MarquetteAssociates

October 24, 2023

2023 Investment Update



Presented by

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Managing Partner

Evan Frazier, CFA, CAIA
Senior Research Analyst

This presentation is furnished on a confidential basis to the recipient for informational purposes only. For disclosure information, please refer to the end of this presentation.

Introductions



Chris Caparelli, CFA
Managing Partner

- An owner of the firm
- Focus on non-profit funds
- 15 years of investment experience
- Member, Traditional Manager Search committee
- B.S., Marquette University
- M.B.A., Northwestern University's Kellogg School of Management
- CFA® Charterholder
- Member, CFA Society of Chicago



Evan Frazier, CFA, CAIA
Senior Research Analyst

- Six years of investment experience
- Responsible for reviewing and conducting due diligence on public equity and hedge fund strategies
- Member, Traditional Manager Search Committee
- B.A., Kenyon College
- CFA® Charterholder
- Member, CFA Society of Chicago
- CAIA Charterholder
- Member, CAIA® Association

Marquette at a glance

$362B+
assets under advisement

37th
year in business

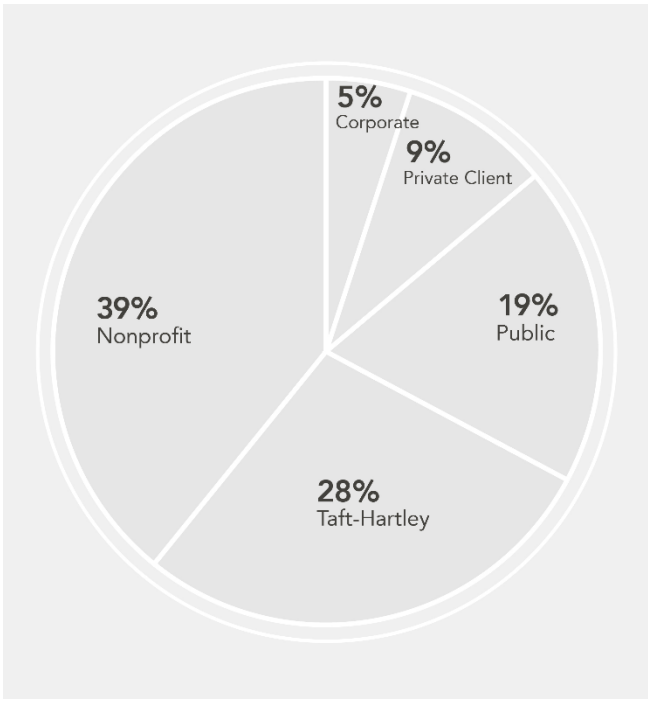
100%
employee-owned[1]

135+
employees

99%
client retention

5
office locations
Chicago, Baltimore, Milwaukee, Philadelphia, and St. Louis

CLIENT BREAKDOWN BY QUANTITY



Data as of June 30, 2023. The client retention rate is calculated as the average annual retention rate from 2012–2022. [1]By current and former employees.

Representative Clients

155
nonprofit clients

$57B+
nonprofit AUA

11years
nonprofit average client tenure

$108M+
median nonprofit portfolio size

REPRESENTATIVE CLIENT LIST



Data as of June 30, 2023. It is not known whether these clients approve or disapprove of Marquette's services. These clients were selected upon the basis of objective criteria, namely client classification, geography, and size.

Why choose an independent consultant?

We are exclusively focused on customizing investment portfolios for our clients

✓	No broker/dealer
✓	No soft dollars
✓	No cross-selling
✓	No investment products
✓	No investment management database fees
✓	No investment manager conference fees
✓	No insurance, actuarial, or benefit consulting fees

WE ARE 100% INDEPENDENT

Alignment of Mission



"Partner with individuals, families, businesses and nonprofits to help them achieve their charitable goals"



"Enable institutions to become more effective investment stewards"

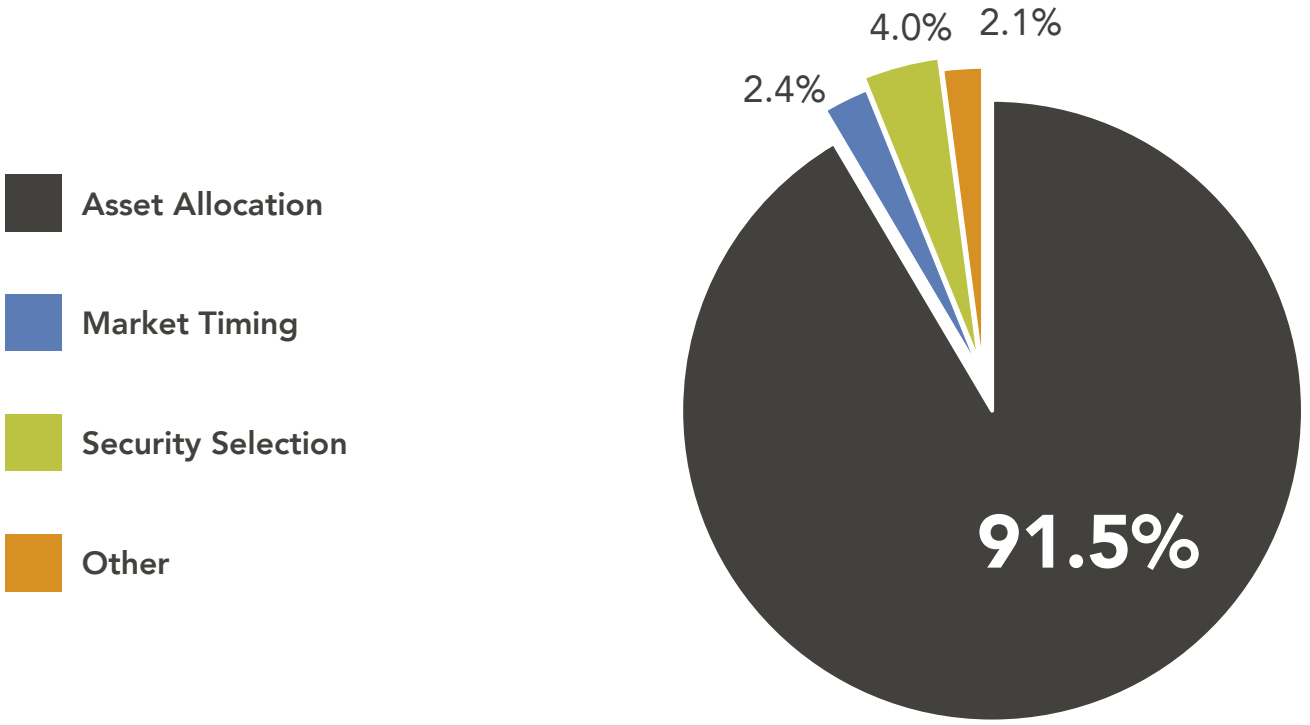
Three-point investment approach



Portfolio Construction Process & Review

Asset allocation controls portfolio risk

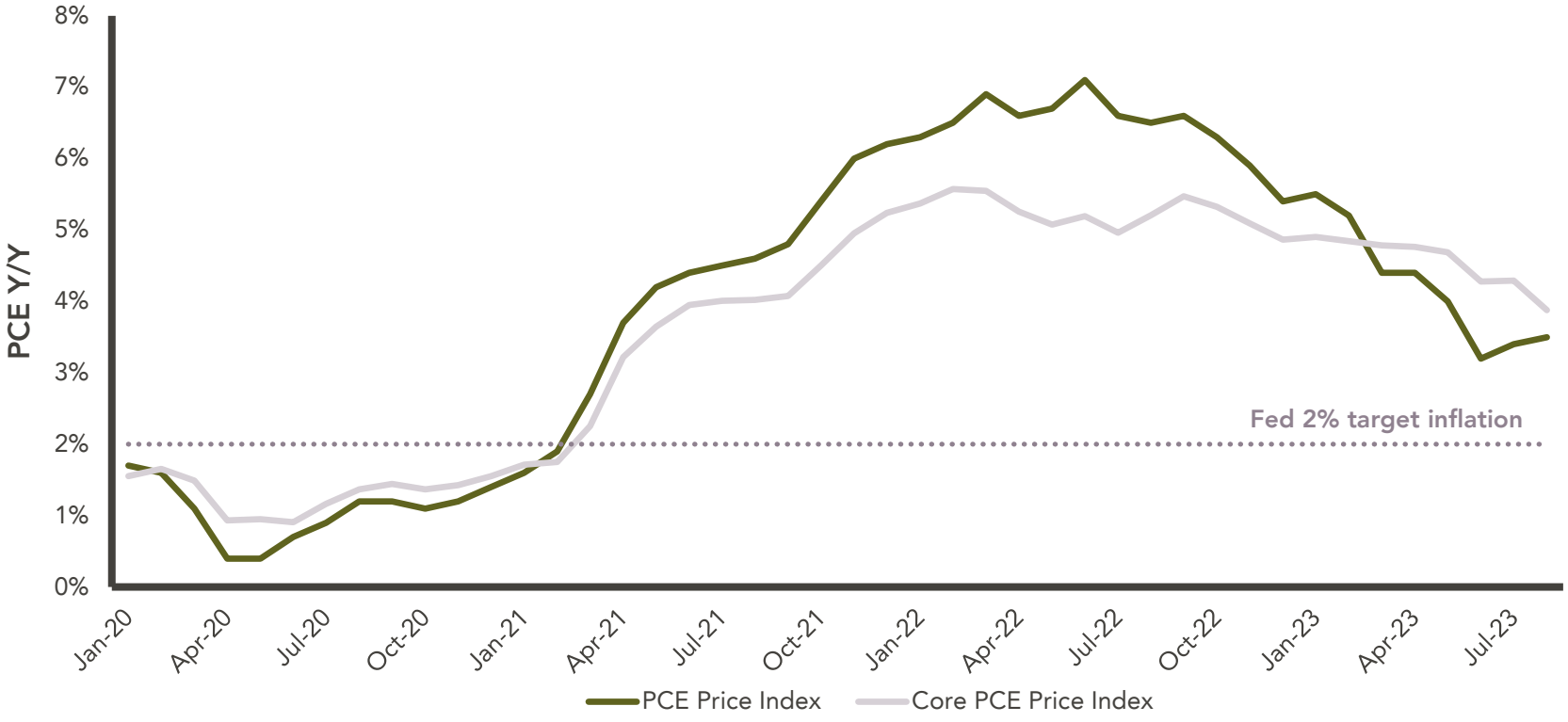
Portfolio return variability (%)



Source: Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, "Determinants of Portfolio Performance," Financial Analysts Journal, July/August 1986. Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, "Determinants of Portfolio Performance II: An Update," Financial Analysts Journal, May/June 1991.

The inflation rollercoaster

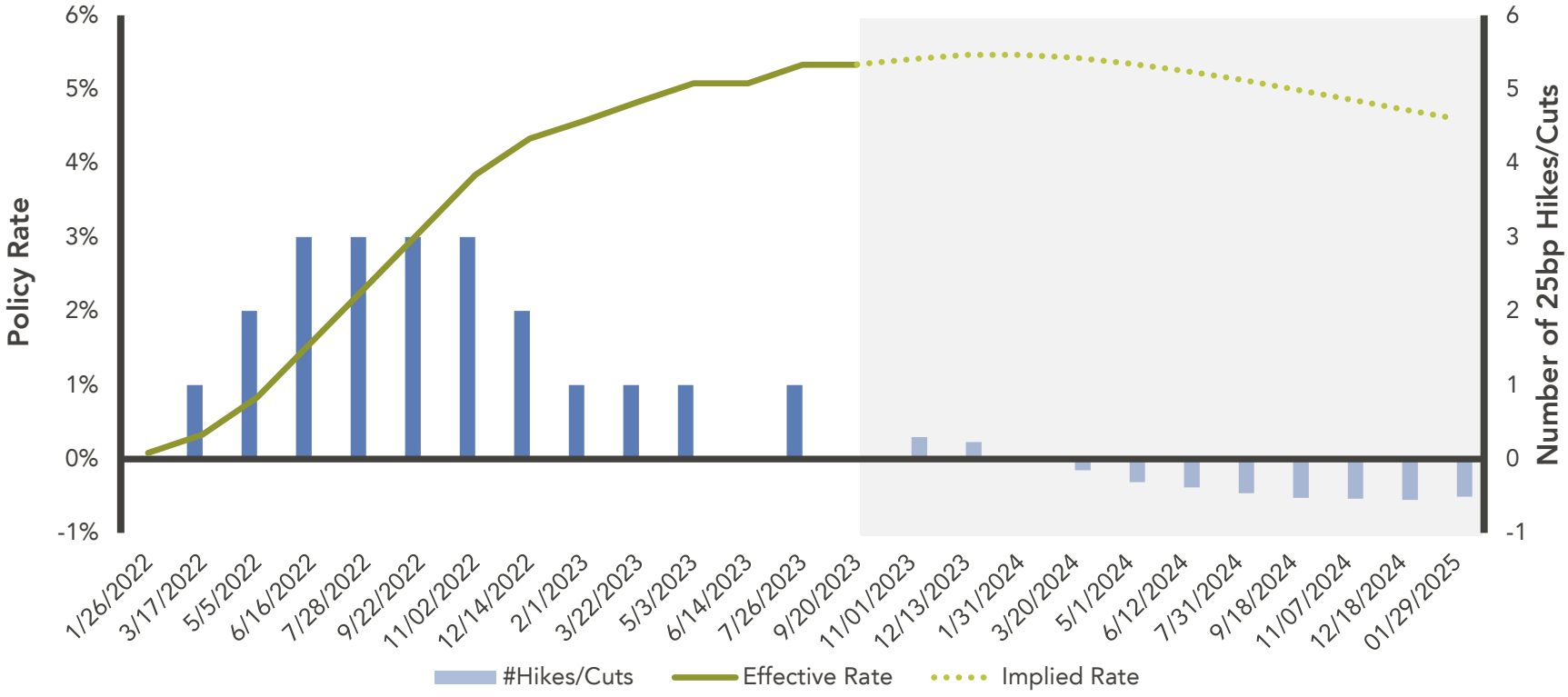
Core PCE levels — the Fed's preferred measure of inflation — remain above the 2% rate that the bank targets



Source: Bloomberg, Bureau of Economic Analysis as of August 31, 2023

Interest rate expectations

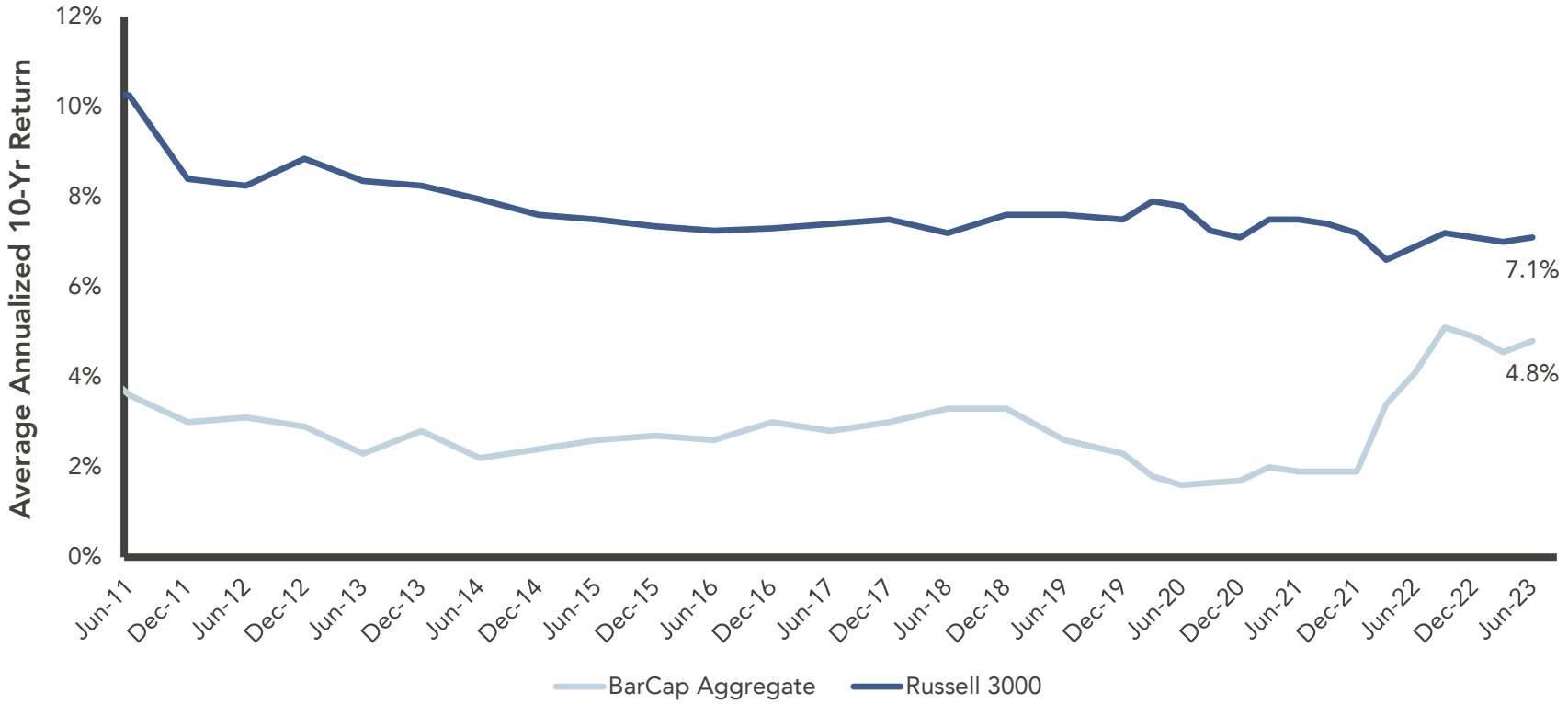
Recent macroeconomic data has not changed market expectations of a pause in rate hikes at year-end, with cuts expected next year



Source: Bloomberg as of October 3, 2023

Dynamic asset allocation modeling

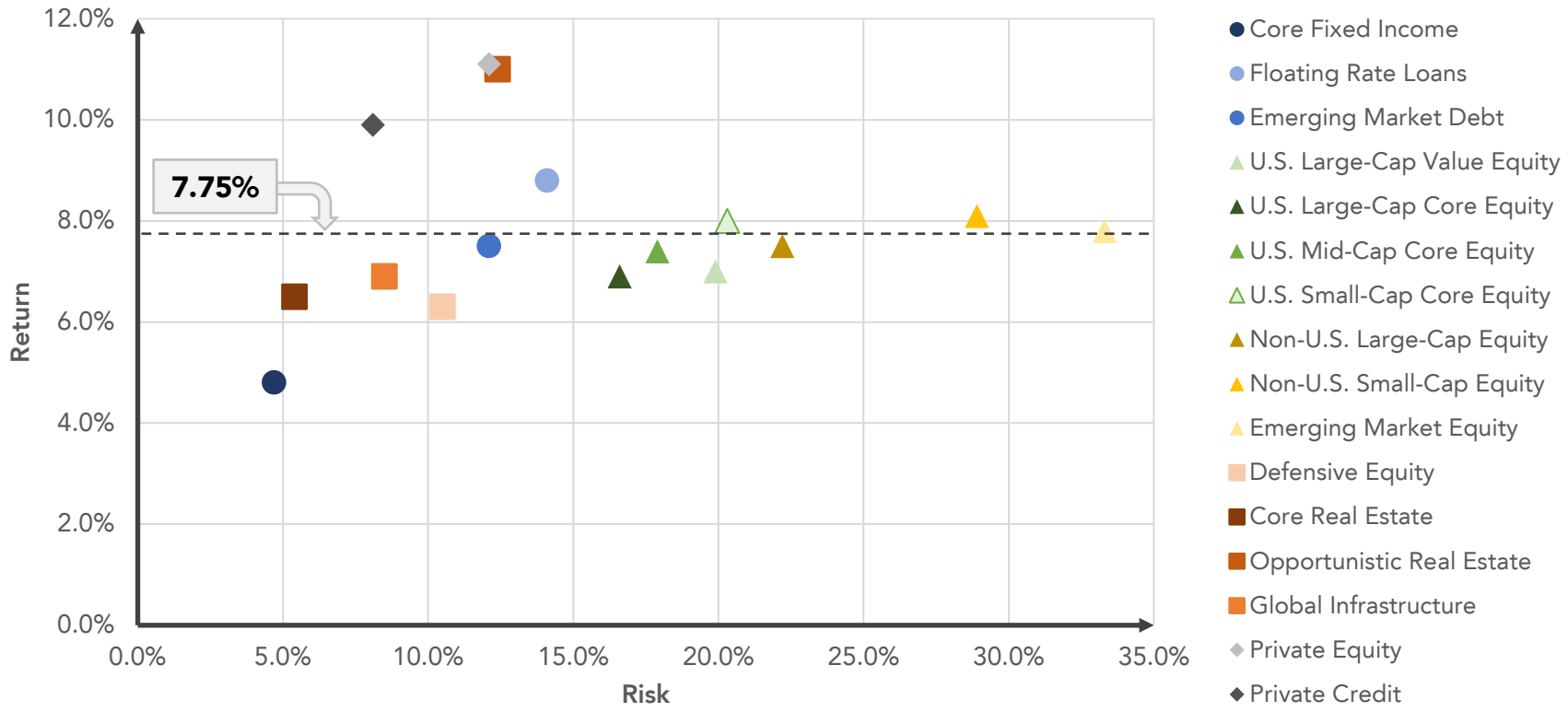
Marquette's capital market assumptions are recalibrated quarterly to current market conditions



Source: Marquette Associates Asset Allocation Software as June 30, 2023

Portfolio Building Blocks

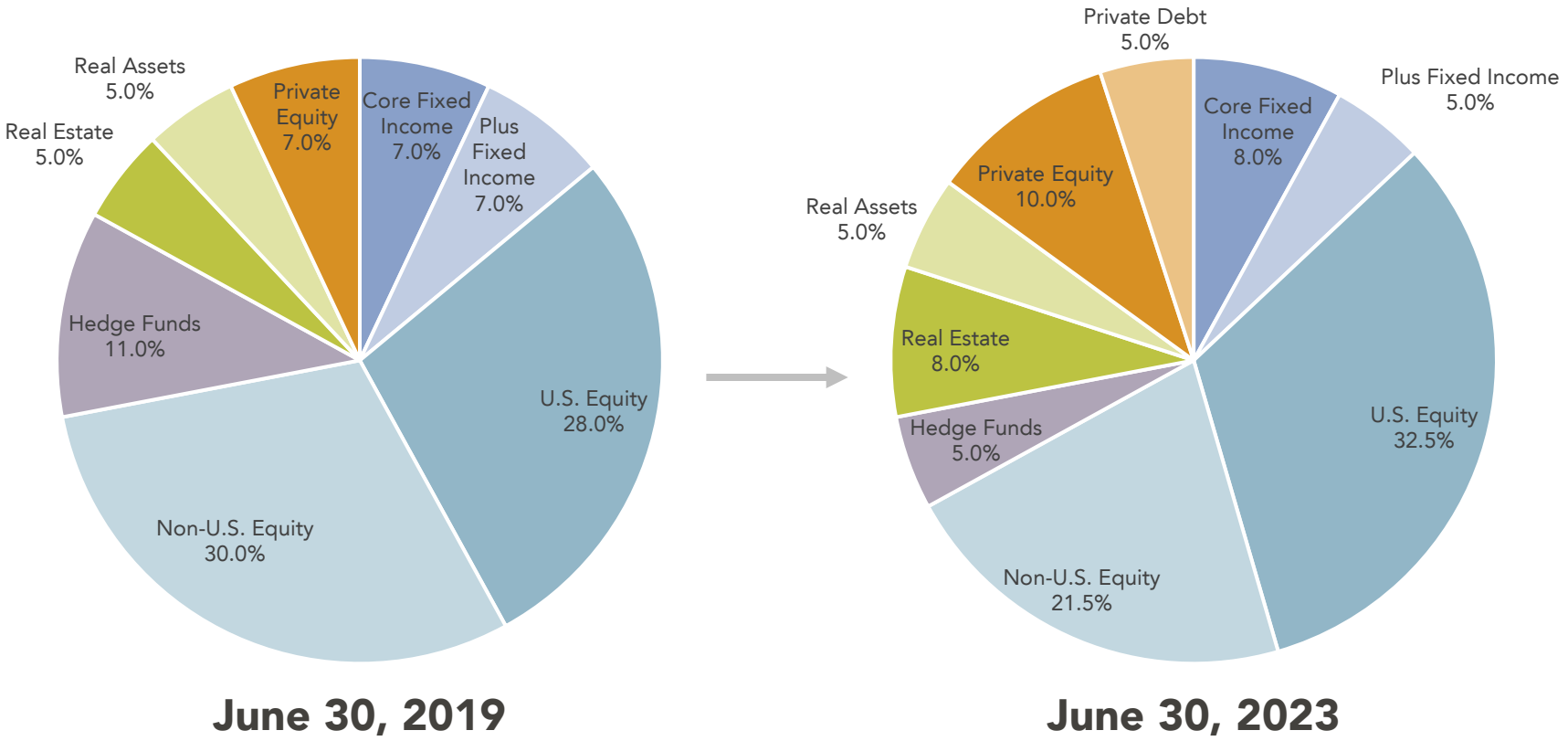
The higher interest rate environment has improved the long-term return outlook for portfolios



Source: Marquette Asset Allocation Study data as of June 30, 2023

Portfolio Asset Allocation Targets

Less public equity market exposure, more diversification, more illiquidity



June 30, 2019 **June 30, 2023**

Investment Policy Statement

The primary source for controlling portfolio risk

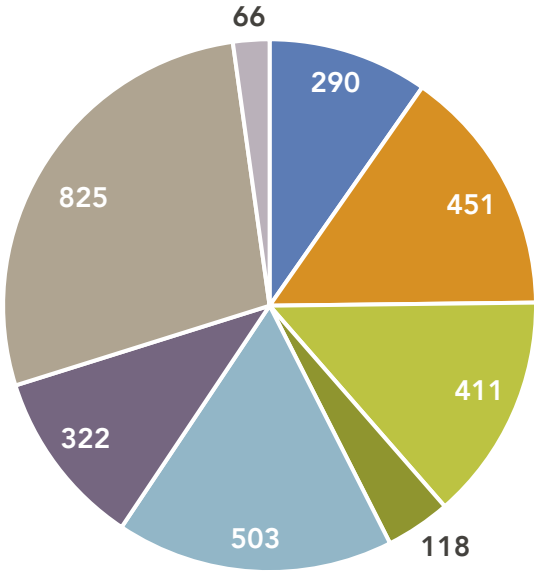
ASSET CLASS	TARGET	MINIMUM	MAXIMUM
Core Fixed Income	8.0%	4.0%	15.0%
Bank Loans	2.0%	0.0%	6.0%
Emerging Market Debt	3.0%	0.0%	6.0%
Total Fixed Income	**13.0%**	**6.0%**	**20.0%**
US Large-Cap Equity	20.5%	15.5%	25.5%
US Mid-Cap Equity	6.0%	3.0%	9.0%
US Small-Cap Equity	6.0%	3.0%	9.0%
Total U.S. Equity	**32.5%**	**27.5%**	**37.5%**
Non-US Developed Equity	14.0%	9.0%	19.0%
Non-US Developed Small-Cap Equity	2.5%	0.0%	5.0%
Non-US Emerging Equity	5.0%	2.0%	8.0%
Total Non-U.S. Equity	**21.5%**	**16.5%**	**26.5%**
Defensive Equity	5.0%	0.0%	10.0%
Total Alternative Investments	**5.0%**	**0.0%**	**10.0%**
Real Estate	8.0%	0.0%	13.0%
Infrastructure	5.0%	0.0%	10.0%
Total Real Assets	**13.0%**	**0.0%**	**20.0%**
Private Equity	10.0%	0.0%	15.0%
Private Debt	5.0%	0.0%	10.0%
Total Private Market Investments	**15.0%**	**0.0%**	**25.0%**
TOTAL	**100.0%**		

Thorough manager search process

PHASE ONE	PHASE TWO	PHASE THREE	PHASE FOUR
Initial Evaluation	**Quantitative Review**	**Document Review**	**Full Firm Evaluation**
Introductory meeting	Returns based multi-factor regression	Formal RFI review	On-site visit
Review investment process & philosophy	Detailed attribution analysis	Regulatory checks	Verification of key internal processes and external service providers

Manager meetings by asset class

Average of 11 meetings per business day



2022 Totals	
290	Fixed Income
451	U.S. Equity
411	Non-U.S. Equity
118	Global Equity
503	Hedge Fund
322	Real Assets
825	Private Equity & Debt
66	Miscellaneous
Total	**2,986**

Manager meetings based on 2022 product meetings documented in Marquette's proprietary manager database. Meetings typically last 30–90 minutes and multiple products may be discussed during a meeting. Product meetings include in-person meetings, on-site visits, annual meeting attendance, and phone calls.

Representative Asset Manager Roster

























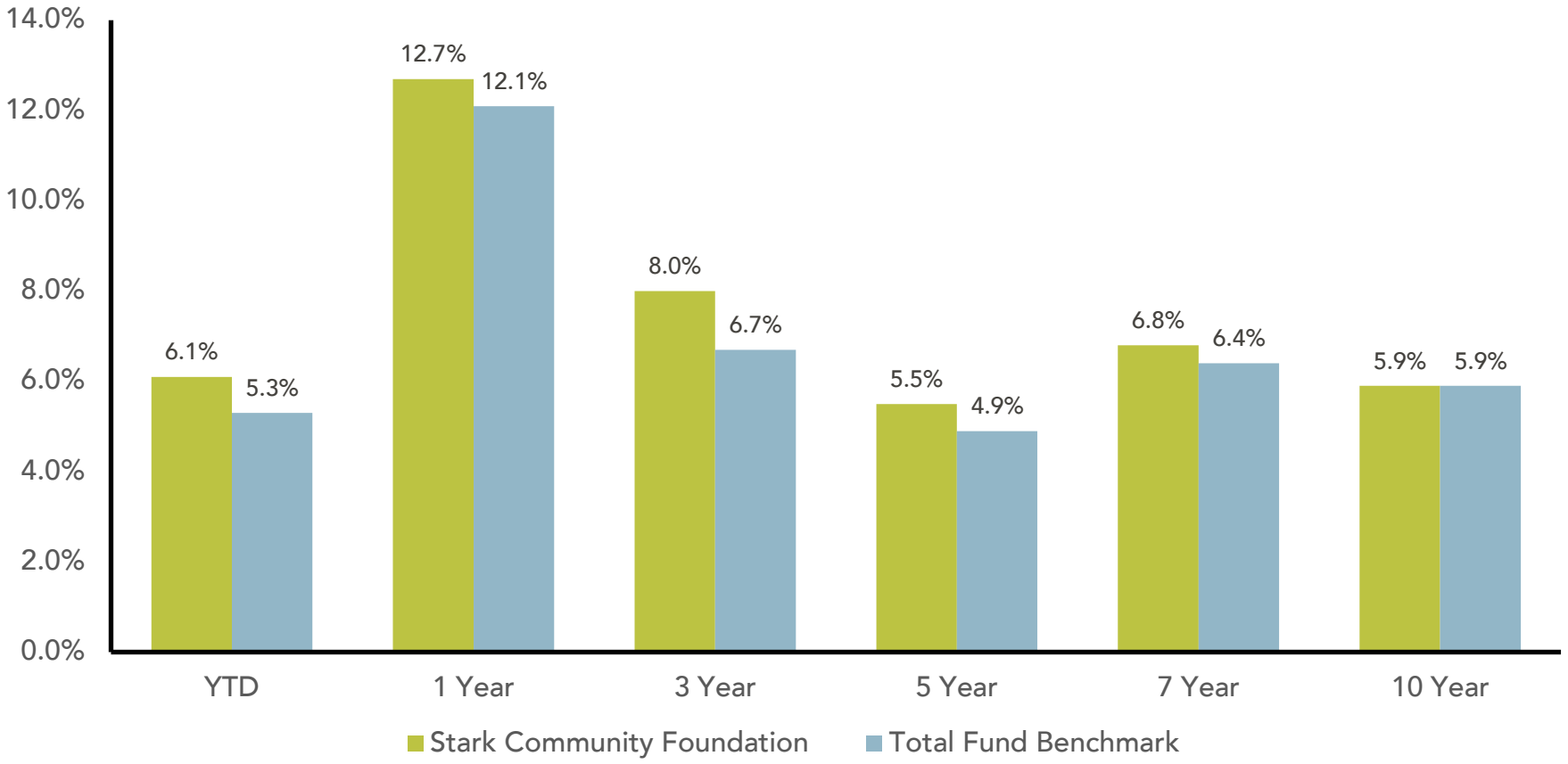






Foundation Performance

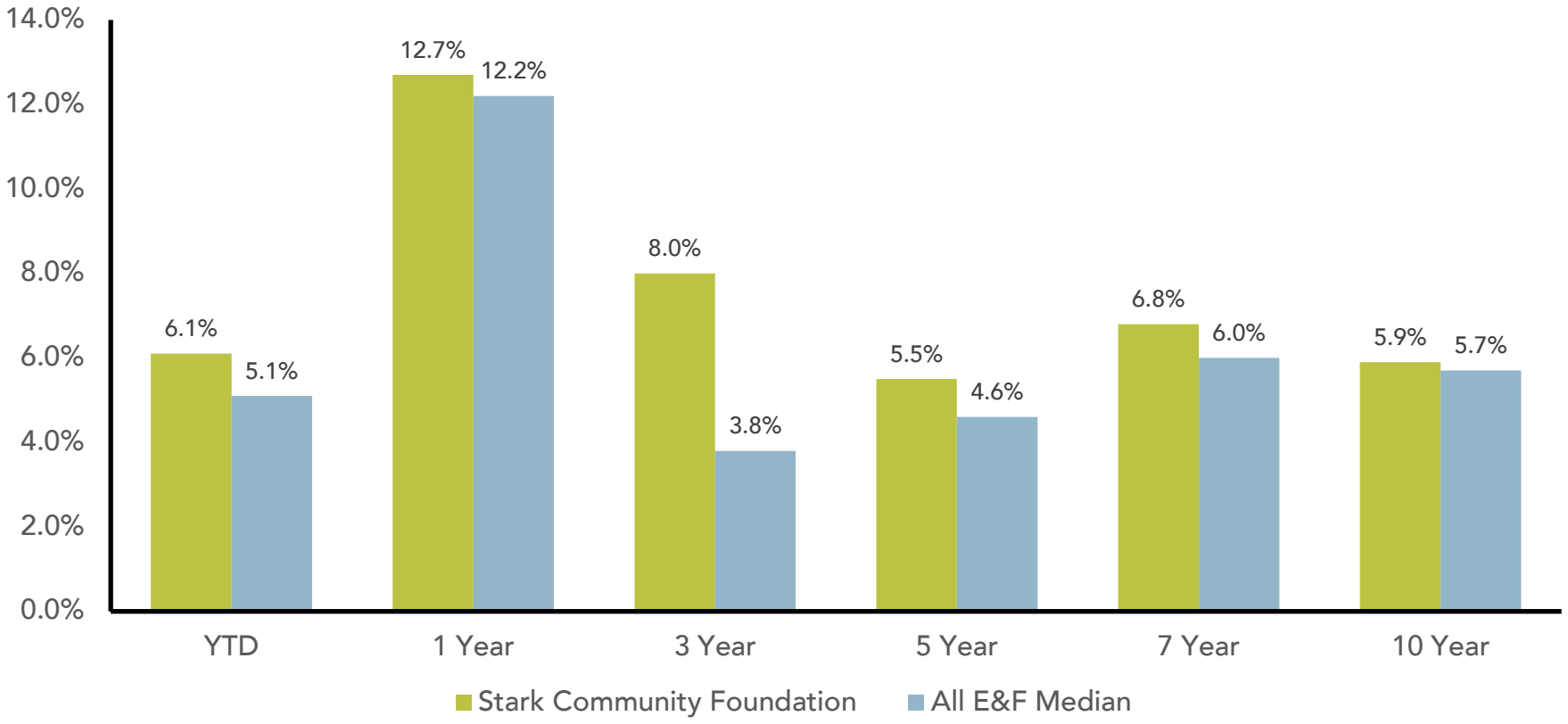
Net-of-Fee performance through September 30, 2023 (preliminary)



All performance periods longer than 1 year are annualized

Performance Comparison

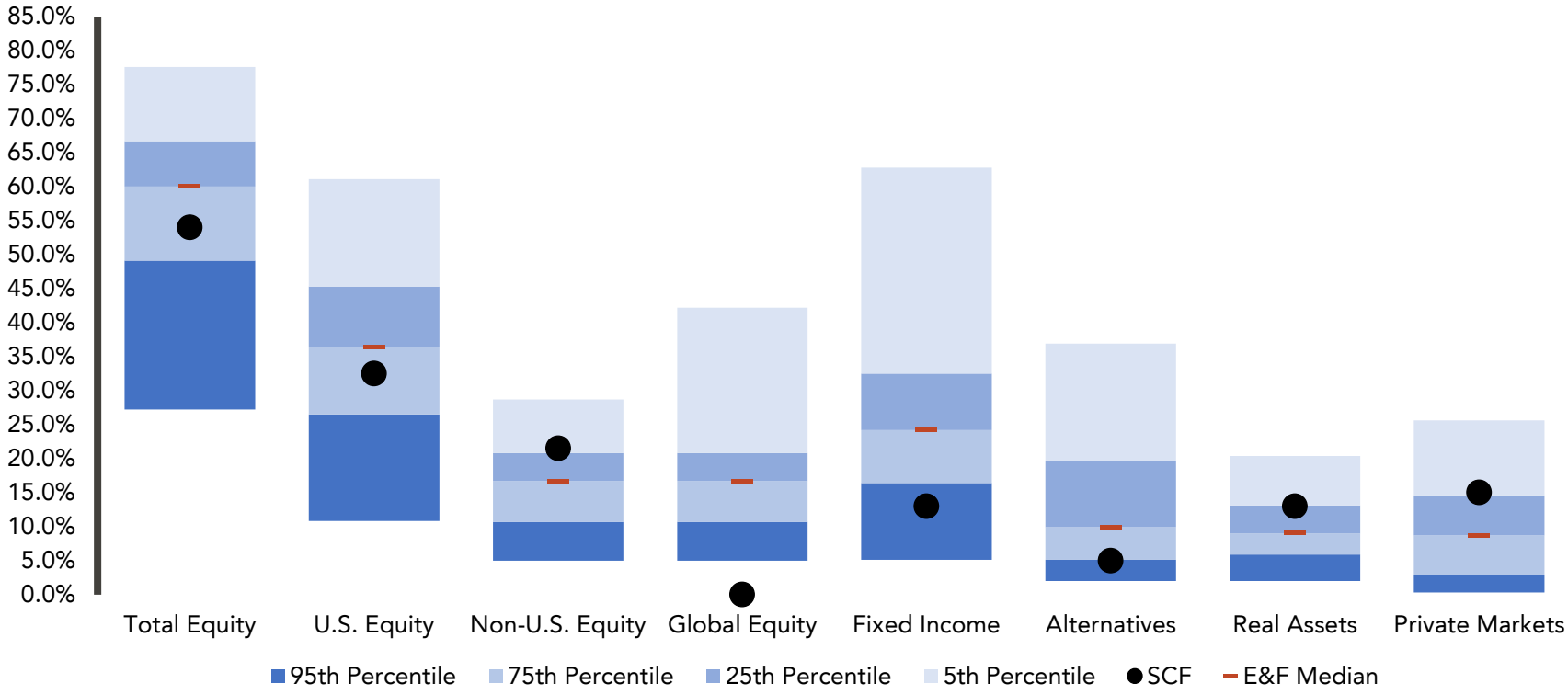
Net-of-Fee performance through September 30, 2023



Source: InvestmentMetrics all Endowment & Foundation Net Universe containing 727 participants

Asset Allocation Comparison

SCF's target allocation is underweight equities, fixed income and alternatives, and overweight real assets and private markets



Source: Investment Metrics

Marquette Investment Symposium

What Might De-Dollarization and De-Globalization Mean for Equity Markets?

Agenda



GLOBALIZATION AND DOLLARIZATION

What were the causes and impacts?



CHANGES IN RECENT YEARS

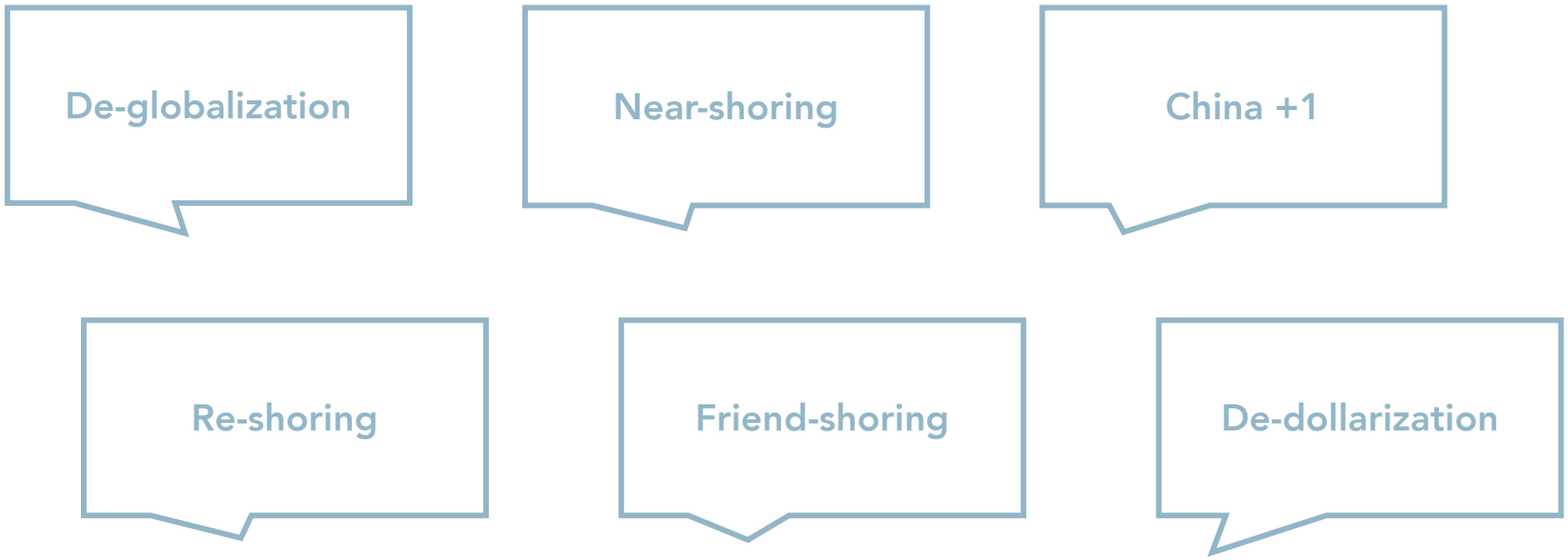
Will these shifts continue?



THE PORTFOLIO PERSPECTIVE

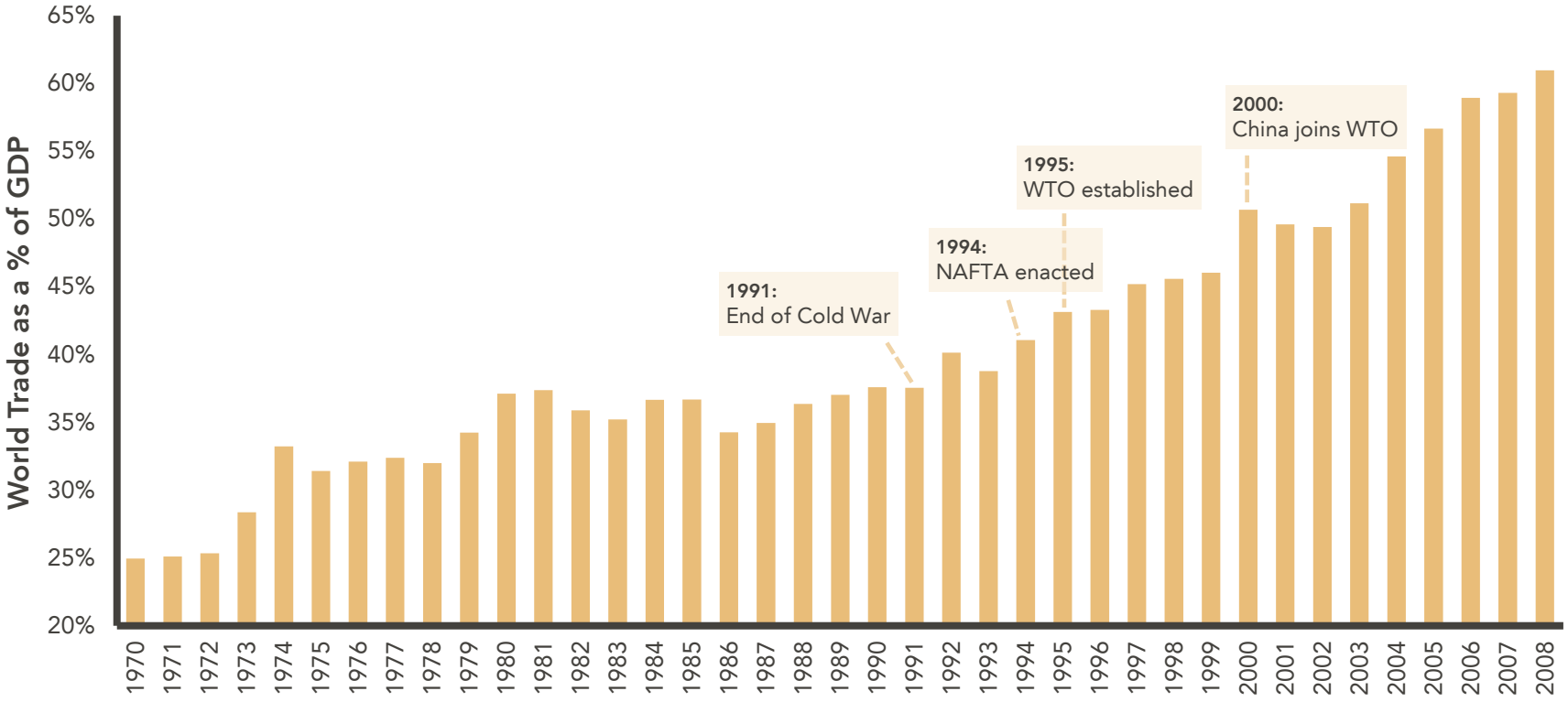
How should investors react to recent trends?

A primer on commonly used terms



World trade as a percentage of GDP (then)

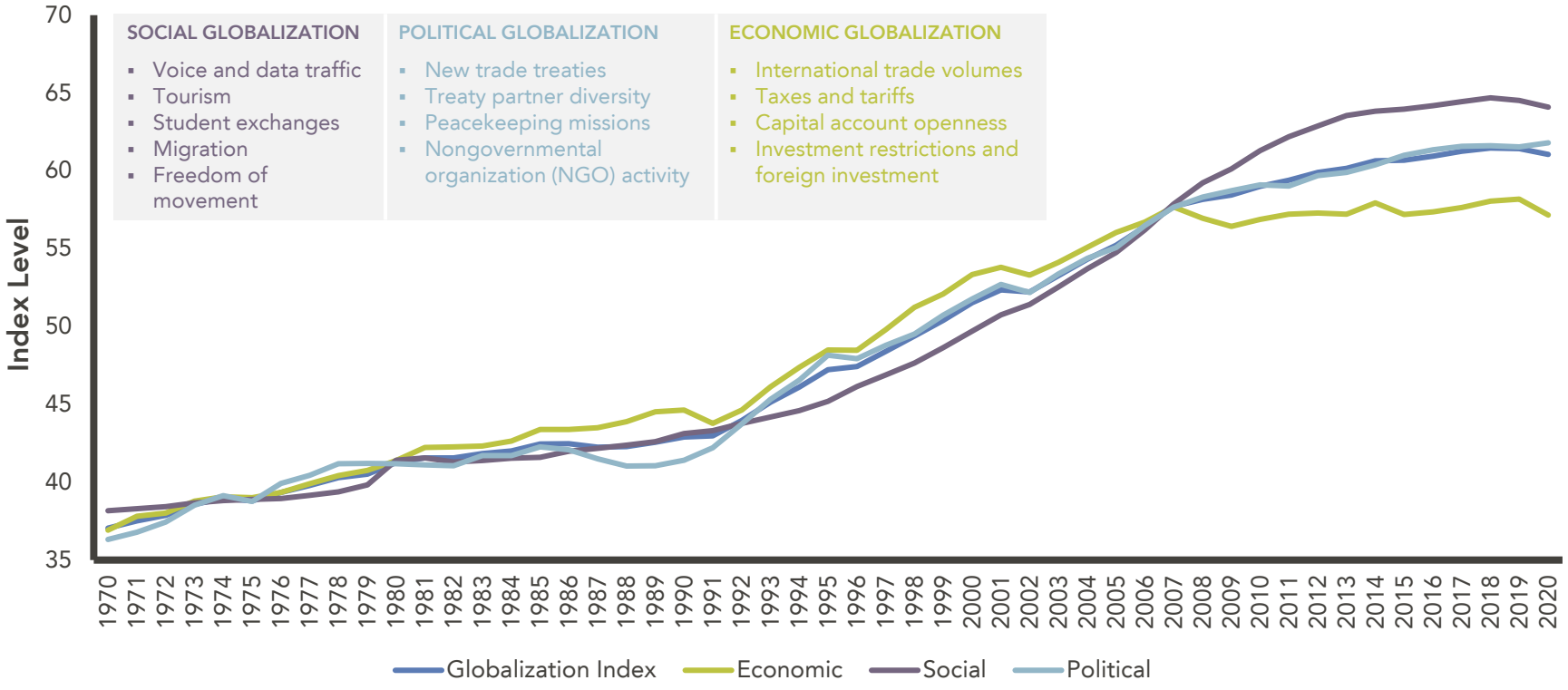
Global trade grew significantly through the 1990s and 2000s thanks to various world events



Source: World Bank

Globalization: It's about more than just trade!

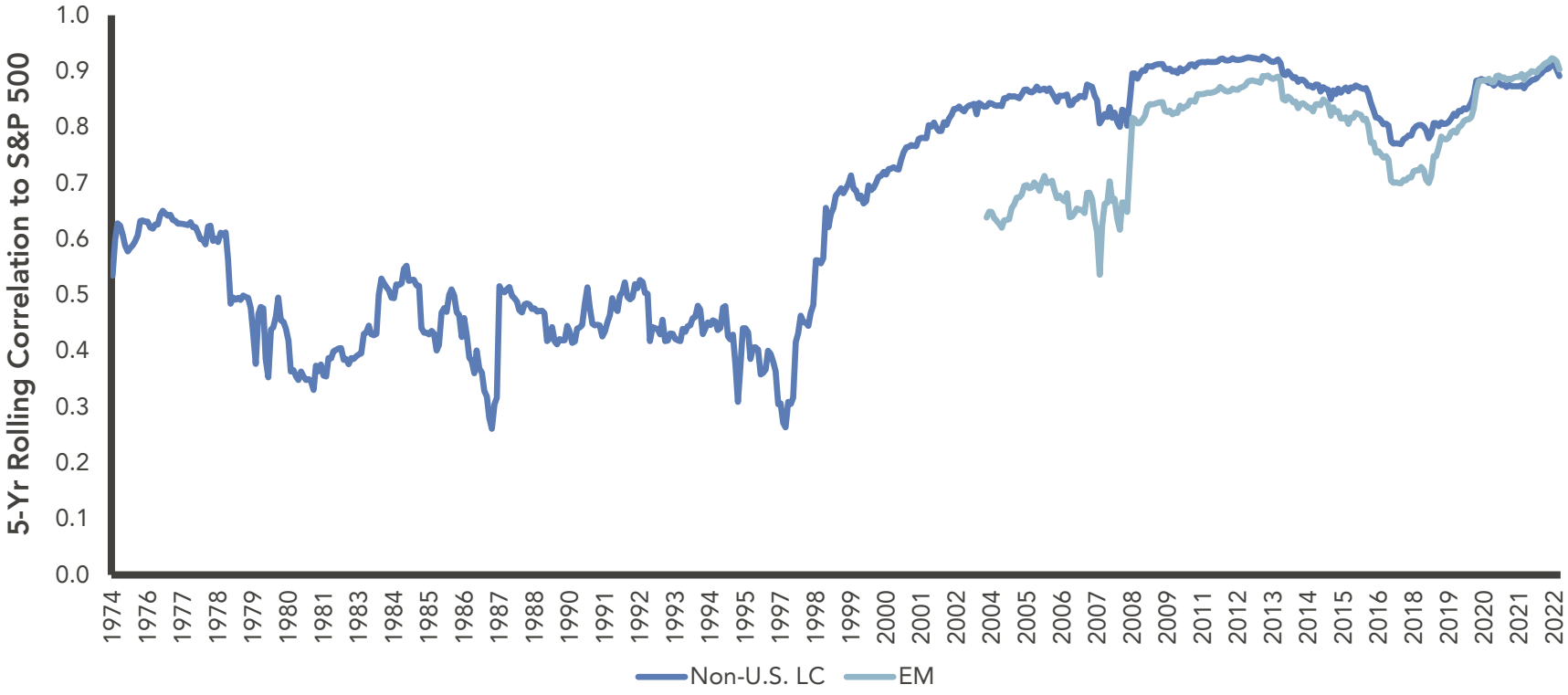
Social and political factors are also components of the globalization discussion



Source: The Review of International Organizations, "The KOF Globalization Index – Revisited"

Non-U.S. equity correlations to the S&P 500 index

As globalization trends increased, so did correlations across the global equity spectrum



Source: eVestment

How did the dollar become the world's reserve currency?

The dollar's role as the primary reserve currency was not established by decree but, rather, because of the emergence of the U.S. as the world's major economy

Economists point to several key factors that determine the use of a currency for reserves, including:



The size of the domestic economy



The importance of the economy in international trade



The size, depth, and openness of financial markets



The convertibility of the currency



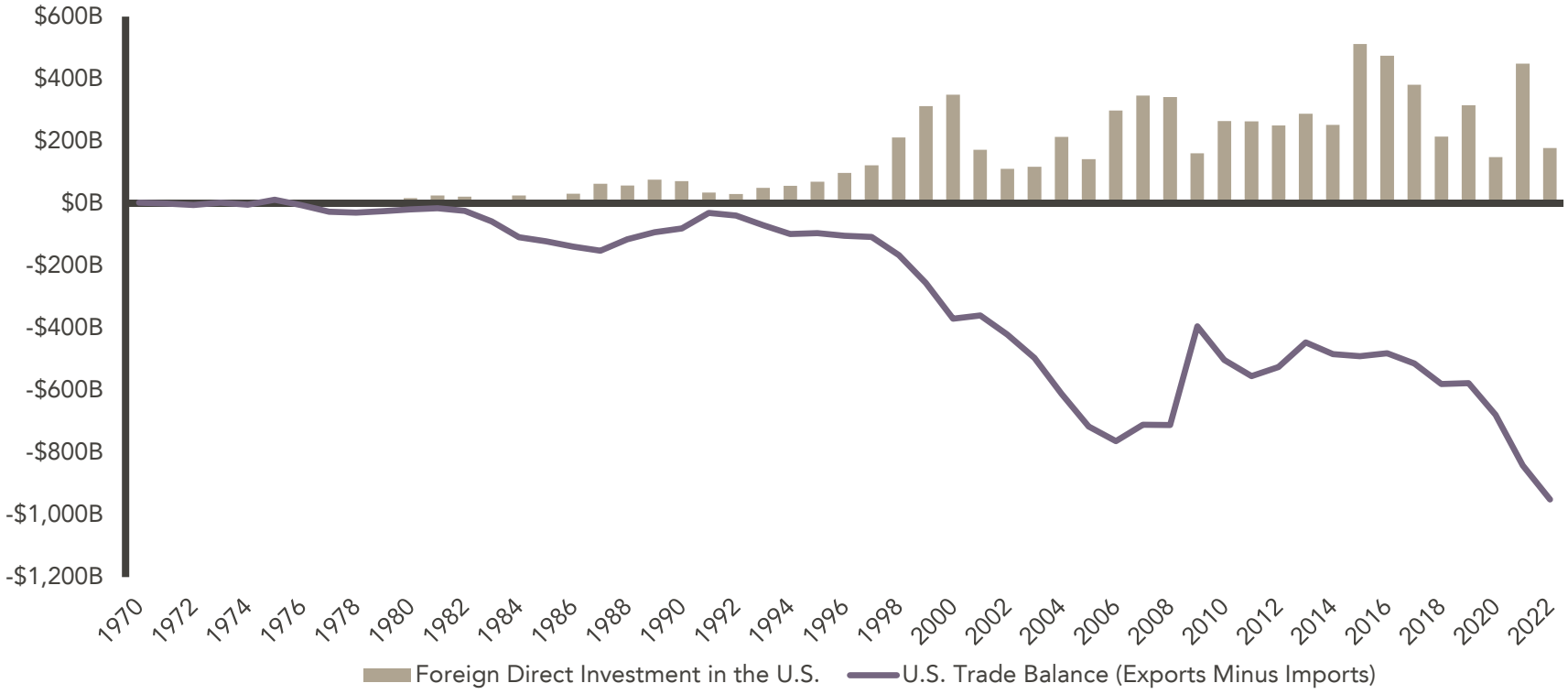
The use of the currency as a peg



Domestic macroeconomic policies

America's "exorbitant privilege"

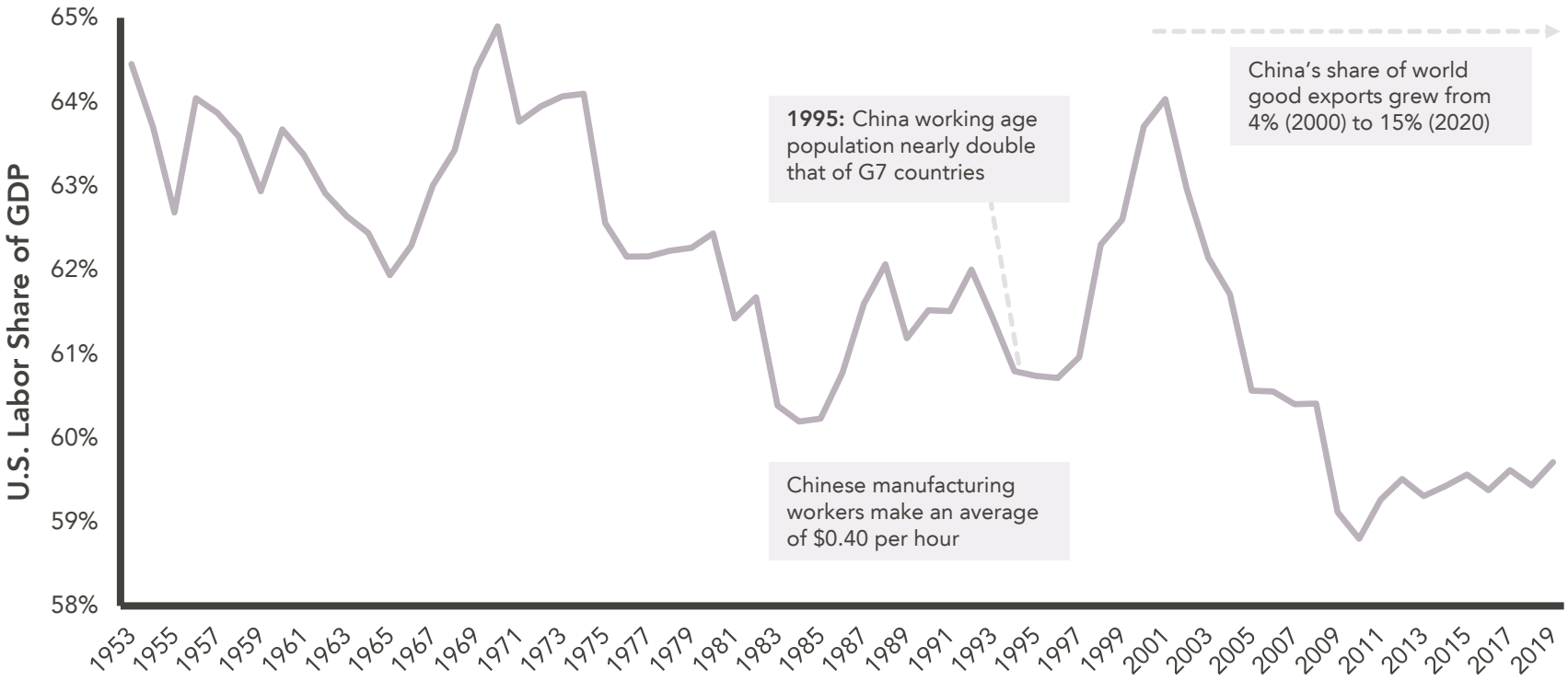
Strong demand for the dollar helps the U.S. issue debt and import goods at lower costs, as well as attract foreign investment



Source: The World Bank and the U.S. Census Bureau as of June 30, 2023

Labor costs in the U.S. have fallen

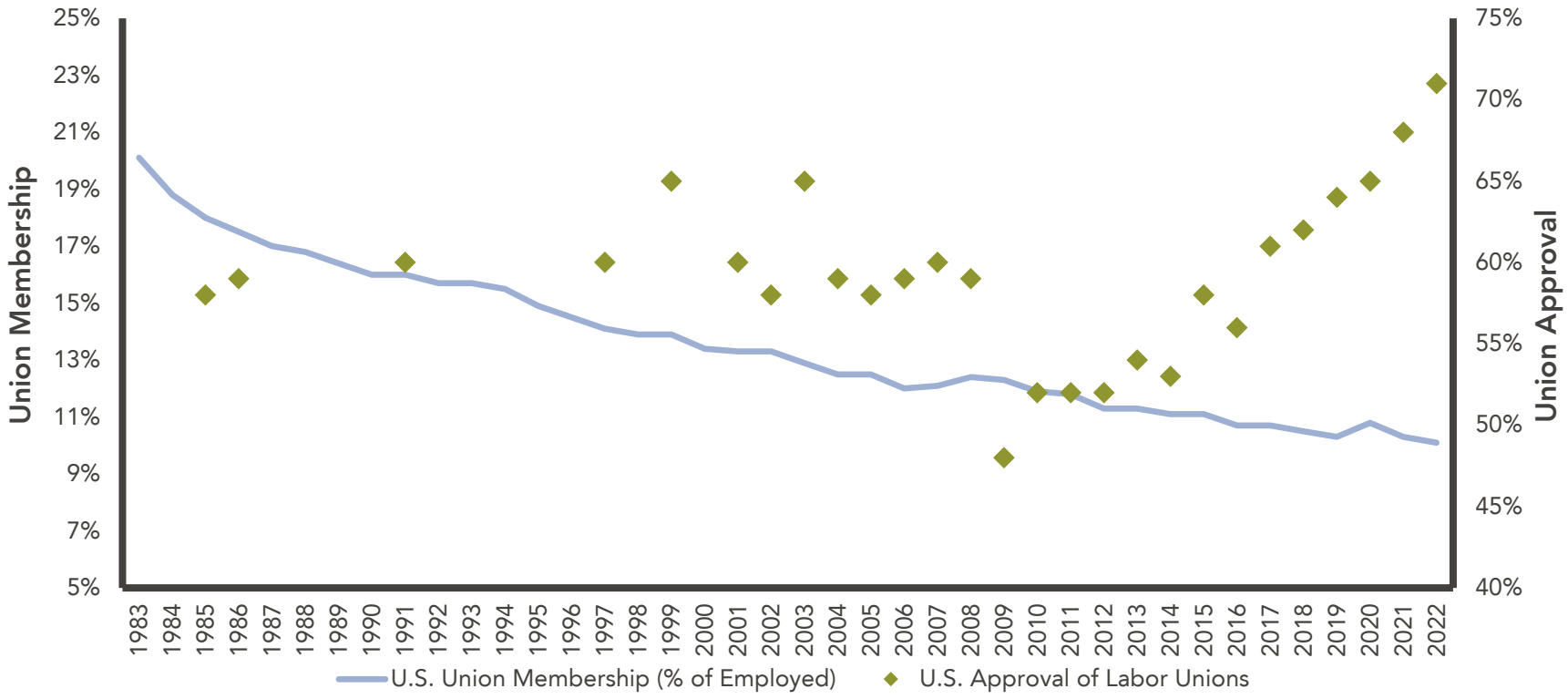
Globalization has allowed for the outsourcing of work to cheaper international markets



Source: University of Groningen Penn World Table 10.01, as of 2019

Union membership has declined

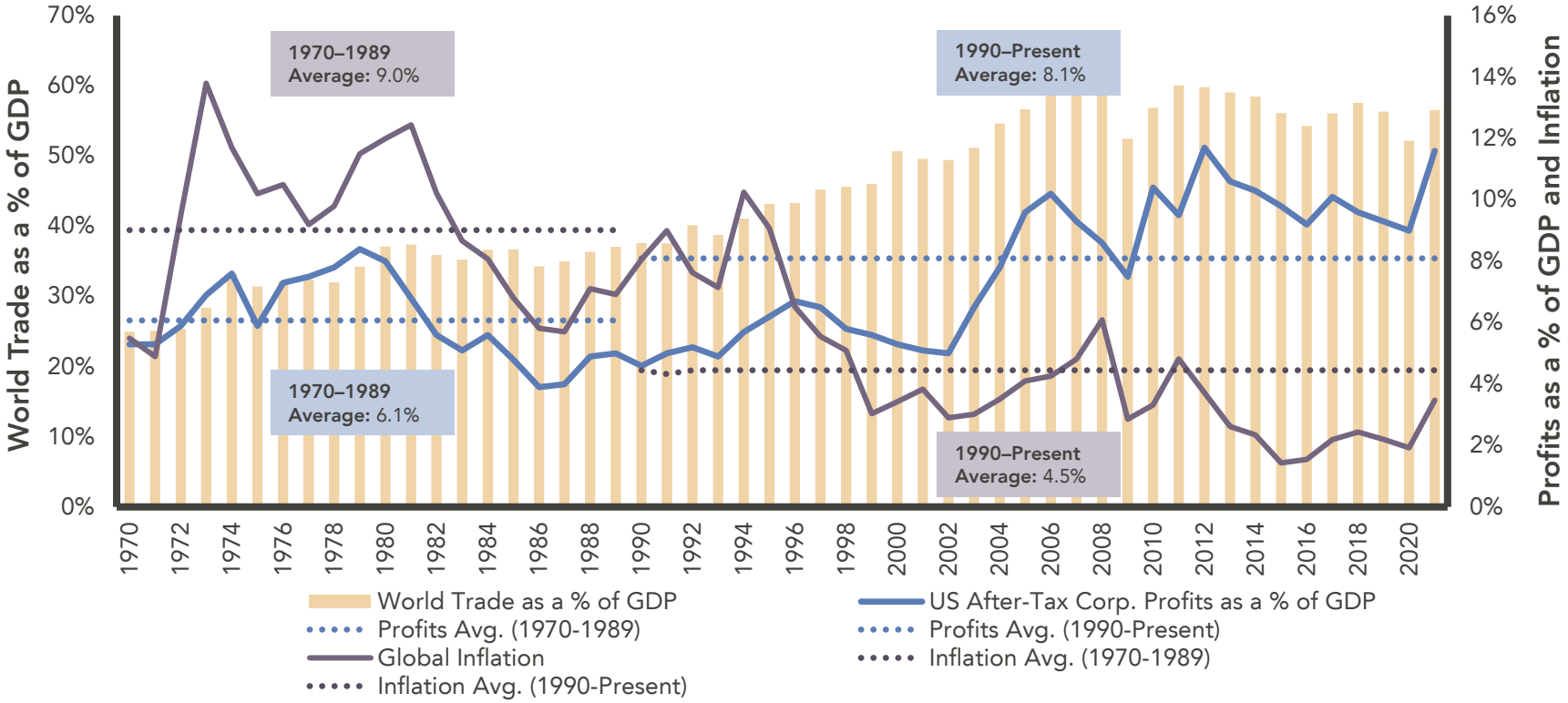
Despite this trend, polling shows that approval for unions within the U.S. has increased



Source: U.S. Bureau of Labor Statistics and Gallup

Trade has led to higher profits and lower goods inflation…

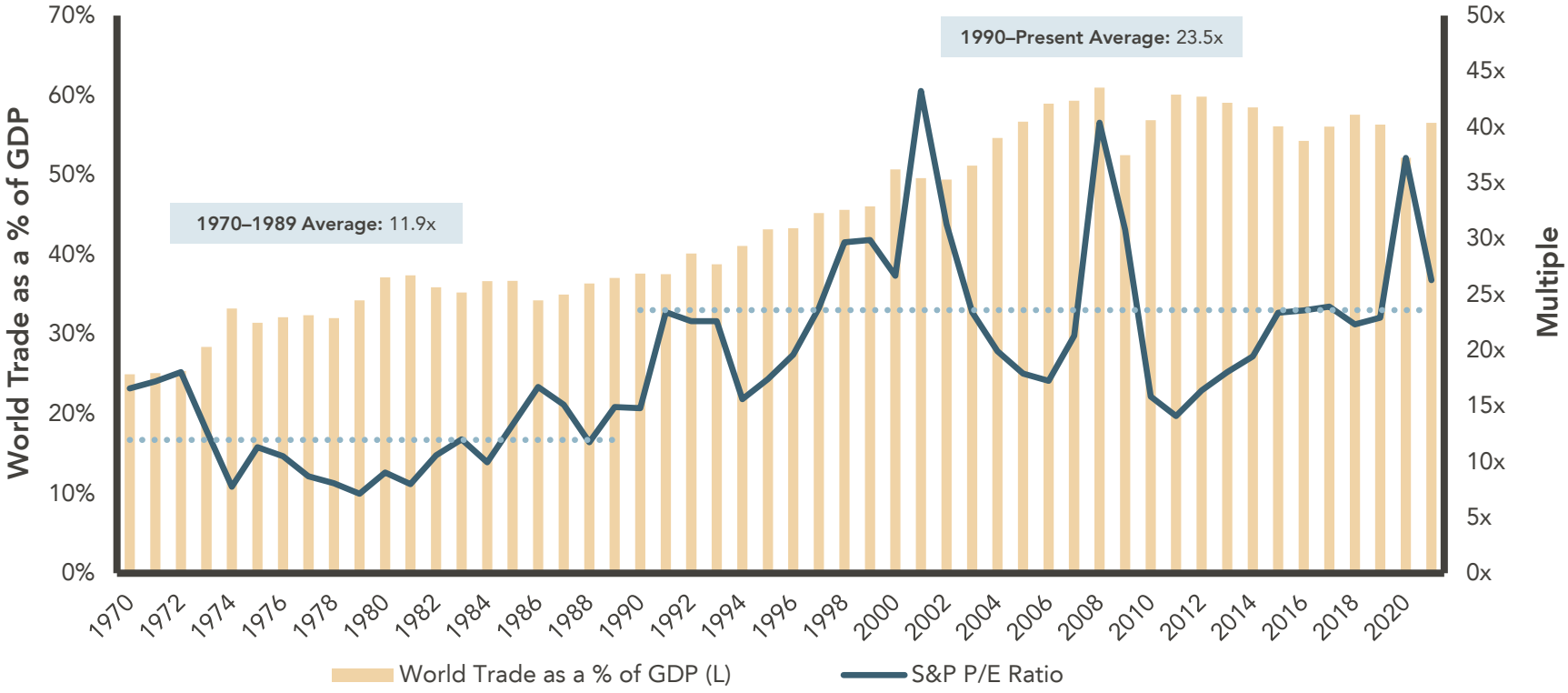
As world trade has proliferated, U.S. corporate profits have increased while inflation has remained relatively muted



Source: Bloomberg

...but higher asset price inflation (expanded multiples)

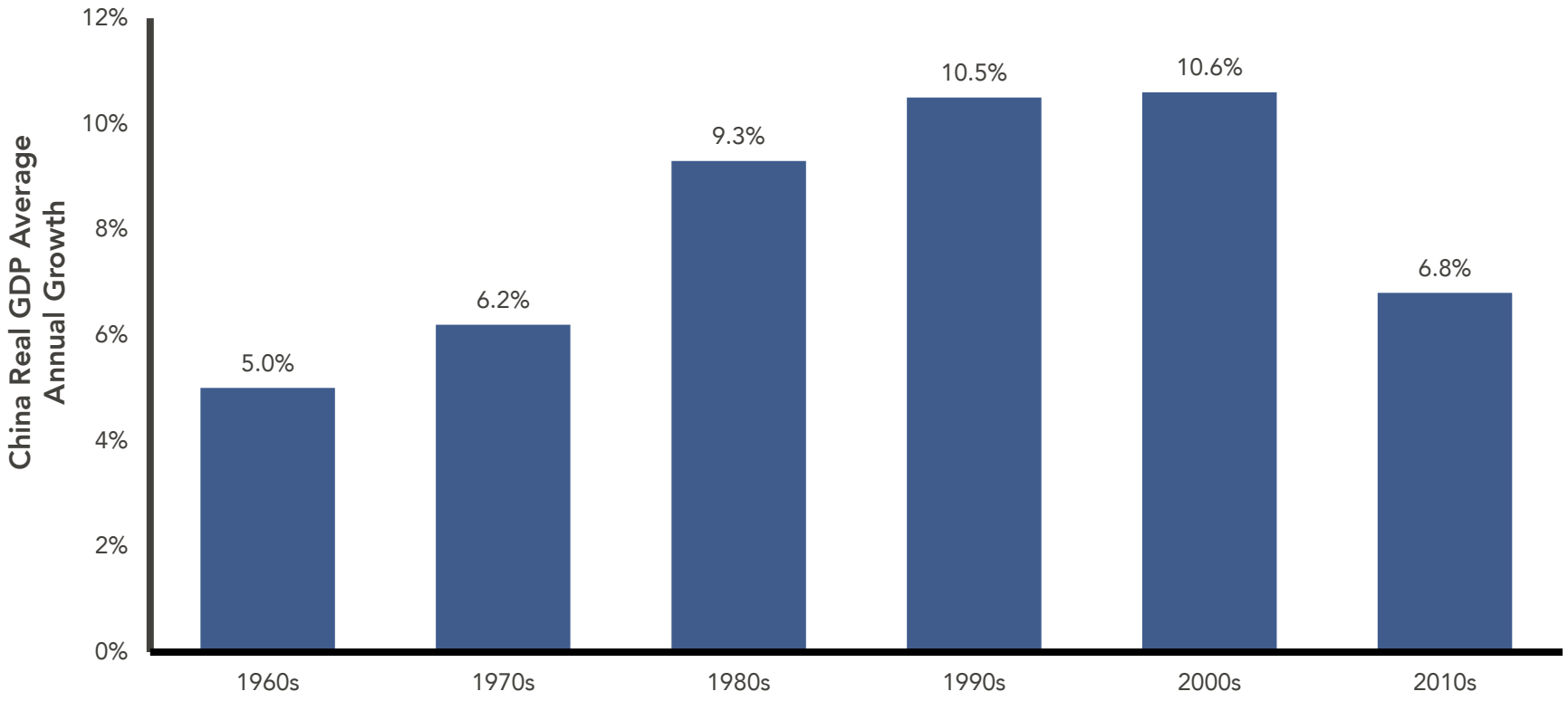
Multiples for equity benchmarks like the S&P 500 index have expanded since the early 1990s



Source: Bloomberg

China's economic growth (then)

China's economy grew by double digits in the 90s and 2000s as a result of globalization



Source: CME Group as of April 2023

Globalization has had several knock-on effects…

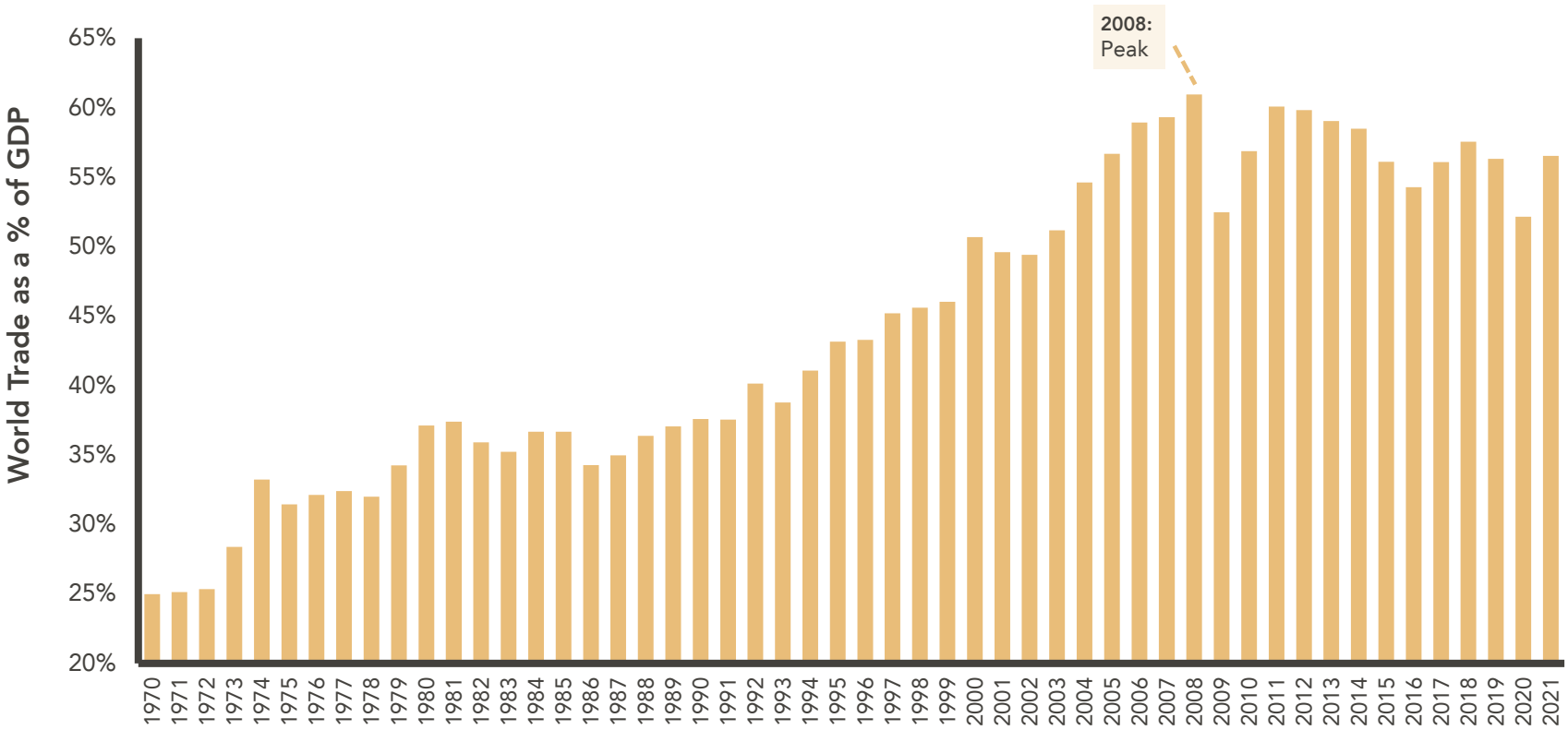
- Muted global inflation and lower interest rates
- Higher correlations across global equities
- Higher U.S. corporate profits and lower wage expenses
- China transitioned to the second largest global economy
- The dollar has gained prominence on the world's stage

...but the tide has been turning

- Protectionist policies fueled by COVID-19 (onshoring, nearshoring, etc.)
- The Russian invasion of Ukraine
- The Brexit referendum
- Intensification of economic rivalry between the United States and China
- A reduction in the world's dollar dependency

World trade as a percentage of GDP (now)

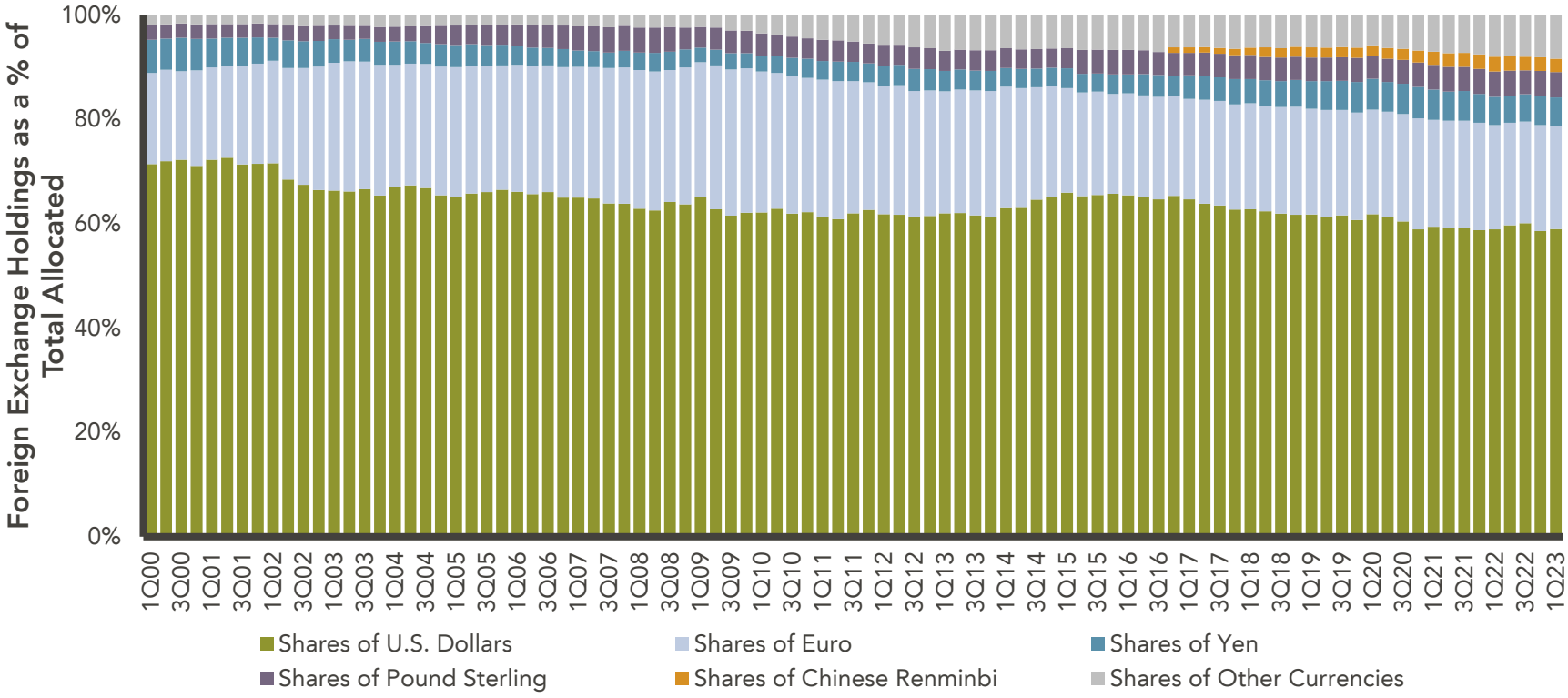
Trade peaked in 2008 at 61% of global GDP and has since fallen to roughly 56%



Source: World Bank

Usage of the dollar as a reserve currency on the decline

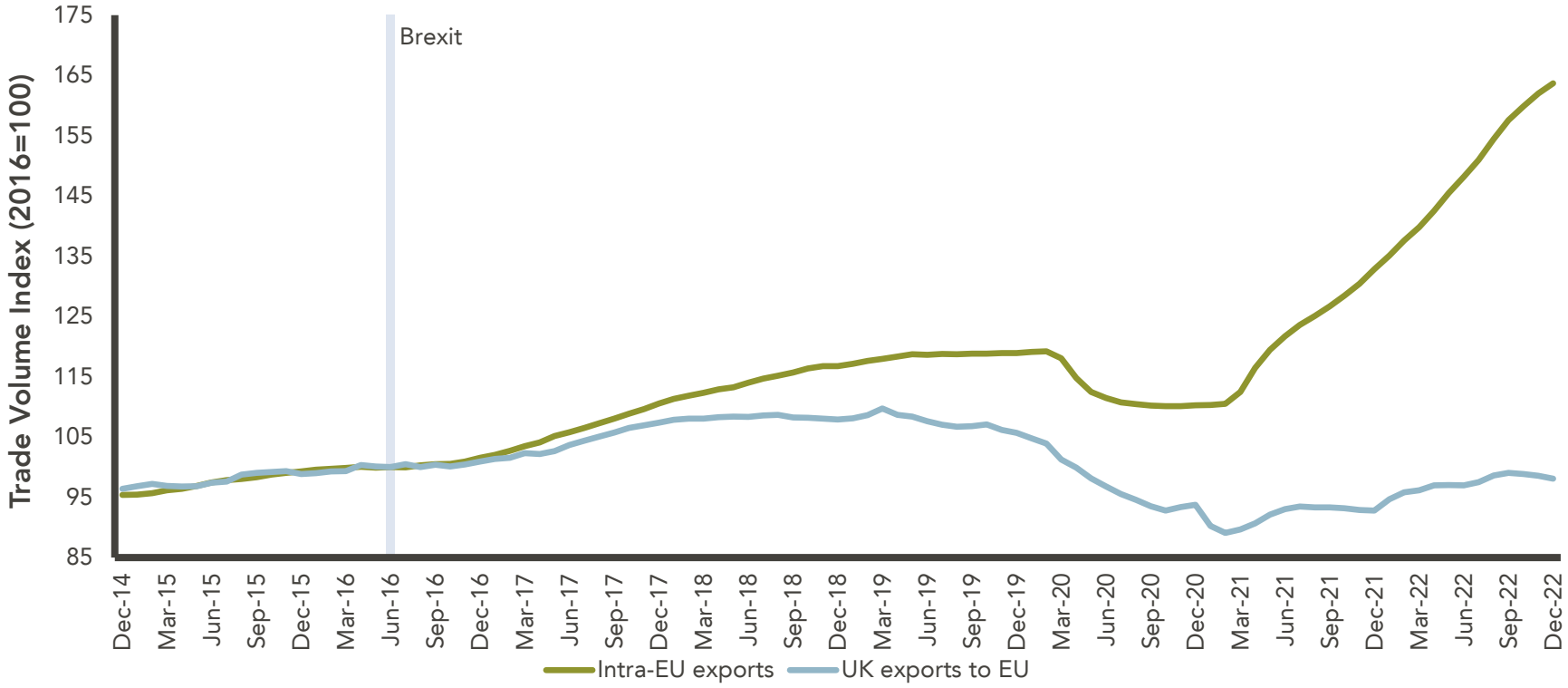
The greenback has fallen from over 70% of global currency reserves in 2000 to less than 60%



Source: IMF as of June 30, 2023

Post-Brexit trade relationship between UK and EU

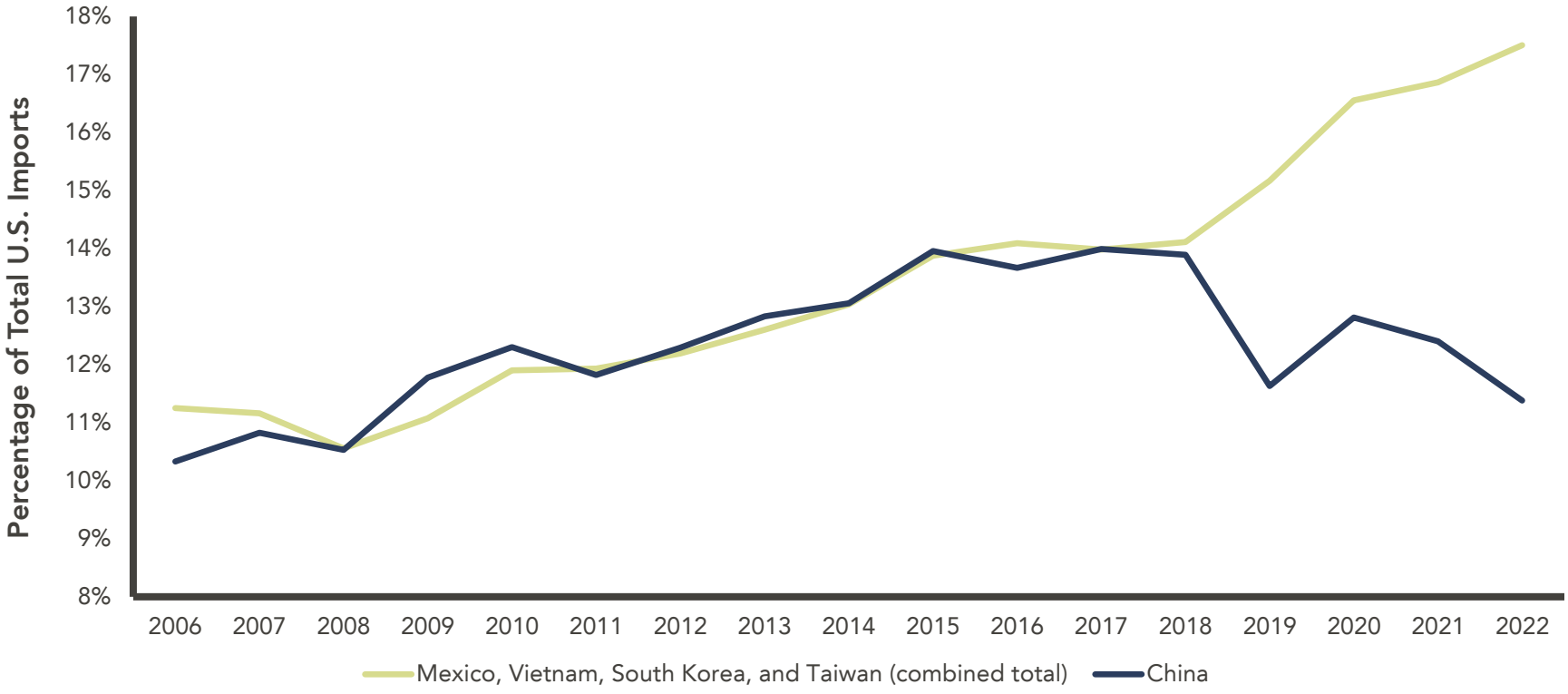
Trade volumes between the UK and eurozone have declined as EU countries are trading more with themselves



Source: Eurostat and Office of National Statistics (UK)

Chinese exports to the U.S. have been declining

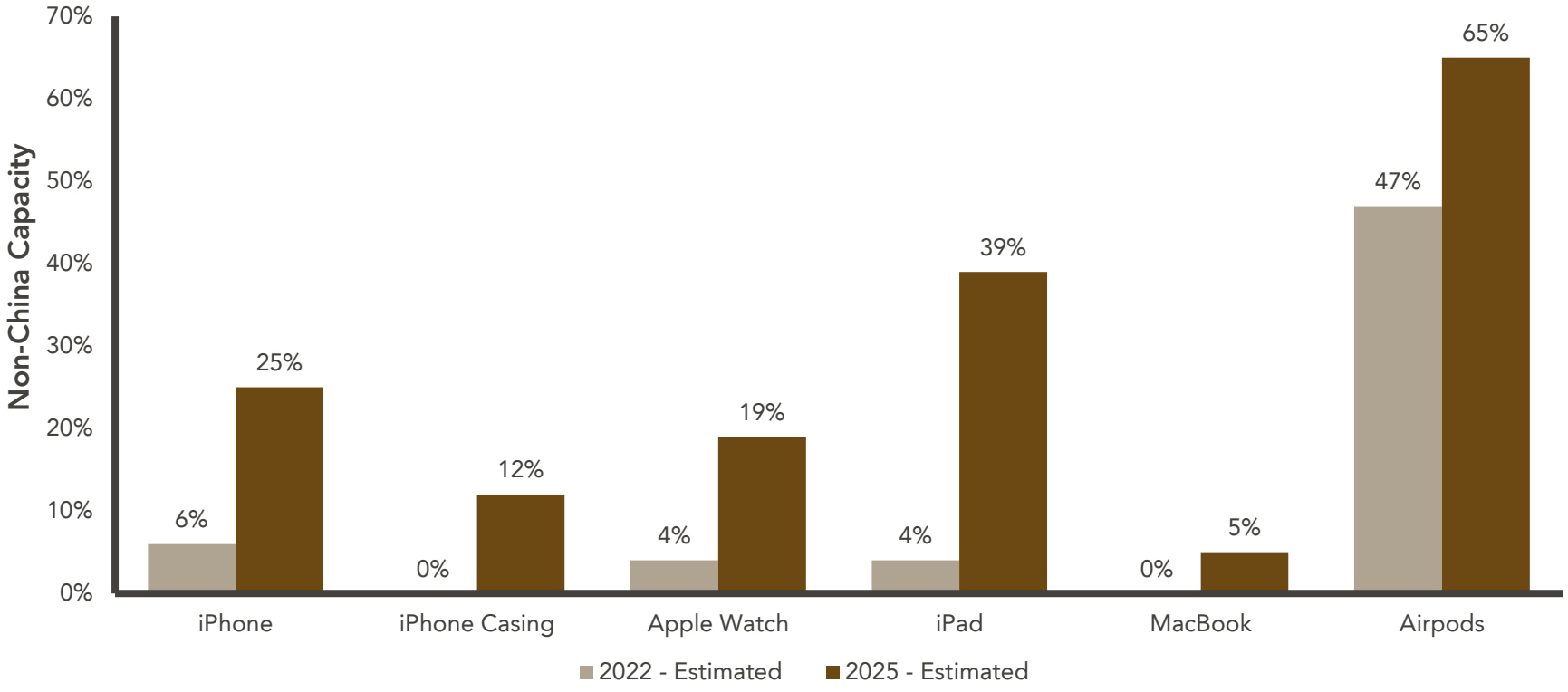
The U.S. has increased trade with other countries at the expense of China in recent years



Source: Bureau of Economic Analysis

Diversifying exposure: A case study on Apple's supply chain

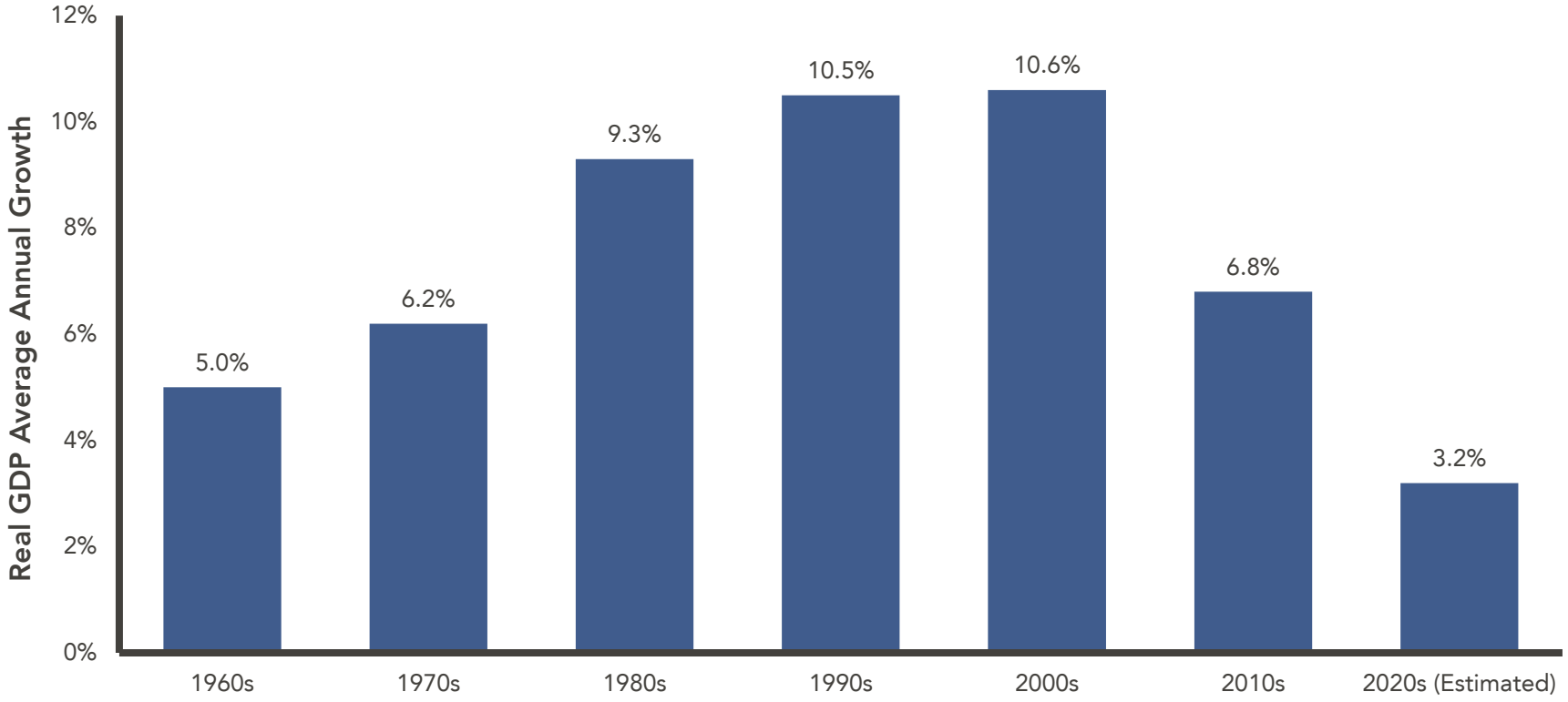
Figures show the company's increasing exposure to non-China markets



Source: JPMorgan as of April 2023

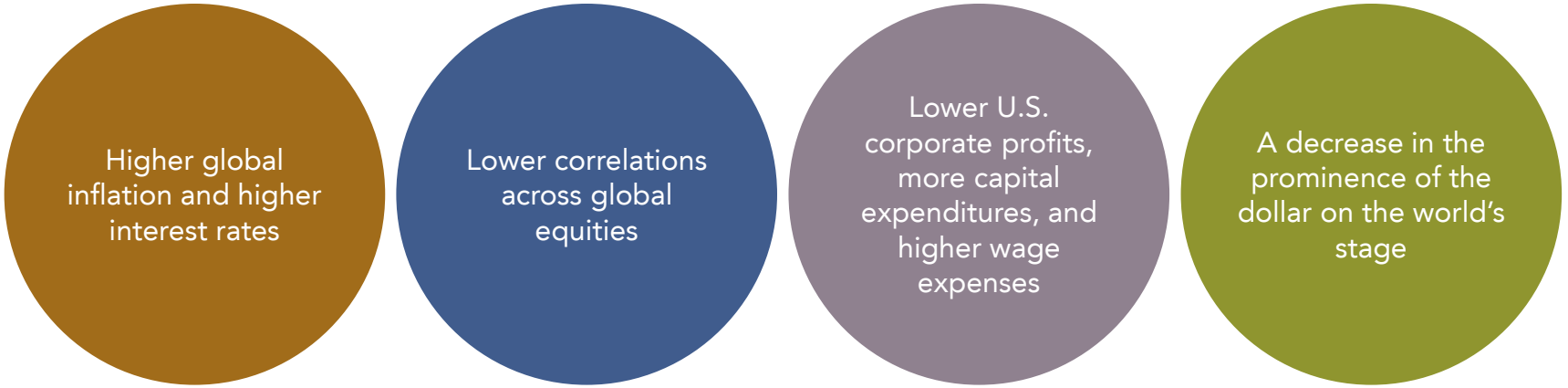
China's economic growth (now)

The Chinese economy is expected to grow by just over 3% over the coming years



Source: CME Group as of April 2023

Potential results of further deglobalization



What can be done within equity portfolios?

- Reduce material overweights to U.S. equities at the composite level
- Mitigate large skews toward mega-cap growth stocks
- Employ allocations to value-oriented equities across the size and geography spectrums
- Maintain dedicated and diversified Emerging Markets exposure
- Utilize actively-managed strategies in less efficient equity markets

Questions?

Research and education

Our research team works with our consultants to develop thoughtful and accessible materials for our clients

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The big picture

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- Educational webinars
- Trustee education at client meetings
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Market Updates

The day-to-day details

- Chart of the Week
- Monthly market environment
- Perspectives newsletters
- Quarterly market insights webinars
- Quarterly letter from the Director of Research



Purpose:

Guide institutional investment programs

Mission
Enable institutions to become more effective investment stewards

Vision
Leading investment consultant of risk-adjusted returns & client services

Principles

- ✓ Real-world pragmatism
- ✓ Independent expertise
- ✓ Focused client service
- ✓ Careful research

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It is not known whether any clients listed in this presentation approve or disapprove of Marquette's services. These clients were selected upon the basis of objective criteria, namely client classification, geography and size. Client retention rate calculated from 2009-2018. Manager meetings based on 2018 product meetings documented in Marquette's proprietary manager database. Meetings typically last 30-90 minutes and multiple products may be discussed during a meeting. Product meetings include in-person meetings, on-site visits, annual meeting attendance, and phone calls.