ALASKA COMMUNITY FOUNDATION

Endowments at the Alaska Community Foundation

Mission

Inspiring the spirit of giving and connecting people, organizations, and causes to strengthen Alaska's communities now and forever.

Vision

ACF envisions an Alaska where communities come together and have resources to thrive.

FOR ALASKA. FOREVER.

ALASKA COMMUNITY FOUNDATION

Celebrating 30 years!

- We make giving easy – Alaskans make it meaningful
- Inspires and advances philanthropy to strengthen Alaska's communities forever
- Connects resources with donor and community priorities
- Provides good stewardship over the investments and operations

Agenda

- Endowments – here for the long haul (permanent)
- Investments (why, how)
- Distributions (spending policy)
- What happens when investments fluctuate?
- Summary

An Endowment – What Is It?

- An endowment is a protected permanent base of assets designed to generate income perpetually for the benefit of its beneficiaries.
- It accomplishes this by conservative investing and controlled spending to allow it to grow over time.

Endowments – ACF's Role

Legal Ownership & Stewardship

Investment Management

Distribution of Annual Payouts

Accounting, Reporting, Compliance

Donor, Gift and Endowment Support

Endowments – Here for the Long Haul

- An endowment at ACF is a fund for managing a perpetual pool of assets (investments) in order to support a specific purpose, cause, or nonprofit.
- Endowments are structured so that the inflation-adjusted lifetime contributions ("principal") value is kept intact or protected, while a portion of the fund's earnings can be spent each year, utilizing a prudent spending policy.
- Endowments are designed to make available an unrestricted revenue stream to support a specific purpose, cause or nonprofit forever, with no immediate expectation or time-horizon.

Our Endowed Funds are Invested for the Long-haul

The majority of ACF's charitable assets are pooled with other funds and invested by both active managers and passive index funds to add value while keeping the costs low due to ACF's economies of scale. These charitable assets are invested according to ACF's Investment Policy Statement (IPS) which is governed by the Investment Committee.

Investment Policy Statement (IPS)

The ACF Board of Directors feels that the capacity for future grants is as important as the 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)

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 (includes TIPS) and can be categorized as interest rate sensitive and credit sensitive. Sub-categories include both public and private debt.

Real Assets (9%)

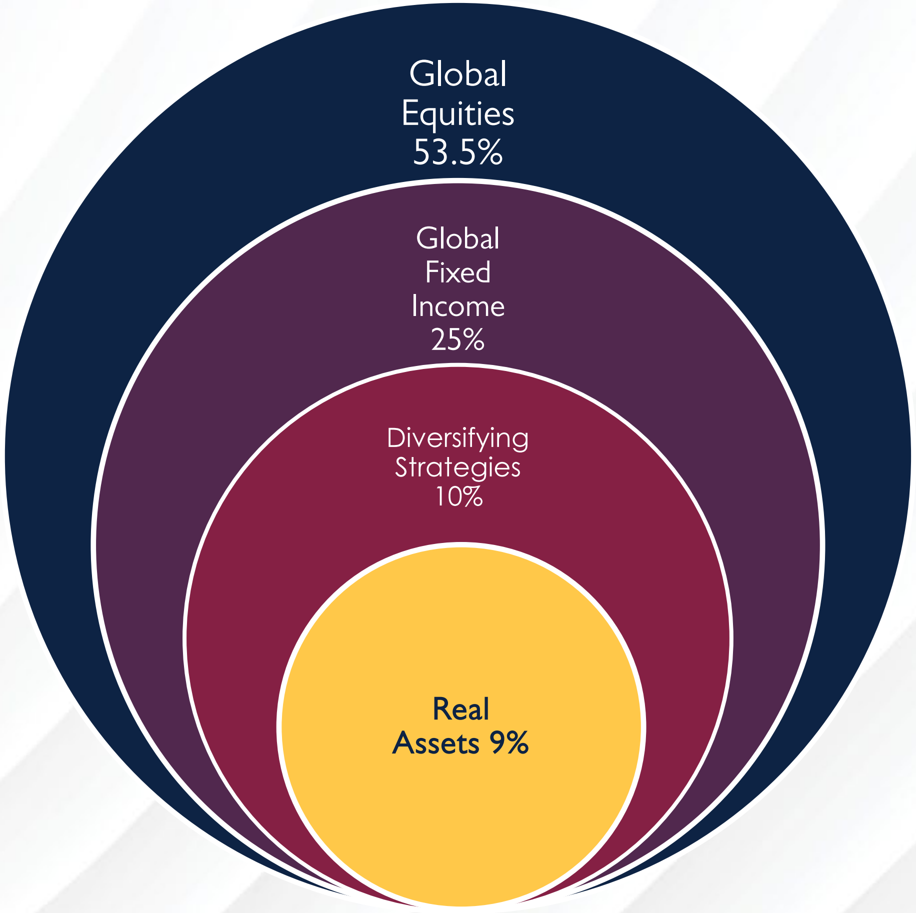
Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes both public and private investments in real estate, natural resources (e.g., energy, agriculture, timber, commodities), and infrastructure.

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 both 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.



ACF Long Term Pool – Investment Returns

Through 9/30/2025

	YTD	1 Yr	3Yr	5Yr	10Yr
ACF Portfolio	10.97	11.37	14.32	9.32	8.56
Blended Index*	12.59	11.19	14.41	7.64	7.49
Policy* Index	13.56	11.52	15.64	8.11	8.12

*MSCI AC World Index (Net): 53.00%, Blmbg. U.S. Aggregate Index: 29.50%, FTSE 3 Month T-Bill: 2.50%, HFRI Fund of Funds Composite Index: 7.00%, Blmbg. U.S. TIPS Index: 3.00%, MSCI U.S. REIT Index (Net): 2.00%, ICE BofA U.S. High Yield Index: 3.00%

*Blmbg. U.S. Aggregate Index: 30.00%, Blmbg. U.S. TIPS Index: 10.00%, MSCI AC World Index (Net): 60.00%

How and When are Endowed Funds Distributed?

- ACF's endowments are subject to a prudent distribution strategy called a "spending policy".
- Endowments are structured to capitalize on good investment years while protecting the principal (value of the contributions to the endowment) in low or negative return markets.
- ACF's Board of Directors sets the distribution rate annually considering a number of factors required by law (UPMIFA) including ACF's portfolio returns, inflation, administrative expenses, general economic conditions, and the nonprofit environment in Alaska.

Spending Policy Percentage History

Year	Spending Policy % Adopted
2008	5.00%
2009	4.50%
2010	4.25%
2011	4.25%
2012	4.25%
2013	4.25%
2014	4.25%
2015	4.50%
2016	4.60%
2017	4.40%
2018	4.40%
2019	4.00%
2020	4.00%
2021	4.00%
2022	4.50%
2023	4.00%
2024	3.50%
2025	4.25%
2026	4.25%

Example Calculation

1) Average Fund Balance - Example
The average fund balance is calculated as of September 30 of any given year and is an average of 16 quarter fund balance averages. In order to illustrate this calculation, please see the example of a growing fund below:

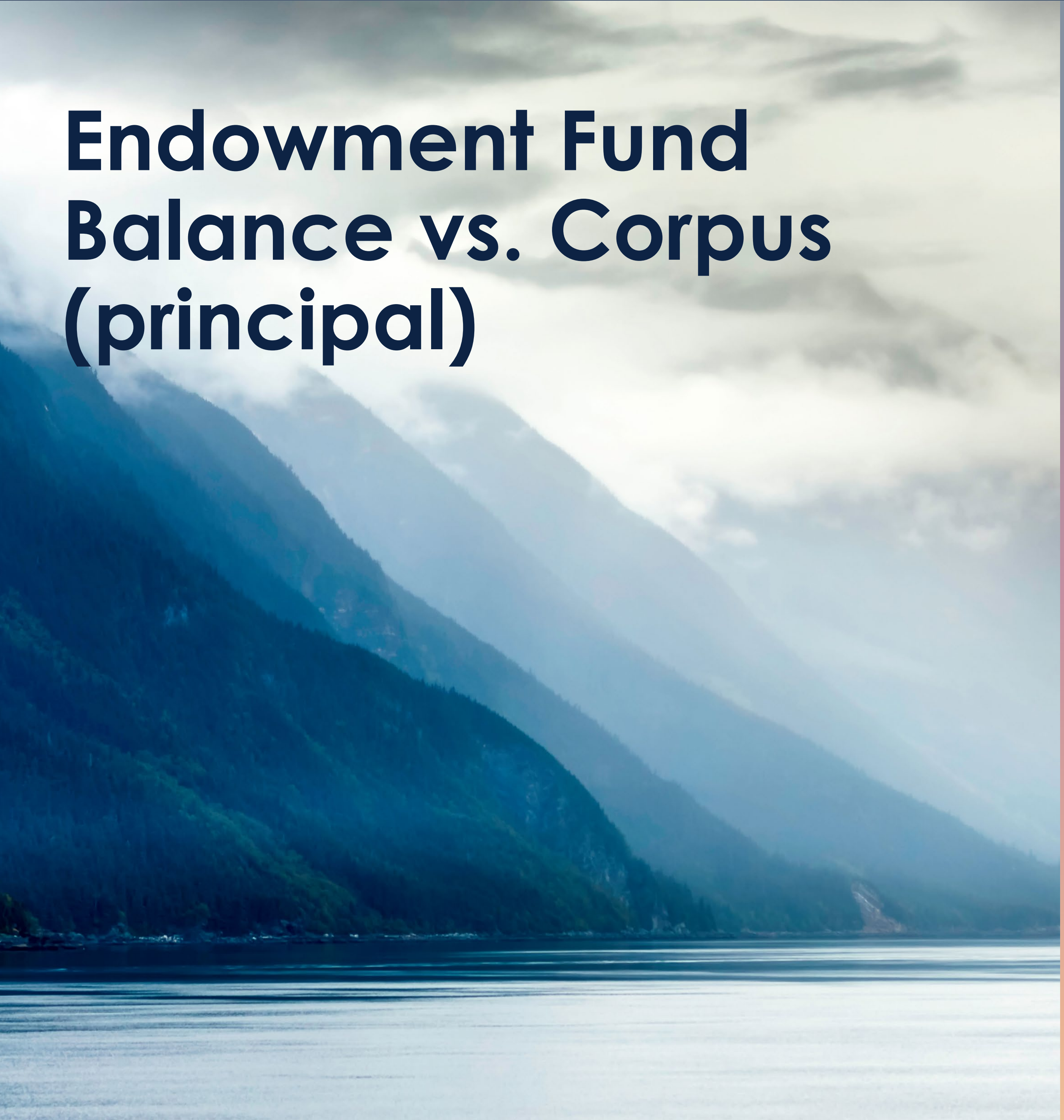
Q4 2021	$25,000	Q4 2022	$84,000	Q4 2023	$105,000	Q4 2024	$136,000
Q1 2022	$32,000	Q1 2023	$89,000	Q1 2024	$113,000	Q1 2025	$142,000
Q2 2022	$35,000	Q2 2023	$91,000	Q2 2024	$118,000	Q2 2025	$148,000
Q3 2022	$38,000	Q3 2023	$98,000	Q3 2024	$125,000	Q3 2025	$157,000

The average fund balance of this fund over these 16 quarters is $96,000.

2) Spendable Calculation for 2026: 4.25% of $96,000 = $4,080

3) Final Test – ensure that the balance at 9/30/2025 of the fund allows for any spendable amount(s) accrued without affecting the principal. Fund Balance = $157,000, Original Principal = $128,000, unspent spendable form prior years = $5,950. $157,000-$128,000 = $29,000 > ($4,080+$5,950).

Endowment Fund Balance vs. Corpus (principal)



- My endowment's fund balance is far greater than the principal (contributions) – Can I have it?
- Part of ACF's responsibilities in protecting an endowment includes inflation-proofing the fund.
- Inflation-proofing the original contributions that create an endowment over time ensures that the time value of money doesn't erode the original spending power of the contributions.

Inflation Proofing

Example endowment

- The majority of "my example" endowment was funded in 2010 and 2011
- The inflation factor between 2010 through 2025 is 48.57%, meaning a dollar in 2010 requires about $1.49 today.
- CPI of about 2.67% annually over that period.
- If you take $95,000 corpus x 1.4857, the corpus should be $141,141 today.

Endowments, the Markets, and Time

- Endowments aim for perpetual support but always face risks from market fluctuations.
- ACF uses a long-term, diversified investment strategy, prudent spending policy based upon moving averages, and protects against "underwater" periods where value dips below the original gifts.
- Significant downturns can force cuts or policy adjustments to preserve capital.

Long-Term Perspective

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 500 return actually fall between a window of 8%-12% in a single year?

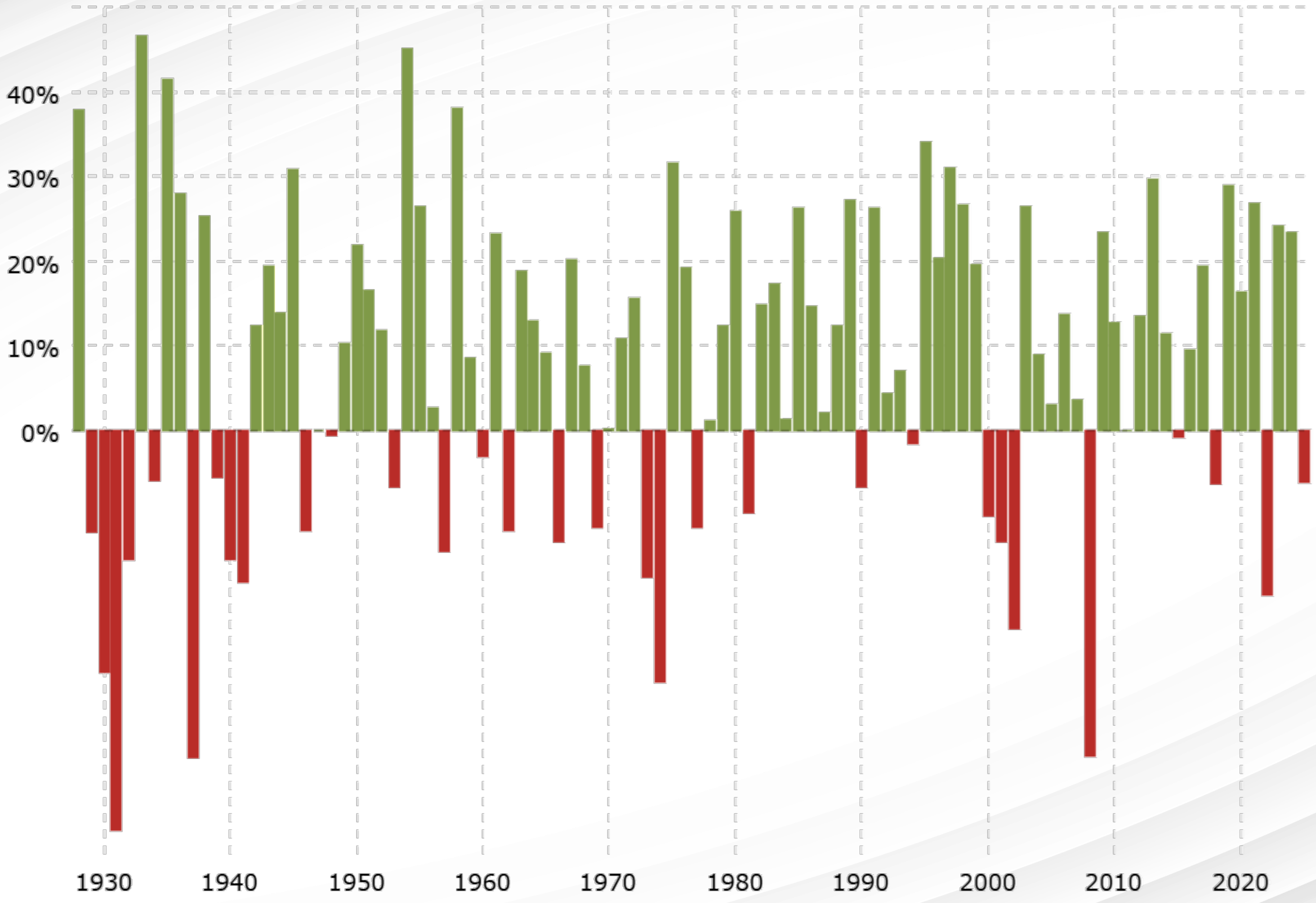
Answer:

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.

Historical Annual Returns (1927 to 2025)

S&P Composite

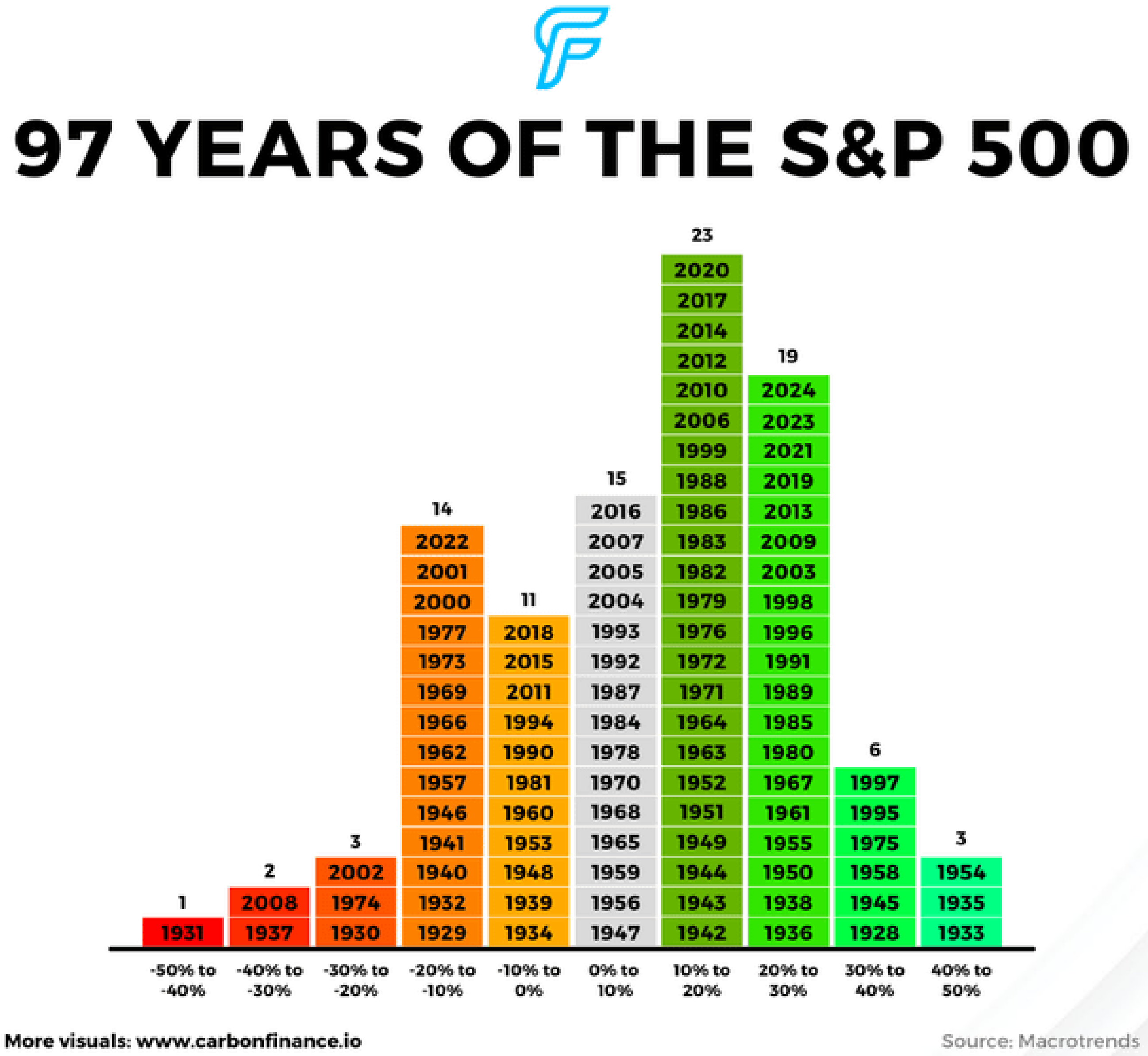


S&P Composite Frequency

Yearly Returns

- 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.



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

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

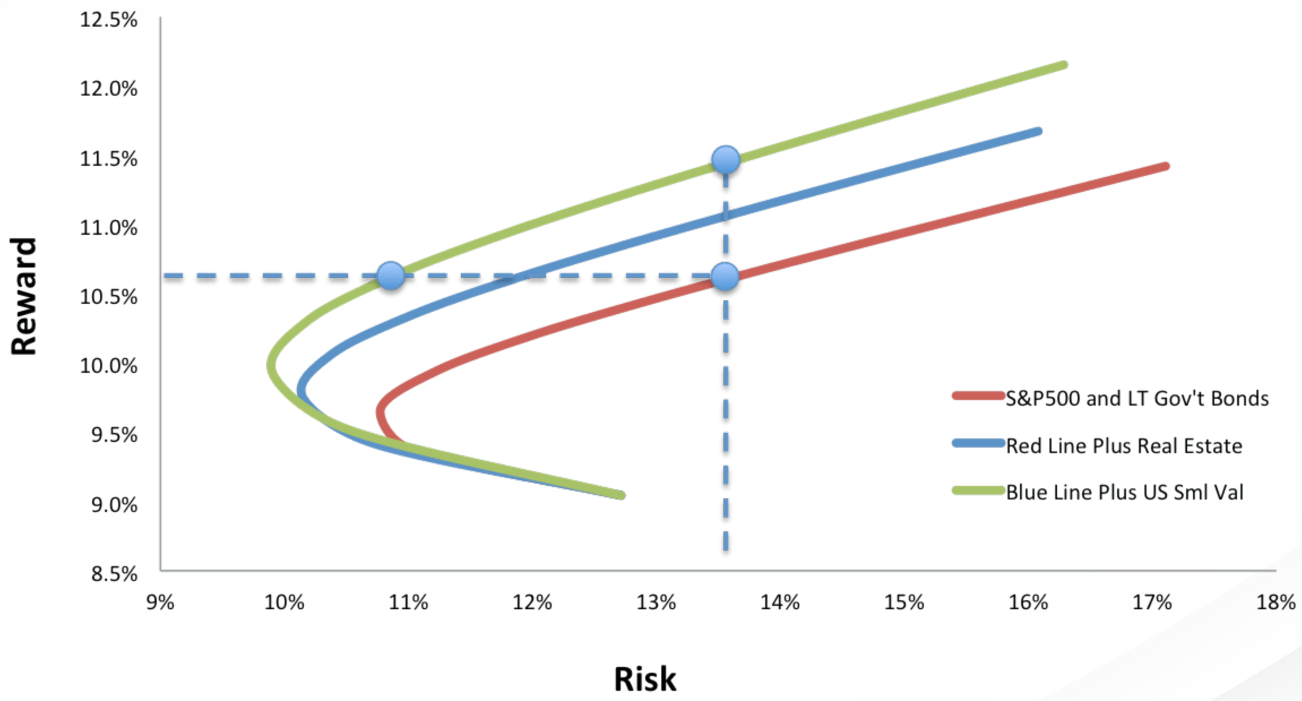
- **Modern portfolio theory** (**MPT**), is a mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk.
- It is a formalization and extension of diversification in investing, the idea that owning different kinds of financial assets 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.
- 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 non-correlated investment such as private equity, private debt, or other “alternative” investments.

Diversifying Strategies

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.

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

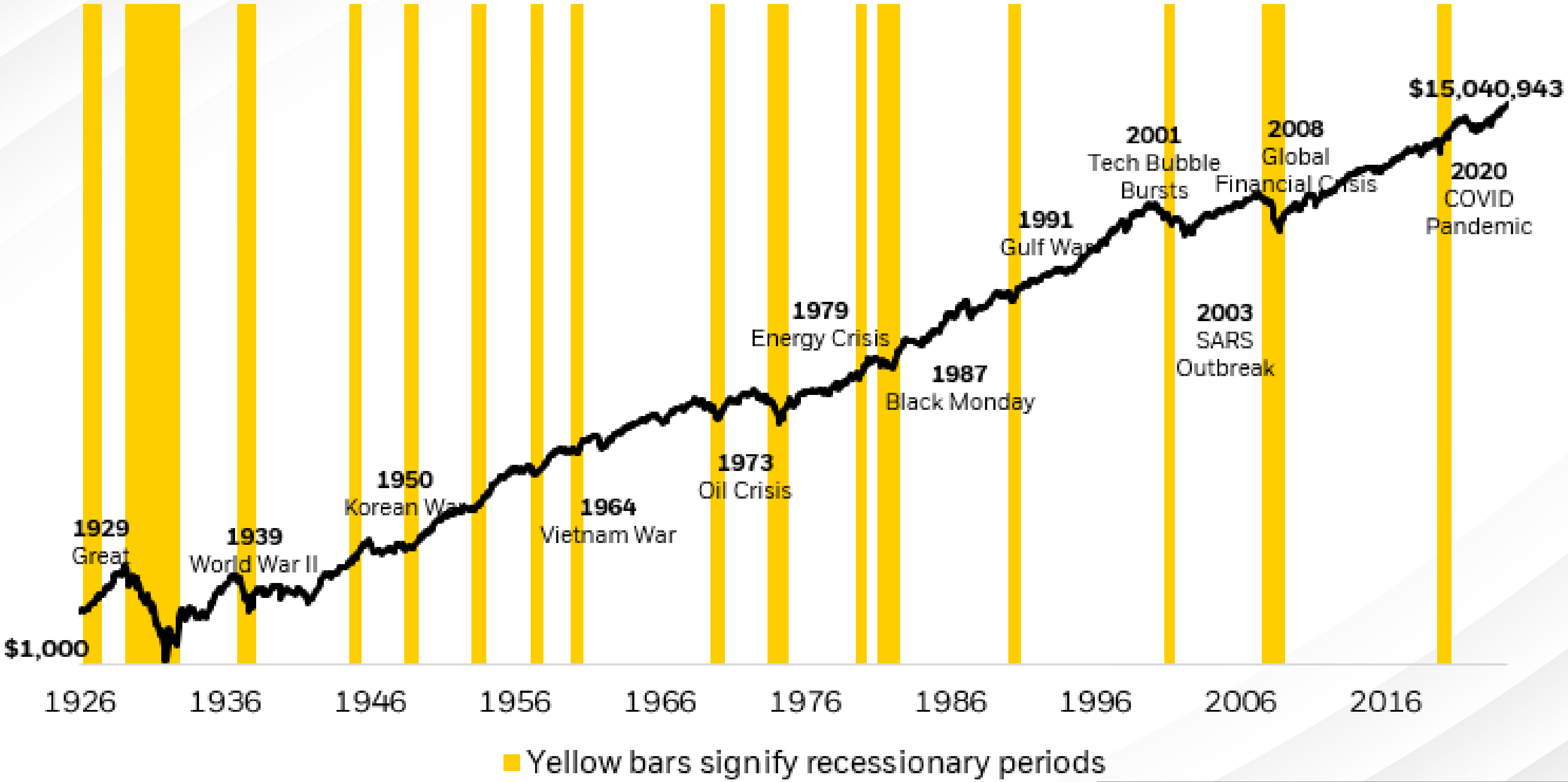
- Adding additional asset classes reduces volatility and can have the effect of making overall portfolio returns better.

Endowments: Surviving Market Volatility/Downturns

- Stay invested for the long haul
- Keep a long-term perspective
- Resist short-term bias
- Manage risk
- Remember why your invested

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%

Remember Why You are Invested in an Endowment

- An endowment is a protected *permanent* base of assets designed to generate income perpetually for the benefit of its beneficiaries.
- It accomplishes this by conservative investing and controlled spending to allow it to grow over time.

Recap

- Endowments exist to create a perpetual income stream for the beneficiaries.
- The community foundation is your partner in prudent investment and spending from your endowment.
- For Alaska. Forever.

Thank You

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