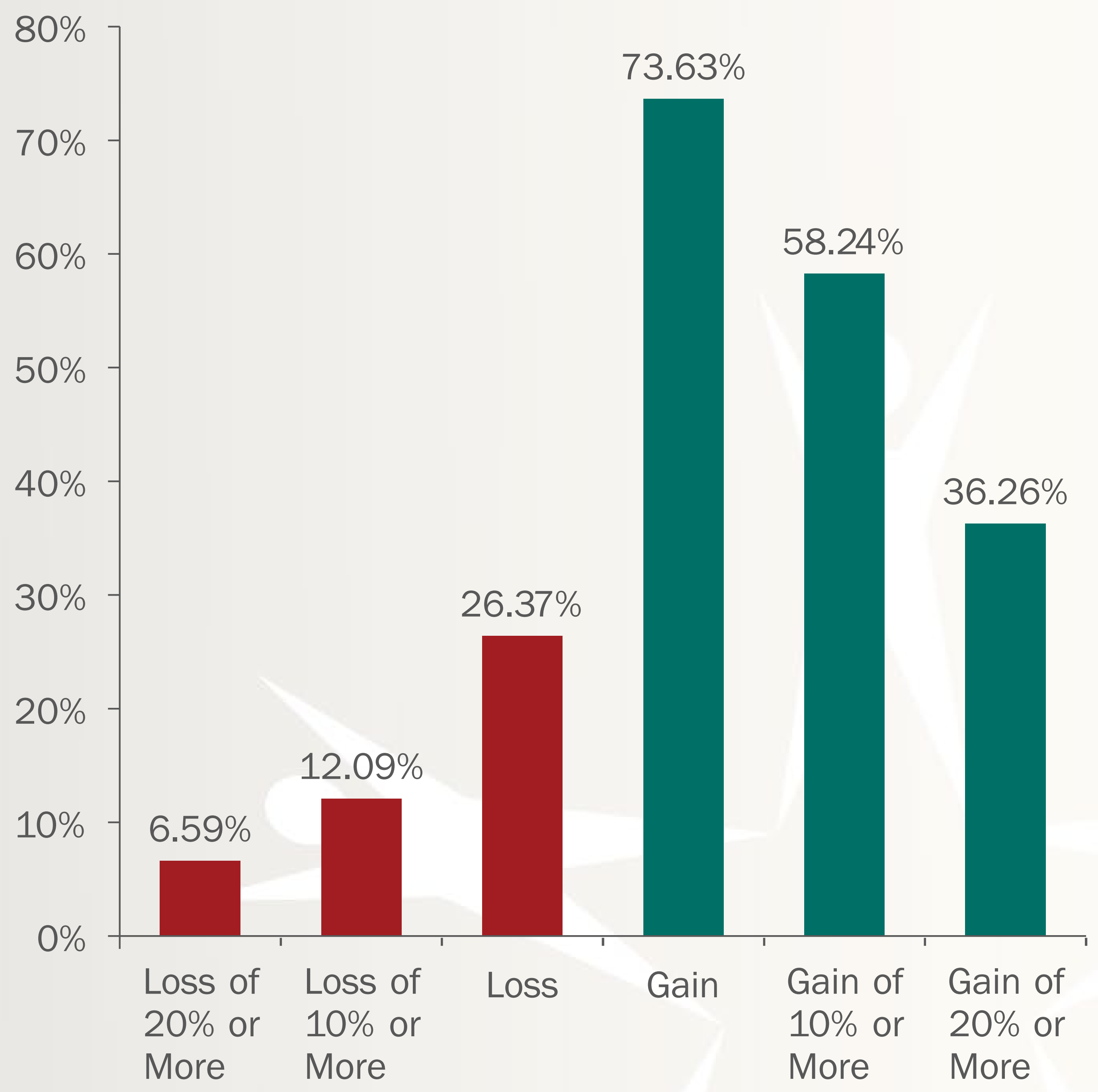
Historical Annual Returns



YEARLY RETURNS

S&P Composite Frequency

- This chart shows the frequency of calendar year returns. 73.63% of years equity returns were positive versus 26.37% of years which were negative.
- The outer columns show the percent of years where 10% or 20% was gained or lost on equities. 12.09%, about one in eight years 10% or more was lost whereas 36.26%, almost two in five years 20% or more was
- The data clearly supports the benefit of equities over time and it is important to keep these odds in mind if taking money out of the market based on short term expectations or other market timing strategies.
- gained.



Despite Setbacks the Market has Persevered

Growth of $1,000 in the S&P 500 Index (Since 1928)

- Positive Annual Returns 74%
- Negative Annual Returns 26%

Source: Standard and Poor's, FactSet, Baird Research. As of December 31, 2021. Past performance is not a guarantee of future results. Performance is calculated on a total return basis with dividend reinvestment. The S&P 500, computed by the Standard & Poor's Corporation, is a well known gauge of stock market movements determined by the weighted capitalization of the 500 leading U.S. common stocks. Indices are unmanaged and are not available for direct investment.

S&P 500 Takeaways

- Time is your friend (the longer the time horizon, the more likely you will have positive results)
- The stock market is volatile, but with time, you have a ¾ chance of success
- It's tough to predict which asset class will lead the annual returns each year

- Is there a way to manage the volatility inherent in the stock market?

Time

The historical returns of the S&P 500 indicate that time is on your side.

Volatility

Manage the volatility that is inherent in the marketplace.

Modern Portfolio Theory

- **Modern portfolio theory** (**MPT**), is a mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk. It is a formalization and extension of diversification in investing, the idea that owning different kinds of financial assets is less risky than owning only one type. Its key insight is that an asset's risk and return should not be assessed by itself, but by how it contributes to a portfolio's overall risk and return.

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Good, old-fashioned US Dollars.

Diversification Takeaways

Time

- Time is your friend – the longer the time horizon, the more likely you have positive results.

Equities are still a part of the overall strategy

- The stock market is volatile, but with time, you have a 3 out of 4 chance of success

Asset Classes

- Adding additional asset classes reduces volatility, and can have the effect of making overall portfolio returns better.


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