Community Foundation for Southern Arizona

# Investment Pools Performance & Commentary
## June 30, 2022



**THE ECONOMIC CLIMATE**

U.S. real GDP fell again during Q2, down -0.9% annualized (+1.6% over the past full year). This stoked broad fears of recession, as two consecutive quarters of negative growth is a common definition of technical recession. U.S. real personal consumption slowed to pre-COVID rates of growth, coming in at 2.1% year-over-year in May. The buying habits of consumers appear to have transitioned back towards services and away from goods, reversing the unprecedented spending shift that had occurred during the pandemic. This trend should help mitigate strained supply chains, as fewer goods require shipping.

**MARKET PORTFOLIO IMPACTS**

U.S. core CPI slowed to 5.9% year-over-year in June. Headline inflation, which includes food and energy prices, came in surprisingly hot at 9.1% year-over-year, exceeding expectations. Higher energy prices were a major driver of the inflation print, with energy commodities and gasoline moving more than 10% higher from May to June. Credit markets sold off during Q2, impacted by concerns of a slowing economy and possibility of recession as the Fed signaled a willingness to raise rates until inflation slows.  Bank loans performed the best at -4.4% and outperformed longer duration bonds such as investment grade and high yield (-7.3% and -9.8%, respectively).

**THE INVESTMENT CLIMATE**

Russia's invasion of Ukraine continued, resulting in heavy losses on both sides. Most fighting has taken place in the east, as Russia gradually advances. Both Finland and Sweden are in the process of joining NATO—a landmark move and result of war likely unforeseen by Russia. Early in 2022 many investors feared a potential global commodity shortage—a product of underinvestment in production capacity in recent years. Russia's invasion of Ukraine further amplified these concerns, pushing commodities higher. This trend appears to have reversed, as recession is a notable possibility, and many commodities have seen sharp losses.

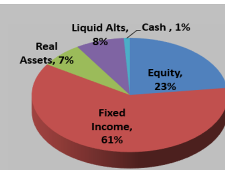
**FISCAL YEAR TO DATE PERFORMANCE**

With respect to the fiscal year, the Endowment portfolio experienced a 9.3% decrease in the period ending June 2022. During the period, Equities and Fixed Income posted negative returns and underperformed their benchmarks.

| Investment Pools | Three months ended 3/31/2022 | Year to Date | Fiscal Year to Date | One (1) Year Return | Three (3) Year Return | Five (5) Year Return |
|---|---|---|---|---|---|---|
| **Cash Equivalent**<br>100% Cash Equivalents | *0.0* | *0.0* | *0.1* | *0.1* | *0.8* | *1.0* |
| **Global Constrained Income & Growth**<br>25% Equity, 65% Fixed Income, 5% Real Estate, 5% Alternative Investments | *-8.8* | *-14.6* | *-12.8* | *-12.8* | *1.4* | *2.7* |
| **Global Constrained Balanced**<br>45% Equity, 40% Fixed Income, 10% Real Estate, 5% Alternative Investments | *-11.6* | *-18.2* | *-15.5* | *-15.5* | *2.5* | *3.6* |
| **Global Growth & Income**<br>60% Equity, 25% Fixed Income, 10% Real Estate, 5% Alternative Investments | *-13.7* | *-20.6* | *-17.6* | *-17.6* | *2.8* | *3.9* |
| **Endowment** | *-10.7* | *-16.0* | *-12.2* | *12.2* | *4.0* | *4.6* |
| **Market Benchmarks** | | | | | | |
| ***Cash*** - *90-Day Treasury Bills* | *0.1* | *0.1* | *0.2* | *0.2* | *0.6* | *1.1* |
| **Bonds** - *Bloomberg Barclays US Aggregate* | *-4.7* | *-10.3* | *-10.3* | *-10.3* | *-0.9* | *0.9* |
| **International Stocks** - *MSCI ACWI ex U.S. Gross* | *-13.5* | *-18.2* | *-19.0* | *-19.0* | *1.8* | *3* |
| ***Domestic Stocks*** - *S&P 500* | *-16.1* | *-20.0* | *-10.6* | *-10.6* | *10.6* | *11.3* |
| **Blended Benchmark** - Endowment[1] | *-9.7* | *-13.0* | *-9.3* | *-9.3* | *5.1* | *5.7* |

## GLOBAL CONSTRAINED INCOME & GROWTH

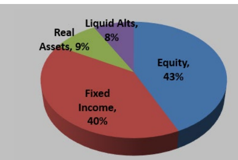
**Designed for donors or nonprofits with medium-term objectives (3-5 years). While moderately conservative, this pool will have a risk of loss. A moderate portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.**




The Global Constrained Income & Growth Pool returned -8.8% during the quarter and was down 12.8% over the past year. Domestic Equity was down 18.2% and International Equity was down 14.4% over the quarter. Total Equities account for 26.8% of the portfolio, domestic equity and international equity underperformed their benchmarks over the period. The Pool's Fixed Income securities, which comprises 67.9% of its total assets, saw a loss of 5.5% for the quarter and underperformed its benchmark. The 5.1% allocation to REITs was down 13.4% and outperformed its benchmark.

## GLOBAL CONSTRAINED BALANCED

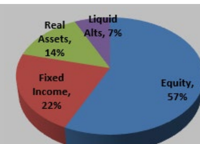
**Designed for donors or nonprofits with longer-term objectives (7+ years) and spending rates of less than 4% of assets per year. A portion may be invested in capital appreciation-oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.**




The Global Constrained Balanced pool returned -11.6% during the quarter and was down 15.5% over the past year. Domestic Equity was down 18.2% and International Equity was down 14.4% over the quarter. Total Equities account for 47.8% of the portfolio, domestic equity and international equity underperformed their benchmarks over the period. The Pool's Fixed Income securities, which comprises 41.7% of i total assets, saw a loss of 5.5% for the quarter and underperformed its benchmark. The 10.4% allocation to REITs was down 13.3% and outperformed its benchmark.

## GLOBAL GROWTH & INCOME

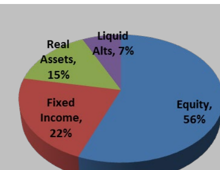
**Designed for donors or nonprofits with long-term objectives (10+ years) yet with liquidity requirements and with spending objectives of approximately 4% of assets per year. A large portion may be invested in capital appreciation-oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.**




The Global Growth & Income pool returned -13.7% during the quarter and was down 17.6% over the past year. Domestic Equity was down 19.7% and International Equity was down 14.5% over the quarter. Total Equities account for 62.3% of the portfolio, domestic equity and international equity underperformed their benchmarks over the period. The Pool's Fixed Income securities, which comprises 27.2% of its total assets, saw a loss of 5.6% for the quarter and underperformed its benchmark. The 10.4% allocation to REITs was down 13.4% outperforming its benchmark.

## ENDOWMENT POOL

**Designed for donors or nonprofits with endowment-like objectives (20+ years), willing to accept moderate illiquidity and with spending objectives of approximately 4% of assets per year. A large portion may be invested in capital appreciation-oriented investments. The income allocation may include an allocation to fixed income instruments. The pool may include an allocation to illiquid alternative investments. The management of this pool will be consistent with endowment best practices.**




The Endowment pool decreased 10.7% during the quarter. For the trailing one year the Endowment was down 12.2%. Domestic Equity was down 18.2% and International Equity was down 14.6% over the quarter. Total Equities account for 60.1% of the portfolio, Domestic Equity and International Equity underperformed their benchmarks. The Pool's Fixed Income securities, which comprises 23.6% of its total assets, saw a drop of 5.4% for the quarter and underperformed its benchmark. Real Estate returned 4.0% over the quarter and outperformed its benchmark.

1. *30% Russell 3000, 26% MSCI ACWI ex US, 22% Bloomberg Barclays US Aggregate, 10% FTSE NAREIT All, 5% Bloomberg Commodity Index, 7% HFRI Fund of Funds Composite Index.*

***Notes:*** *The above are the historical returns for each of the five investment pools.* ***Investment performance of individual funds may vary from the total pool return due to the timing of contributions and grants. Historical returns are not a predictor of future returns. The returns above are net of fees paid to investment managers. This fee represents the plans' blended expense ratio and is between 50 and 60 basis points annually. The fee for our investment consultant, Verus, is not reflected in the returns.***

**<u>Underlying Investment Managers</u>**

*Domestic Equity:* Vanguard FTSE Social Index, Vanguard Extended Market ETF
*International Equity*: Causeway International Value, EuroPacific Growth, DFA International Small Cap, Calvert Emerging Markets Equity
*Fixed Income:* Dodge & Cox Income, Met West Total Return, Vanguard Inflation Protected Securities
*Alternative Investments*: AQR Style Premia Fund
*Real Assets:* TownSquare Real Estate, Penn Square, UBS Trumbull, TA Realty Fund, Invesco Real Estate, Vanguard REIT Index
Note: Performance for Penn Square Global Real Estate II and Town Square Real Estate Alpha Fund I is lagged by one quarter.