# The Alaska Community Foundation

## Understanding Investment Strategy Options at ACF

## Welcome and Introductions

Presenter: Kevin Gray, Chief Financial Officer (CFO)

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

## Short-Term Investment Pool

#### Investments at ACF

## Short Term Pool

- •

Largely reserved for time horizons less than 5 years, or where inordinate market risk would invalidate the fund's purpose.

Money-market environment.

## Long-Term Investment Pool

## 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:

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



#### Conservative

#### Diversification

## Asset Classes

## Specific Investments

## Avoid Excessive Risk

## 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 noncorrelating 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). Subcategories 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.

#### Global Equities

Global Fixed Income

#### Real Assets

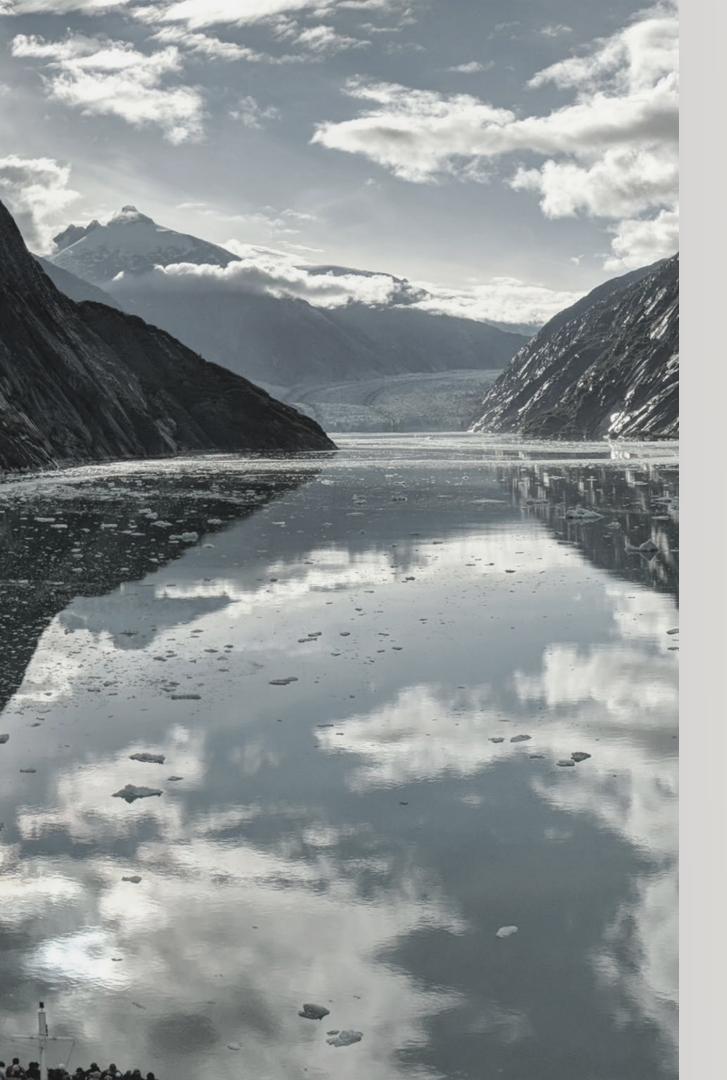
#### Diversifying Strategies



## 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 12/31/2024 Total Portfolio Balanced Index Investment Objective

As of 03/31/2025	QTD	I Year	3 Years	5 Years
Total Portfolio	69 %	6.69%	5.31%	10.06%
Balanced Index	.47%	6.43%	4.42%	9.18%

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

I Year	3 Years	5 Years
13.16%	4.15%	7.84%
10.84%	2.40%	6.29%
10.40%	2.39%	5.77%

## 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

#### Environmental Criteria

Social Criteria

Governance

How does a company perform as a steward of nature

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

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

# 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.

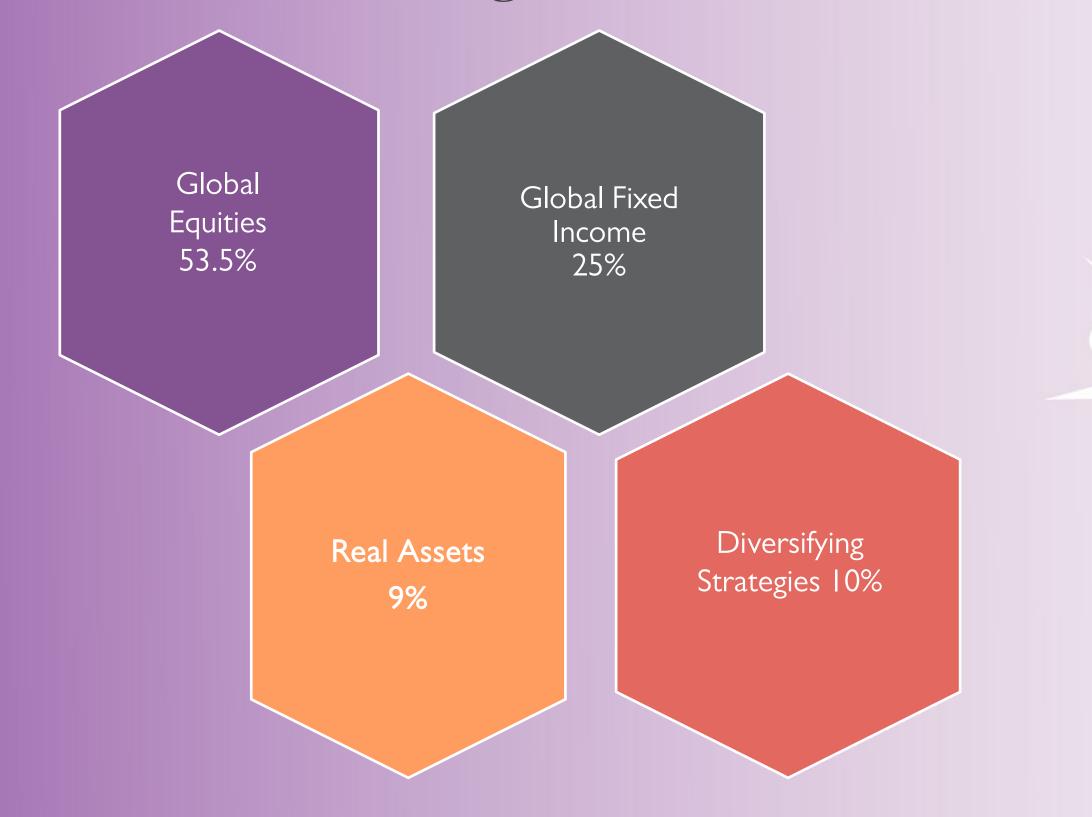
Rejects investments in entities that operate in civilian firearms, controversial weapons, oil sands, thermal coal, and tobacco.

## Positive ESG Factors

## Negative Screens

## Investments at ACF - Asset Allocation Models Compared

## Traditional Long-Term Pool



Global Equities 60%

## ESG Pool

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
	iShares ESG Aware	Large to Mid-cap US Stocks with favorable ESG		
ESGU	MSCI USA ETF	practices	36.46%	285
	iShares ESG Aware	Large to Mid-cap stocks in Europe, Australia, Asia,		
ESGD	MSCI EAFE ETF	Far East Favorable ESG	13.37%	375
	iShares ESG Aware	Large to Mid-cap Emerging Market stocks,		
ESGE	MSCI EM	Favorable ESG	5.93%	288
	iShares ESG Aware			
ESML	MSCI USA Small Cap	Small-cap US stocks with favorable ESG practices	3.40%	907
	iShares ESG Aware US	Investment Grade Bonds from issuers with		
EAGG	Agg Bond ETF	favorable ESG	40.76%	5,332
	Cash	Cash or derivatives	0.10%	

For more information and prospectus, see:

https://www.blackrock.com/us/individual/products/314409/ishares-esg-aware-growth-allocation-etf-fund

#### Why EAOR?

I. 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 fixedincome 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. <u>Please read the definition for each screen here</u>.



## ESG Pool

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

#### Investments at ACF



## ACF ESG Portfolio Returns

As of 12/31/2024	Q4	l Year	From 07/31/2022
Total Portfolio	-1.65%	10.36%	7.88%
Balanced Index	-1.82%	10.70%	8.39%

<u>As of 03/31/2025</u>	QI	l Year	From 07/31/2022
Total Portfolio	12%	5.56%	7.06%
Balanced Index	.34%	6.30%	7.84%

Balanced Index consists of 60%MSCI ACWI-Net, 40% BB Aggregate



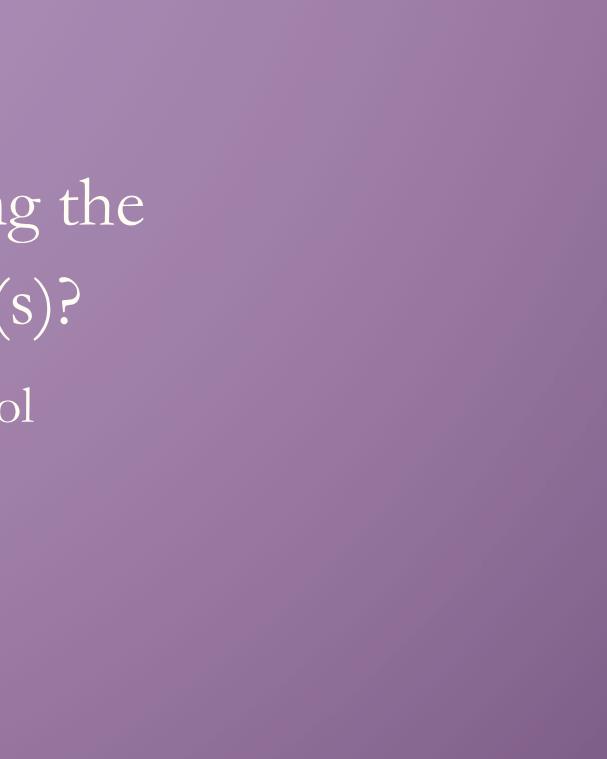
## More Information

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

2) ESG Pool

a) Formed in July 2022b) 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)? Short-Term Pool Long-Term Pool ESG Pool



## Investing at ACF during Market Volatility (long term)

## ACF Investment Policy Statement (IPS)

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#### Perpetuity

## Long Term

## Avoid Excessive Risk

Investments at ACF

## Market Volatility – an S&P 500 historical perspective

From 1926 to 2024, the S&P Composite returned an annual return of 10.2%

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

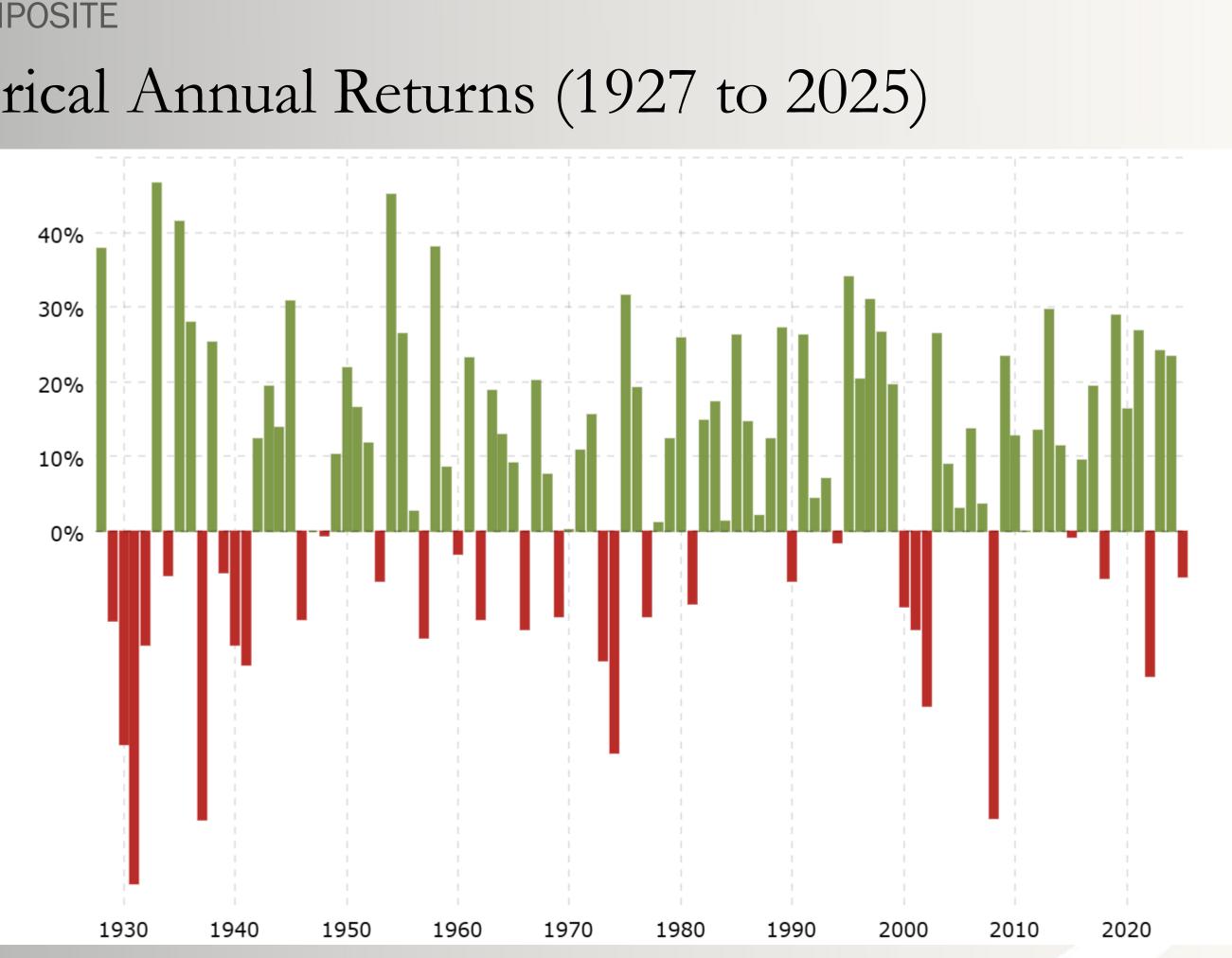
Out of 98 calendar years from 1926 through 2024, the S&P Composite returned between 8% and 12% in only 8 of those years.

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



#### S&P COMPOSITE

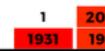
## Historical Annual Returns (1927 to 2025)



## YEARLY RETURNS S&P Composite Frequency

- This chart shows the frequency of calendar year returns. 73% of years equity returns were positive versus 27% of years which were negative.
- 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.

## **97 YEARS OF THE S&P 500**



50% to

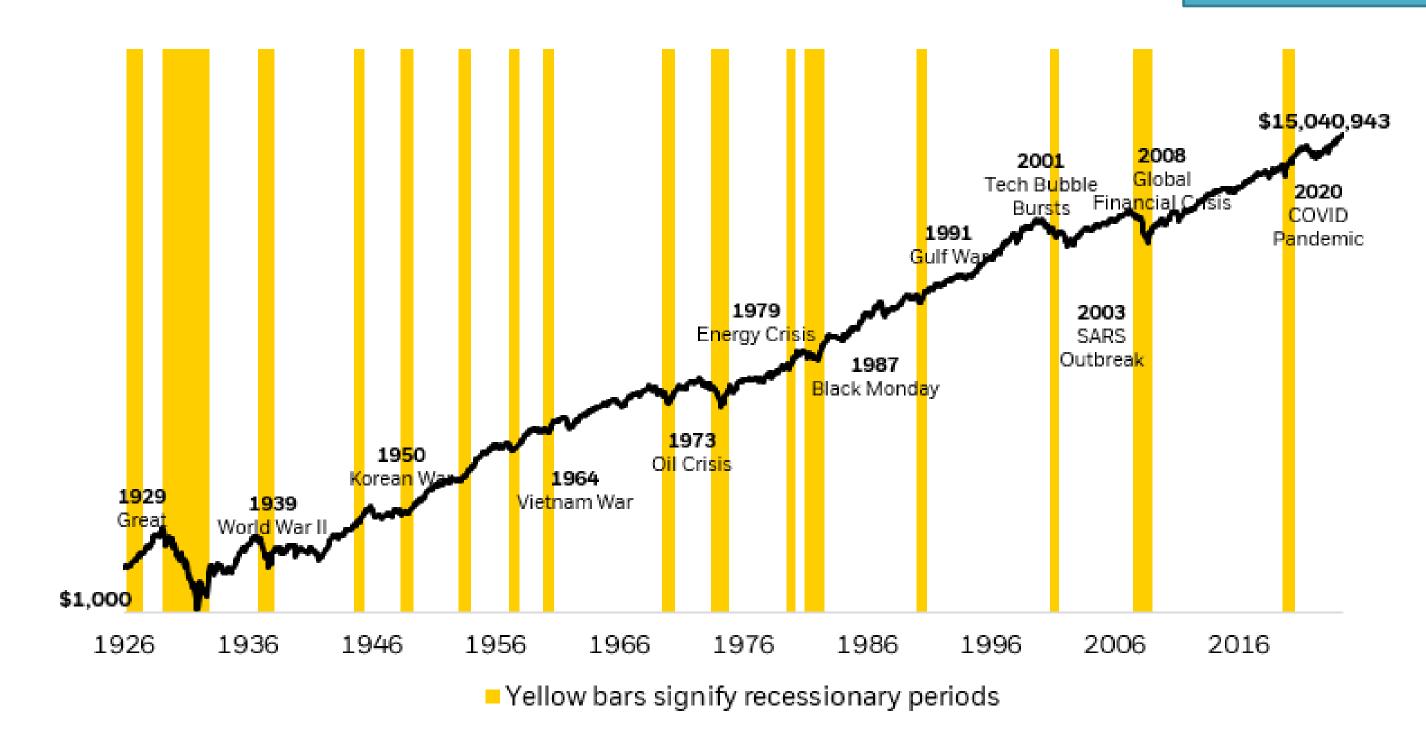
More visuals: www.carbonfinance.io

					23				
					2020				
					2017				
					2014				
					2012	19			
					2010	2024			
					2006	2023			
					1999	2021			
				15	1988	2019			
		14		2016	1986	2013			
		2022		2007	1983	2009			
		2001		2005	1982	2003			
		2000	11	2004	1979	1998			
		1977	2018	1993	1976	1996			
		1973	2015	1992	1972	1991			
		1969	2011	1987	1971	1989			
		1966	1994	1984	1964	1985			
		1962	1990	1978	1963	1980	6		
		1957	1981	1970	1952	1967	1997		
		1946	1960	1968	1951	1961	1995		
	3	1941	1953	1965	1949	1955	1975	3	
2	2002	1940	1948	1959	1944	1950	1958	1954	
800	1974	1932	1939	1956	1943	1938	1945	1935	
937	1930	1929	1934	1947	1942	1936	1928	1933	
% to	-30% to	-20% to	-10% to	0% to	10% to	20% to	30% to	40% to	
0%	-20%	-10%	0%	10%	20%	30%	40%	50%	

Source: Macrotrends

#### Despite Setbacks the Market has Persevered

Growth of \$1,000 in the S&P 500 Index (Since 1926-2024)



#### Positive Annual Returns 73% Negative Annual Returns 27%

Investments at ACF

## 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 73/27% 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 Volatility

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

Manage the volatility that is inherent in the marketplace.

CAN STREET, MARKEN STREET, SALES

## 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.
- A diversified portfolio has a better chance of weathering changing economic cycles.

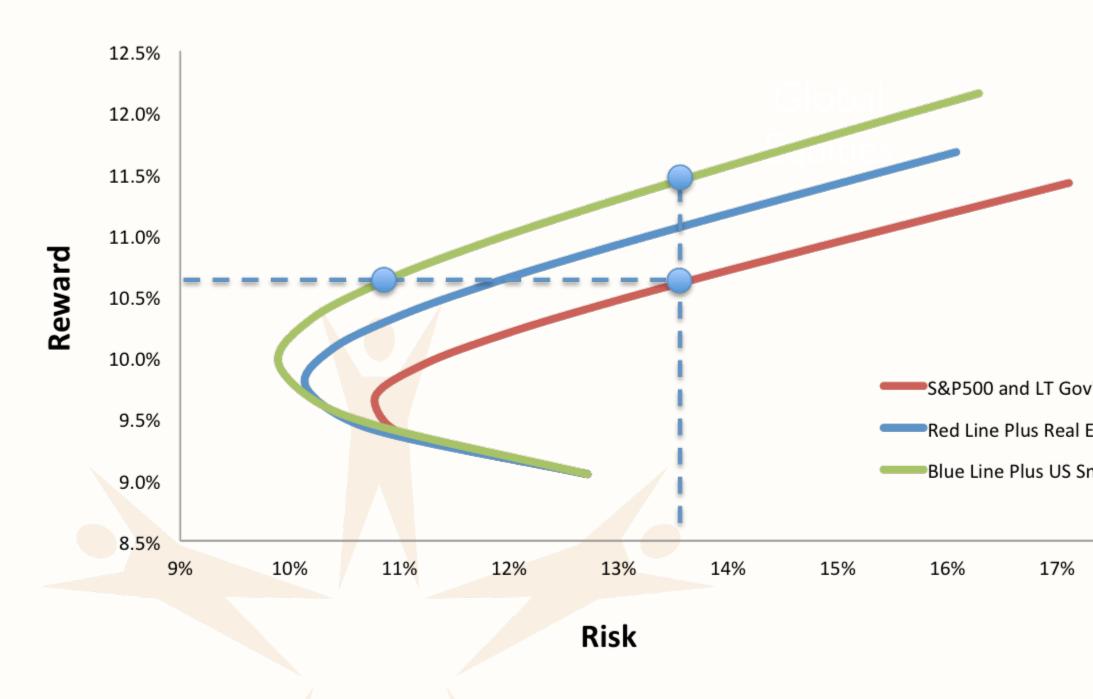


## Diversification

- A diversified portfolio is built from complementary assets, such as stocks and bonds, that don't usually perform the same way. If one part of a portfolio is declining in value, it can hopefully be offset by another part that's rising.
- It can also be built with geographic or noncorrelated investment such as private equity, private debt, or other "alternative" investments.



#### **Optimal Portfolios Lie on the Efficient Frontier** 1978-2010



Results shown are based on indexes and are illustrative; they assume reinvestment of income and no transaction costs or taxes. Past performance is no guarantee of future results. Direct investment cannot be made in an index. Results are not meant to represent a recommendation but rather are an example of how adding asset classes can adjust the Efficient Frontier. Data source DFA.

S&P500 and LT Gov't Bonds Red Line Plus Real Estate Blue Line Plus US Sml Val

18%

## 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.

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#### Real Assets (9%)

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#### Diversifying Strategies (10%)

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#### Cash (2.5%)

Good, old-fashioned US Dollars.

#### Global Equities

#### Global Fixed Income

Real Assets

#### Diversifying Strategies

## Diversification Takeaways



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

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

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

## Investment Options – ACF

Investment pool selection is open each year for a sixty (60) day window – June 1-July 31

There is Investment Pool Election form to fill out if you want to elect something different

For more information – see:

https://alaskacf.org/investment-pool-session-registration/

# The Alaska Community Foundation

## For Presenter

## **Overview SLIDE 1**

#### Perpetuity

We believe in the power of endowments to create lasting change for the benefit of Alaska.

#### Conservative

We are responsible stewards of our charitable assets, demonstrating transparency, accountability, and providing responsible investing.

#### Diversification

We believe in the modern portfolio theory of a framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk. It is a formalization of diversification (the idea that owning different kinds of financial assets is less risky than owning only one type).

#### Asset Classes

The IPS sets out the main asset classes and target asset allocation model which is the key determinant in expected return and level of risk we are willing to accept.

#### Specific Investments

The IPS empowers (and restricts) the Investment Committee to find acceptable investment managers, advisors, and sub-advisors and allows the Committee to define the specific investments within the asset classes and their respective targets.

## Long Term Pool Intro Slide

#### Pool has existed at ACF since 1995 and is the one pool ACF has offered.

- It has been the main pool, the subject of our IPS, and the Investment committee
- Focus is long-term growth of capital, with diversified risk profile

#### Diversified across 5 main asset areas:

- Global Equities (Stocks)
- Global Fixed Income (Bonds, interest rate and credit sensitive investments)
- Real Assets (things you can touch, real estate, natural resources, Infrastructure)
- Diversifying strategies (hedge funds, non-correlative to the market investments New cold example).

#### has offered. nvestment committee rofile

isitive investments) sources, Infrastructure) he market investments – New

## ESG Pool Slide

What is ESG? Environmental, Social & Corporate Governance Investing Investing with a purpose – to find investments that meet certain criteria A set of criteria to judge a company's operations, that would allow or dis-allow it to be invested in.
Environmental – Steward of Nature
Social – how a company manages employees, suppliers, customers, and communities
Governance – Board & governance, executive pay, shareholder rights, audits, transparency

Positivo Scroops positivoly addross ESC facto

Positive Screens – positively address ESG factors (scoring mechanisms on all 3 factors). More inclined to invest in that entity.

Negative screen – specific exclusionary criteria to eliminate entities from consideration.

Selection of particular underlying investments meet traditional investing criteria (small-cap, large-cap, returns), exhibit positive characteristics re: ESG, and are not excluded based upon industry.

## ESG Pool – Traditional 60/40 split

#### Global Equities (60%)

All-cap global equity ETFs which aim to represent a risk profile that is moderately aggressive. Current holdings amount to over 2,100 companies from small to large cap stocks globally with a tilt toward US stocks.

Global Fixed Income (40%)

US Dollar-denominated investment grade fixed income Exchange Traded Funds (ETFs). These include investment grade bonds from issuers with favorable ESG characteristics.



#### Global Equities

#### Global Fixed Income

ESG Pool Specifics – have 3 pager available on screen, also Emphasize ticker symbol EAOR Have Fact Sheet available.

## Final Thoughts on investment strategy during market volatility –

The head of the Vanguard Group, Jack Bogle eloquently summarized what really drives stock market returns: fundamentals and speculation. Speculation = investor sentiment based on the positive/negative surprises during a period. Fundamentals=dividends and earnings.

- Looking at the S&P 500 Q1 2022, 78% of the companies beat earnings per share estimates across all sectors. Year-over-year the S&P500 posted an EPS growth of 4.4%.
- Over the long run, speculation washes away, with neither a positive or negative effect.
- You can take some solace in knowing that the model portfolio ACF has is doing its thing: delivering dividends and earnings across a diversified platform. Risk and return are tied at the hip. Capturing the returns that stocks and bonds deliver is not easy, it requires adhering to a disciplined strategy during good times and bad. The founder of Dimensional Fund Advisors, David Booth said (at an industry conference): "the important thing about an investment philosophy is that you have one." ACF has an investment philosophy, and we don't waver when it comes to the conviction of our philosophy.