Investment Committee Completes Comprehensive Model Portfolio Realignments
10-28-21

It is standard practice for the Foundation's Investment Committee to routinely manage all Foundation model investment portfolios to keep them responsive to a forever changing national and international investment markets. While it is an expressed goal to keep model portfolio changes to a minimum, the prevailing and forecasted investment environment actually drives portfolio realignments.

Over the past year, the investment industry has been wrestling with how best to respond to several important national and international investment market challenges. The Committee accepted these challenges and has just recently completed its response. Given their scope and magnitude, the Committee feels it is also important for Foundation clients to understand the specific issues and what realignments have been made to the various model portfolios in an effort to capitalize on them. These realignments are expected to better position all Foundation model portfolios for continued growth.

Fixed Income Challenge
The fixed income challenge is how best to deal with the extended extraordinarily low interest rate situation that has nearly flat-lined fixed income returns. The Foundation experiences this continuing market condition principally through its largest single security investment -- bank certificates of deposits (CDs). CDs definitely have a place in short-term portfolios because they insure against loss of principal. However, historically the Foundation has also included CDs in its long-term model portfolios as well as a way to keep at least a portion of these assets in the community. But, over time, as a result of Foundation growth the amount of CDs to investment has grown from fairly nominal dollars to over $12 million and still growing. This vast amount of CDs is creating a multi-faceted dilemma for the Foundation from several perspectives: (1) searching to find enough financial institutions to place the CDs in order to keep the investments under the $250,000 insured limits for each bank, (2) for the disproportionate staff time it takes to manage them compared to mutual bond funds; and (3) most importantly, having to accept nominal annual returns regardless of CD duration. So, the current challenge is to find ways to lower the amount of CDs to invest and in the process choose alternative securities that hold greater promise of improving future overall fixed income returns.

Equity Challenges
Earlier this year there was a pronounced market shift from "growth" to "value" oriented equities. Growth equities have been favored for so long that eventually they have given value stocks a comparative valuation advantage, which drove this market shift. Then, more recently, there is a somewhat similar international market shift underway that is still in its infancy that favors "international" equities over "U.S." equities essentially for the same reason as for the shift in growth/value. U.S. equities have dominated the global equity market for the past decade. But, now as the global market continues to recover from the pandemic, investors have begun to recognize that international equities have become a comparatively more attractive investment than U.S. equities because of their depressed valuations – they simply have more room to grow in value. This is predicted to be at least a decade long market cycle. So the obvious response to this situation for astute investors is to increase international equity holdings and reduce U.S. equity holdings. But, the more challenging issue is to determine by "how much" to make such increases/decreases. While there are definite advantages to investing in international equities, there are also definite special risks associated with doing it which makes responding to this particular market shift more of a judgmental challenge.

Investment Committee's Responses
Each of the fixed income and equity challenges required separate research and analysis so facts could drive the response to the extent possible. But, as expected, there was no escaping the exercise of judgment and experience in determining each portfolio realignment decision.

The CD challenge was clearly the most difficult one because it impacted virtually all of the Foundation model portfolios. However, the Committee felt compelled to still strongly favor bank certificates of deposits for its two short-term portfolio models: Liquid and Measured-Risk because preservation of principle for these assets is of paramount importance whereas investment return is a secondary consideration.

The two-equity market shifts while similar in nature required quite difference research and analysis. The market shift from growth to value was comparatively easy to respond to and was done immediately earlier this year by reducing portfolio allocations to select growth/blend equity funds and adding sister value funds and this change has already proven to be a wise and prudent realignment. The U.S equity/international issue however required a more in-depth analytical approach and a higher degree of judgment.

What follows is a brief explanation of how each Foundation model portfolio has been realigned over the course of this year. Some implementation actions have already been taken while some will require more time and will be implemented gradually over the course of the coming months.

Short-Term Liquid Model Portfolio
Earlier this year, the Committee chose to reduce its 95% investment allocation to CDs to 80% and shift this 15% allocation reduction to the conservative Vanguard Short-Term Inflation-Protected Securities Index fund for two reasons: (1) to help reduce the sheer amount of CDs that had to be purchased; and (2) to help give a modest financial return boost to the portfolio while still maintaining the very conservative posture of the portfolio. Both of these reasons are being achieved.

Short-Term Measured-Risk Model Portfolio
This short-term conservative model was just introduced on January 1, 2021, but because of market conditions so far this year it has yielded disappointing results. This portfolio was developed to offer another option for investing short-term assets that could possibly risk a possible and likely temporary loss of principal with the reward being a doubling of the Liquid Model Portfolio performance. The financial objective of this fund was to exceed the prevailing interest rate of certificates of deposit by 2-3% prior to applying the Foundation's applicable annual service fee. On a look-back historical basis the January 1 portfolio achieved its financial objective, but during 2021 thus far its financial results have been disappointing. There are currently no investors in this model portfolio. So the Committee chose to go back to the drawing board and reconfigured this portfolio. Bank CDs still represent 30% of the portfolio and is its largest security holding, cash represents 5%, the rest of the portfolio is a combination of a mix of quality Vanguard short-term bond funds that represents 40% of the portfolio and two of Vanguard's oldest and most trusted conservative balanced equity funds represent 25% of portfolio holdings. The term "balanced" means the funds hold both bonds and stocks. This realigned portfolio not only out-performs the initial portfolio on an historical look-back basis, but also produces a 2.53% year-to-date return as of September 30, 2021.

Long-Term Model Portfolios

The Foundation's three longer-term model portfolios (Conservative Growth, Active Growth, and Dynamic Growth) presented a more complicated challenge so their realignments are even more profound than for the short-term model portfolios. This has been a three-month project involving extensive research, risk and performance analysis. All of the proposed portfolio realignments continue to rely on quality Vanguard bond and equity mutual funds.

First, the Committee chose to replace CDs entirely in the fixed income portion of all three long-term model portfolios with a broad mix of varying duration Vanguard bond mutual funds with differing allocation mixes. The Committee believes these security selection changes will better reposition these portfolios longer-term and is more consistent with the long-term character of these portfolios. This realignment was just approved so its transition will be gradual as CDs expire and new money is invested.

The Committee also chose to increase the international equity exposure of all three long-term model portfolios. This change involved adjusting certain equity fund allocation mixes and replacing a global equity fund with two Vanguard international equity funds. Each long-term model portfolio has a different total international allocation target that also encompasses a determination of how much of the target is specific to China. The Committee intentionally chose a conservative approach in setting the initial international allocation targets. This conservatism was also applied to managing portfolio exposure to China specifically given its many political, social, regulatory and economic issues.

Long-Term Conservative Growth Model Portfolio
This 60% Fixed Income/40% Equity portfolio now consists of 5% cash, 55% Vanguard bond mutual funds (6 funds) and a 40% mix of Vanguard indexed, managed, blended, growth, value and international equity mutual funds (12 funds). Had all of the realignments been made on January 1, 2021, they would have yielded a modestly higher year-to-date total portfolio return than the present model portfolio as of September 30. The international allocation target for this portfolio is 5.0% and China currently represents 0.25% of this target.

Long-Term Active Growth Model Portfolio
This 40% Fixed Income/60% Equity portfolio now consists of 5% cash, 35% Vanguard bond mutual funds (6 funds), and a 60% mix of Vanguard indexed, managed, blended, growth, value and international equity mutual funds (13 funds). Again, had all of these realignments been made on January 1, 2021, they would have yielded a modestly higher year-to-date total portfolio return than the present model portfolio as of September 30. The international allocation target for this portfolio is 10.0% and China currently represents 0.91% of this target.

Long-Term Dynamic Growth Model Portfolio
This 25% Fixed Income/75% Equity portfolio now consists of 2% cash, 23% Vanguard bond mutual funds (5 funds), and a 75% mix of Vanguard indexed, managed, blended, growth, value international and emerging markets equity mutual funds (11 funds). Once again, had all these realignments been made on January 1, 2021, they would have yielded a modestly higher total portfolio return than the present model portfolio as of September 30. The international allocation target for this portfolio is 18.0% and China currently represents 2.7% of this target.

The realigned fund composition for each Foundation short- and long-term model portfolio follows.

SHORT-TERM LIQUID MODEL PORTFOLIO

10-28-21

Fixed Income:		% Total Portfolio
Cash/Vanguard Federal Money Market Fund (VMFXX)	5.00%	
Certificates of Deposit (CDs)	80.00%	
Vanguard Short-Term Inflation-Protected Securities Index Fund (VTAPX)	15.00%	
Total Fixed Income		100.00%

SHORT-TERM MEASURED-RISK MODEL PORTFOLIO

10-28-21

Fixed Income:		% Total Portfolio
Cash/Vanguard Federal Money Market Fund (VMFXX)	5.00%	
Certificates of Deposit (CDs)	30.00%	
Vanguard Ultra-Short-Term Bond Fund (VUSFX)	10.00%	
Vanguard Short-Term Inflation-Protected Securities Index Fund (VTAPX)	10.00%	
Vanguard Short-Term Federal Fund (VSGDX)	10.00%	
Vanguard Short-Term Investment Grade Fund (VFSUX)	10.00%	
Vanguard Short-Term Treasury Index Fund (VSBSX)	0.00%	
Vanguard Short-Term Bond Index Fund (VBIRX)	0.00%	
Total Fixed Income		75.00%
Equities:		
Vanguard Wellesley Income Fund (VWIAX)	15.00%	
Vanguard Wellington Fund (VWENX)	10.00%	
Total Equities		25.00%
TOTAL PORTFOLIO		100.00%

LONG-TERM CONSERVATIVE GROWTH MODEL PORTFOLIO
10-28-21

Fixed Income:		% Total Portfolio
Cash/Vanguard Federal Money Market Fund (VMFXX)	5.00%	
Vanguard Short-Term Inflation-Protected Securities Index Fund (VTAPX)	10.00%	
Vanguard Short-Term Investment Grade Fund (VFSUX)	9.60%	
Vanguard Inflation-Protected Securities Fund (VAIPX)	16.80%	
Vanguard Total Bond Market Index Fund (VBTLX)	6.00%	
Vanguard Intermediate-Term Bond Index Fund (VBILX)	6.00%	
Vanguard Core Bond Fund (VCOBX)	6.60%	
Total Fixed Income		60.00%
Equities:		
Vanguard 500 Index Fund (VFIAX)	14.00%	
Vanguard Mid-Cap Index Fund (VIMAX)	3.00%	
Vanguard Mid-Cap Value Index Fund (VMVAX)	3.00%	
Vanguard Small-Cap Index Fund (VSMAX)	3.00%	
Vanguard Small Cap Value Index Fund (VSIAX)	3.00%	
Vanguard Total International Stock Index Fund (VTIAX)	2.00%	
Vanguard International Value Fund (VTRIX)	2.00%	
Vanguard Wellington Fund (VWENX)	4.00%	
Vanguard Windsor II Fund (VWNAX)	1.00%	
Vanguard Dividend Appreciation Index Fund (VDADX)	2.00%	
Vanguard High Dividend Yield Index Fund (VHYAX)	2.00%	
Vanguard Growth Index Fund (VIGAX)	1.00%	
Total Equities		40.00%
TOTAL PORTFOLIO		100.00%

LONG-TERM ACTIVE GROWTH MODEL PORTFOLIO
10-28-21

Fixed Income:	% Total Portfolio	
Cash/Vanguard Federal Money Market Fund (VMFXX)	5.00%	
Vanguard Short-Term Inflation-Protected Securities Index Fund (VTAPX)	4.00%	
Vanguard Short-Term Investment Grade Fund (VFSUX)	4.80%	
Vanguard Inflation-Protected Securities Fund (VAIPX)	9.00%	
Vanguard Intermediate-Term Bond Index Fund (VBILX)	6.80%	
Vanguard Core Bond Fund (VCOBX)	6.80%	
Vanguard Long-Term Bond Index Fund (VBLAX)	3.60%	
Total Fixed Income		40.00%

Equities:		
Vanguard 500 Index Fund (VFIAX)	18.00%	
Vanguard Mid-Cap Index Fund (VIMAX)	4.50%	
Vanguard Mid-Cap Value Index Fund (VMVAX)	4.50%	
Vanguard Small-Cap Index Fund (VSMAX)	4.50%	
Vanguard Small Cap Value Index Fund (VSIAX)	4.50%	
Vanguard Total International Stock Index Fund (VTIAX)	5.55%	
Vanguard International Value Fund (VTRIX)	3.50%	
Vanguard Wellington Fund (VWENX)	1.25%	
Vanguard Windsor II Fund (VWNAX)	3.00%	
Vanguard Dividend Growth Fund (VDIGX)	2.85%	
Vanguard High Dividend Yield Index Fund (VHYAX)	2.85%	
Vanguard Real Estate Index Fund (VGSLX)	3.00%	
Vanguard Growth Index Fund (VIGAX)	2.00%	
Total Equities		60.00%

TOTAL PORTFOLIO 100.00%

LONG-TERM DYNAMIC GROWTH MODEL PORTFOLIO

10-28-21

Fixed Income:	% Total Portfolio
Cash/Vanguard Federal Money Market Fund (VMFXX)	2.00%
Vanguard Inflation-Protected Securities Index Fund (VAIPX)	3.50%
Vanguard Total Bond Market Index Fund (VBTLX)	3.00%
Vanguard High-Yield Corporate Fund (VWEAX)	6.00%
Vanguard Core Bond Fund (VCOBX)	6.00%
Vanguard Long-Term Bond Index Fund (VBLAX)	4.50%
Total Fixed Income	25.00%

Equities:	
Vanguard 500 Index Fund (VFIAX)	15.00%
Vanguard Mid-Cap Index Fund (VIMAX)	6.00%
Vanguard Mid-Cap Value Index Fund (VMVAX)	6.00%
Vanguard Small-Cap Index Fund (VSMAX)	6.00%
Vanguard Small Cap Value Index Fund (VSIAX)	6.00%
Vanguard Total International Stock Index Fund (VTIAX)	7.50%
Vanguard International Value Fund (VTRIX)	5.50%
Vanguard Windsor II Fund (VWNAX)	6.00%
Vanguard Real Estate Index Fund (VGSLX)	6.00%
Vanguard U.S Growth Fund (VWUAX)	6.00%
Vanguard Emerging Markets Stock Index Fund (VEMAX)	5.00%
Total Equities	75.00%
TOTAL PORTFOLIO	100.00%