FIDUCIENT Advisors

Helping Clients Prosper

Austin Community Foundation Mid-Year 2024 Update

August 2024

Austin Community

FOUNDATION

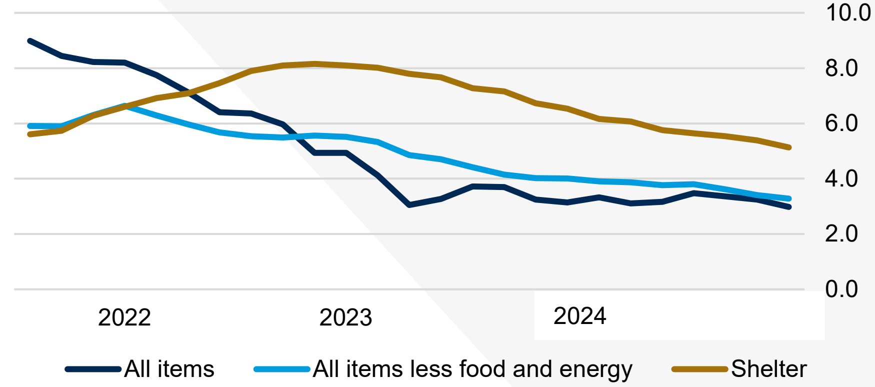
Disclosure

Market Themes

1. The U.S. Core Consumer Price Index fell throughout the quarter from 3.8 to 3.3 percent, the lowest since April 2021. The current market environment has provided room for the Federal Reserve to reduce the Fed Funds rate.
2. Investors complacent in cash may miss potential total return opportunities in core fixed income. The current environment, with higher yields across the curve, provides a positive asymmetric risk-reward profile.
3. Concentration in U.S. large cap markets continues to support returns, with nearly half of the S&P 500 Index constituents underperforming during the quarter and generating negative average returns.

Messy Middle – U.S. Core Consumer Price Index

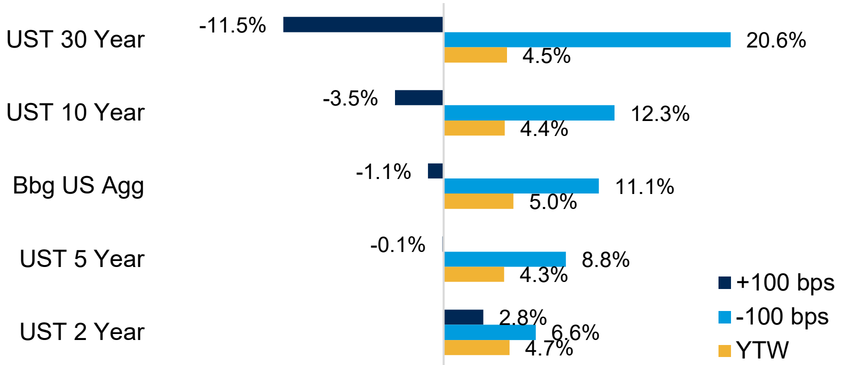
The shelter component, comprising 36 percent of the consumer price index, continues to fall, suggesting further moderation of inflation.



Sources: FactSet. As of June 30, 2024.

Prepare, Not Predict – Be Mindful of the Skew

While cash yields are near five percent, investors can achieve similar yields in Core Bonds with added total return opportunity if rates fall, and limited downside risk if rates move higher.



Source: FactSet as of June 28, 2024. Total potential return based on a parallel move in interest rates up or down by 100 basis points. Data based on respective Bloomberg Bellwether Treasury Indices and Bloomberg US Agg Bond Index. YTW = yield to worst.

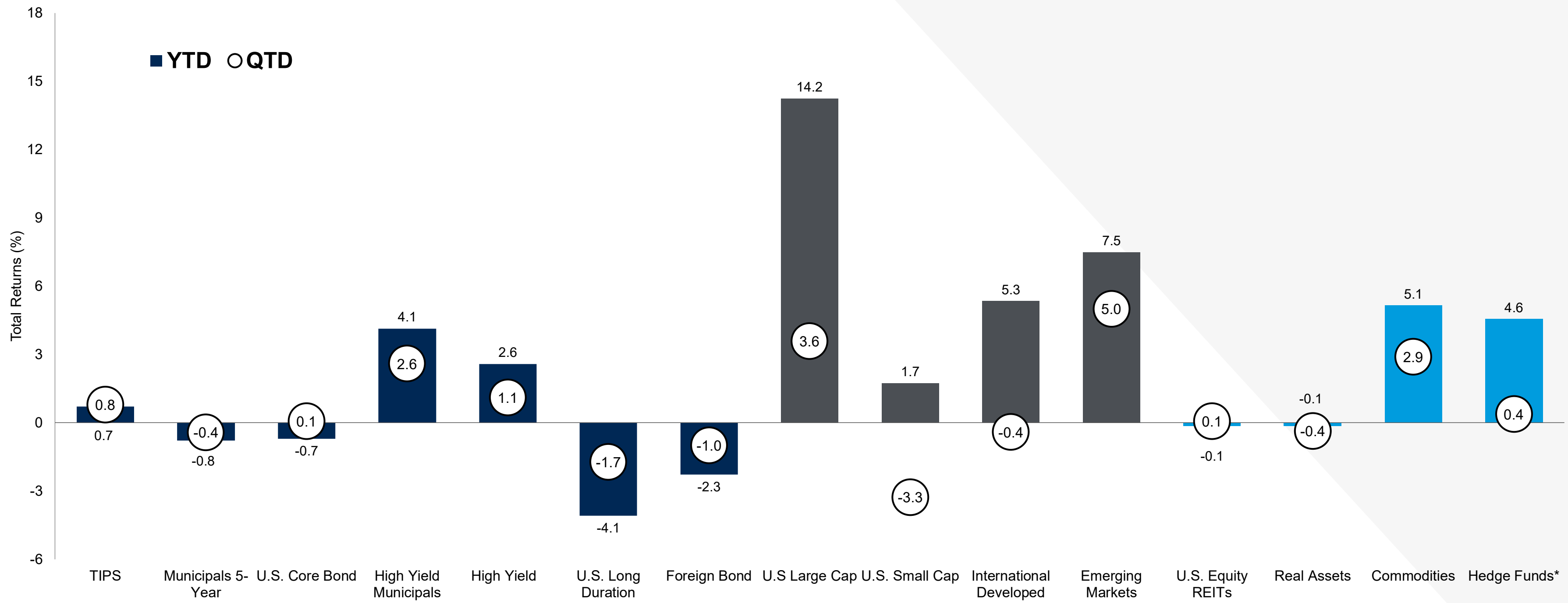
Concentrated Consequences – Bifurcation of Returns

Concentration continues to buoy returns in the S&P 500, with the top 10 stocks comprising over 32 percent of the index market value and 74 percent of individual stocks underperforming the index during the quarter.

Source: Morningstar. June 30, 2024.

See disclosures for list of indices representing each asset class. Past performance does not indicate future performance and there is a possibility of a loss. Indices cannot be invested in directly.

Market Themes



Source: Morningstar Direct. As of June 30, 2024. *Hedge fund returns as of May 31, 2024.

Fixed Income (2Q 2024)

- Rate volatility contributed to mixed performance across fixed income markets. Longer duration markets were negative on rising rates.

+ High yield fared best as the segment, which has a lower duration profile than core fixed income, is less sensitive to interest rate changes.

- Foreign bond markets declined on a strengthening U.S. Dollar and political uncertainty.

Equity (2Q 2024)

+ U.S. markets were mixed during the quarter. Concentrated leadership and hype around artificial intelligence benefitted large cap while small cap declined.

- International developed markets were negative on increased volatility from divergent central bank policies and election-related risks.

+ Emerging markets increased on positive returns in India due to expected rate cuts and optimism around economic growth.

Real Asset / Alternatives (2Q 2024)

- REITs took a step back during the period. Lodging and offices were among the worst performing sub-sectors.

+ Commodities were a standout in the quarter. Strong results stemmed from a jump in oil prices and metals.

+ Hedge funds (reported on a month lag) posted a positive return for the first two months of the quarter.

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Market Themes

01

Messy Middle

Inflation range bound between 2% - 5%

At the beginning of the year, we believed that inflation was on a downward trend, though the journey to the Fed's 2% target would be bumpy. This has proven true throughout 2024. Despite alternating months of optimism and pessimism dominating the headlines, overall inflation appears less likely to accelerate significantly. Moreover, it is becoming apparent that a 2% inflation target may be overly ambitious. A structurally higher inflation rate, closer to 3%, isn't necessarily detrimental, but the markets will need time to adjust. Importantly, modest inflation still aligns with our thesis of multiple pathways to lower rates, which remains constructive for fixed income going forward.

02

Prepare Not Predict

Risks remain acute and market timing futile

We noticed the no-show recession of 2023 has shifted many investors' mentality towards risk. The thinking goes: since a recession did not occur in 2023 the risk is off the table. While neither we nor anyone else can predict when a recession will occur, one thing is certain: a recession will eventually happen. Accepting this inevitability allows us to think practically about risk and how to manage it. Today, we believe one of the most compelling ways to manage risk is through high-quality, intermediate fixed income.

03

Concentrated Consequences

Narrow leadership creates both fragility and opportunity

2024 thus far has been more of the same with a handful of stocks driving a large percentage of the return. While markets are not governed by immutable natural laws like physics, they provide a reasonable allegory for discussing potential outcomes. No stock, sector or country is immune to economic gravity. Success may be significant and long-lasting, but it is not infinite. This year, the top 10 constituents have contributed 72% of the return and account for 33% of the S&P 500 Index.[1] Although we avoid trying to time this shift, we recognize that its eventual change offers opportunities beyond a handful of securities. International equity and small-cap allocations could benefit as this tide turns.

1. Morningstar Direct. As of June 30, 2024

Austin Community Foundation:
Performance Review – Long-Term Active

Performance Ending 06/30/24 (Net of Fees)	Year to Date	Last 12 Months	Last 3 Years	Last 5 Years	Last 7 Years
Long-Term Active Investment Pool	5.9%	11.7%	2.7%	7.7%	7.3%
Long-Term Active Investment Pool Custom Benchmark	6.4%	13.0%	2.7%	6.9%	6.8%

Please reference the disclosures at the end of this presentation for additional information related to the material presented.

Austin Community Foundation: Portfolio Snapshot
Long-Term Active

Asset Classes	*Total Current Allocation*	*Strategic Target Allocation*	*Over/ Under Weight Strategic Target*
Cash	**2.0%**	**2.0%**	**0.0%**
TIPS	**1.0%**	**1.0%**	**0.0%**
Broad Domestic Bonds	**10.3%**	**11.0%**	**-0.7%**
Dynamic Bonds	**3.7%**	**4.0%**	**-0.3%**
Global Bonds	**0.9%**	**1.0%**	**-0.1%**
High Yield Bonds	**1.8%**	**1.0%**	**0.8%**
Global Fixed Income & Cash Total	***19.7%***	***20.0%***	***-0.3%***
Large-Cap U.S. Equity	**25.5%**	**22.0%**	**3.5%**
Mid-Cap U.S. Equity	**7.6%**	**7.0%**	**0.6%**
Small-Cap U.S. Equity	**4.3%**	**4.0%**	**0.3%**
International Equity	**15.3%**	**14.0%**	**1.3%**
Emerging Markets Equity	**6.8%**	**6.0%**	**0.8%**
US REITs	**3.0%**	**3.0%**	**0.0%**
Global Equities (Public) Total	***62.4%***	***56.0%***	***6.4%***
Broad Real Assets	**3.9%**	**4.0%**	**-0.1%**
Real Assets Total	***3.9%***	**4.0%**	**-0.1%**
Direct Hedge Funds	**10.3%**	**10.0%**	**0.3%**
Private Debt*	**0.3%**	**1.0%**	**-0.7%**
Private Equity**	**3.4%**	**9.0%**	**-5.6%**
Alternatives Total	**13.9%**	**20.0%**	**-6.1%**
Total Assets	**100.0%**	**100.0%**	**0.0%**

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Austin Community Foundation:
Performance Review – Long-Term Passive

Performance Ending 06/30/24 (Net of Fees)	Year to Date	Last 12 Months	Last 3 Years	Last 5 Years	Since Inception (2/1/17)
Long-Term Passive Investment Pool	6.4%	12.6%	2.5%	7.5%	7.8%
Long-Term Passive Investment Pool Custom Benchmark	6.8%	13.5%	2.2%	7.4%	8.0%

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Austin Community Foundation: Portfolio Snapshot
Long-Term Passive

Asset Classes	*Total Current Allocation*	*Strategic Target Allocation*	*Over/ Under Weight Strategic Target*
Cash	**4.2%**	**2.0%**	**2.2%**
TIPS	**1.0%**	**1.0%**	**0.0%**
Broad Domestic Bonds	**15.7%**	**16.0%**	**-0.3%**
High Yield Bonds	**1.0%**	**1.0%**	**0.0%**
Global Fixed Income & Cash Total	***21.8%***	***20.0%***	**1.8%**
Large-Cap U.S. Equity	**31.4%**	**31.0%**	**0.4%**
Mid-Cap U.S. Equity	**8.5%**	**9.0%**	**-0.5%**
Small-Cap U.S. Equity	**5.7%**	**6.0%**	**-0.3%**
Developed International Equity	**19.0%**	**20.0%**	**-1.0%**
Emerging Market Equity	**8.6%**	**9.0%**	**-0.4%**
US REITs	**4.9%**	**5.0%**	**-0.1%**
Global Equities Total	***78.2%***	***80.0%***	**-1.8%**
Total Assets	**100.0%**	**100.0%**	**0.0%**

Austin Community Foundation:
Performance Review – Mid-Term Active

Performance Ending 06/30/24 (Net of Fees)	Year to Date	Last 12 Months	Last 3 Years	Last 5 Years	Since Inception (9/1/18)
Mid-Term Active Investment Pool	5.0%	11.4%	2.3%	6.8%	6.5%
Mid-Term Active Investment Pool Custom Benchmark	4.7%	10.7%	1.1%	5.8%	5.7%

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Austin Community Foundation: Portfolio Snapshot
Mid-Term Active

Asset Classes	*Total Current Allocation*	*Strategic Target Allocation*	*Over/ Under Weight Strategic Target*
Cash	**2.7%**	**2.0%**	**0.7%**
TIPS	**1.0%**	**1.0%**	**0.0%**
Broad Domestic Bonds	**24.8%**	**25.0%**	**-0.2%**
Dynamic Bonds	**7.9%**	**8.0%**	**-0.1%**
Global Bonds	**1.9%**	**2.0%**	**-0.1%**
High Yield Bonds	**2.0%**	**2.0%**	**0.0%**
Global Fixed Income & Cash Total	***40.3%***	***40.0%***	***0.3%***
Large-Cap U.S. Equity	**21.7%**	**21.0%**	**0.7%**
Mid-Cap U.S. Equity	**6.7%**	**7.0%**	**-0.3%**
Small-Cap U.S. Equity	**3.8%**	**4.0%**	**-0.2%**
Developed International Equity	**12.7%**	**13.0%**	**-0.3%**
Emerging Market Equity	**6.1%**	**6.0%**	**0.1%**
Broad Real Assets	**4.9%**	**5.0%**	**-0.1%**
US REITs	**3.9%**	**4.0%**	**-0.1%**
Global Equities Total	***59.7%***	***60.0%***	***-0.3%***
Total Assets	**100.0%**	**100.0%**	**0.0%**

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Austin Community Foundation: Performance Review – Mid-Term Passive

Performance Ending 06/30/24 (Net of Fees)	Year to Date	Last 12 Months	Last 3 Years	Last 5 Years	Since Inception (1/1/17)
Mid-Term Passive Investment Pool	5.0%	11.0%	2.5%	6.5%	6.9%
Mid-Term Passive Investment Pool Custom Benchmark	5.0%	11.2%	1.3%	5.9%	6.6%

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Austin Community Foundation: Portfolio Snapshot
Mid-Term Passive

Asset Classes	*Total Current Allocation*	*Strategic Target Allocation*	*Over/Under Weight Strategic Target*
Cash	**1.9%**	**2.0%**	**-0.1%**
TIPS	**2.0%**	**2.0%**	**0.0%**
Broad Domestic Bonds	**32.8%**	**33.0%**	**-0.2%**
High Yield Bonds	**3.0%**	**3.0%**	**0.0%**
Global Fixed Income & Cash Total	***39.6%***	***40.0%***	**-0.4%**
Large-Cap U.S. Equity	**23.9%**	**23.0%**	**0.9%**
Mid-Cap U.S. Equity	**6.8%**	**7.0%**	**-0.2%**
Small-Cap U.S. Equity	**4.0%**	**4.0%**	**0.0%**
Developed International Equity	**14.8%**	**15.0%**	**-0.2%**
Emerging Market Equity	**7.0%**	**7.0%**	**0.0%**
US REITs	**3.9%**	**4.0%**	**-0.1%**
Global Equities Total	***60.4%***	***60.0%***	**0.4%**
Total Assets	**100.0%**	**100.0%**	**0.0%**

Macroeconomic Highlight: Election Impact on Markets

11.5%

The average S&P 500 return in general election years since 1926. That compares to 12.4% in non-election years.

84%

Positive annual returns in general election years since 1926. That compares to 70% in non-election years and 74% in all calendar years.

60%

Of election years the S&P returned 10% or more. 16% of years (4 of 25) it posted a negative return.

Source: S&P 500 returns since 1926. Wikipedia Party Divisions since 1789

Investors harbor the fear the general elections are bad for markets, so let us dive into the details. Since 1926, the average annual return during an election year is about 11.5%. Interestingly, 84% of the time the S&P has posted a positive return in general election years. If we stopped here, we would call that a pretty good year. However, when compared to non-election years, the S&P returned 12.4% on average, but only 70% of those years were positive. A modest argument could be made in both the “good” or “bad” camp. Statistically speaking, they are very similar. Importantly, making a market prediction based on the four-year election cycle alone is akin to Punxsutawney Phil's shadow-based weather forecast. It is not particularly robust.

What is perhaps more telling is what markets tells us about elections. Since 1932, nine of ten incumbent presidents seeking reelection were successful if the economy was not in recession in the prior two years. Of the six that sought reelection and a recession did occur, only one was successful. For better or worse, the sitting president gets credit or blame for the current state of markets and the economy influencing their chance of reelection.

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When referencing asset class returns or statistics, the following indices are used to represent those asset classes. Each index is unmanaged and investors can not actually invest directly into an index: Cash - Citigroup 90 Day T-Bill; TIPS - Barclays US Treasury TIPS; Aggregate Bond - Barclays US Aggregate Bond Index; High Yield - Barclays US Corporate High Yield; Foreign Bond - Barclays Global Aggregate Ex USD; Emerging Debt - JPMorgan GBI-EM Global Diversified Unhedged Index; Large Value - Russell 1000 Value; Large Blend - S&P 500; Large Growth - Russell 1000 Growth; Small Value - Russell 2000 Value; Small Blend - Russell 2000; Small Growth - Russell 2000 Growth; International - MSCI EAFE; Emerging Markets - MSCI EM; REITs - FTSE NAREIT Equity REITs; Commodities - Bloomberg Commodity Index; MLP - Alerian MLP; Hedge Funds - HFRI Fund of Funds Composite Index; Balanced - 5% Barclays US Treasury TIPS, 10% Barclays US Aggregate Bond Index, 4.5% Barclays Global Aggregate Ex USD, 4.5% Barclays Global Aggregate Ex USD (Hedged), 9% Barclays US Corporate High Yield, 2% JPMorgan GBI-EM Global Diversified Unhedged Index , 16% S&P 500, 5% Russell 2000, 12% MSCI EAFE, 7% MSCI EM, 5% FTSE NAREIT Equity REITs, 5% Bloomberg Commodity Index, 5% Alerian MLP, 10% HFRI Fund of Funds Composite Index