



PMA[™]
ASSET MANAGEMENT

Illinois Community College CFOs Investing for Foundations

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Speakers



Brian Hextell, SVP, Institutional Portfolio Manager

Brian joined PMA Asset Management in 1999 and has senior portfolio management accountabilities for assigned public entity clients. Brian also leads PMA's institutional portfolio management team, guiding the firm's client service efforts and delivering successful outcomes for the firm's client's base. Prior to Brian's leadership and portfolio management roles, he led PMA Financial Network's credit risk management department supporting the overall firm's financial institution research effort. Brian earned his BS in Finance from Northern Illinois University and an MBA from DePaul University.



Courtney Clarke, VP, Institutional Portfolio Manager

Courtney Clarke joined PMA Asset Management in 2003 and has portfolio management accountabilities for assigned nonprofit and other institutional clients. Courtney also helps lead PMA's nonprofit and insurance advisory practices, guiding the firm's servicing efforts and delivering successful outcomes for our clients. Courtney previously served as portfolio manager for Miles Capital and started her career at Cargill Financial Markets, UK. Courtney earned her Bachelor of Arts from Iowa State University. Courtney currently serves as the Mayor of Waukee, Iowa.



Summary & Contents

Approaches to investing College Foundation or Endowment Funds vary by state, size and type of organization, liquidity and granting needs, and board risk appetite. This presentation will provide an overview of national college foundation and endowment asset allocations and trends. We will then provide information on how various asset classes may benefit your college's portfolio while also summarizing investment risks and other considerations.

- ▶ Peer Allocations: NACUBO Structures and Performance
- ▶ Asset Classes: Characteristics
- ▶ Considerations for Investing
- ▶ Industry Services



Peer Allocations

NACUBO Structure, Performance

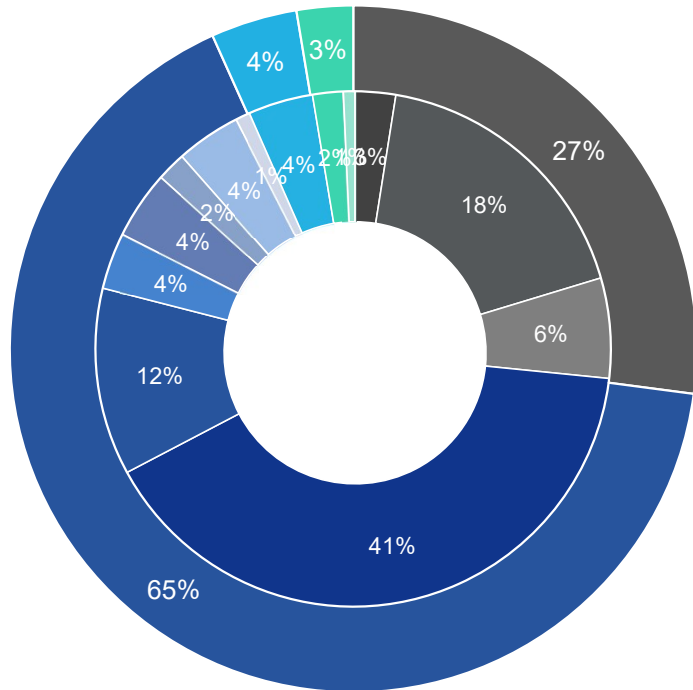


Sample Peer Asset Allocations June 30, 2023

NACUBO Industry Data for College Foundations & Endowments

Under \$50 million

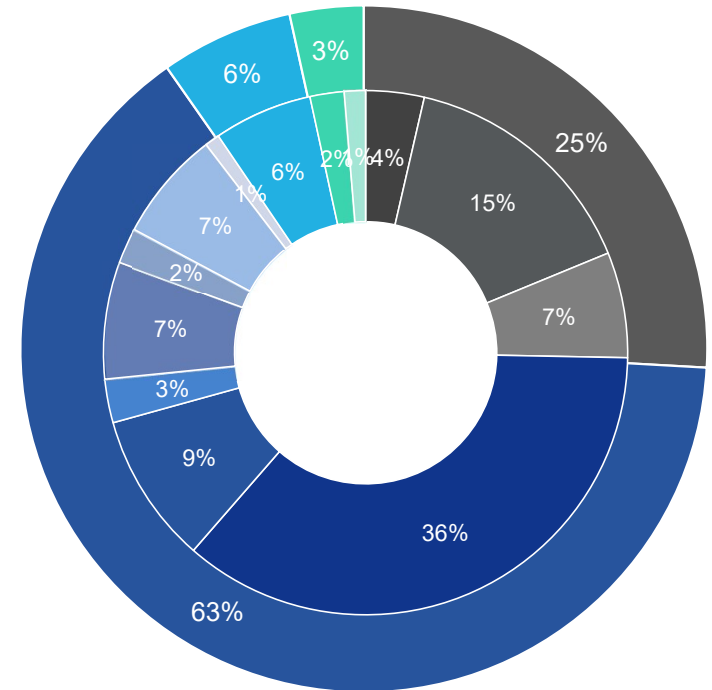
■ Yield ■ Growth ■ Risk Mitigation ■ Inflation



- Cash & Short Term
- US Equities
- Global
- Private Debt
- Commodities & Other
- Inv Grade Bond
- Devel Int'l
- REIT
- Hedge Mutual Fds
- High Yield
- Emerging
- PE & Sustainable
- Private R.E.

\$50 – 100 million

■ Yield ■ Growth ■ Risk Mitigation ■ Inflation



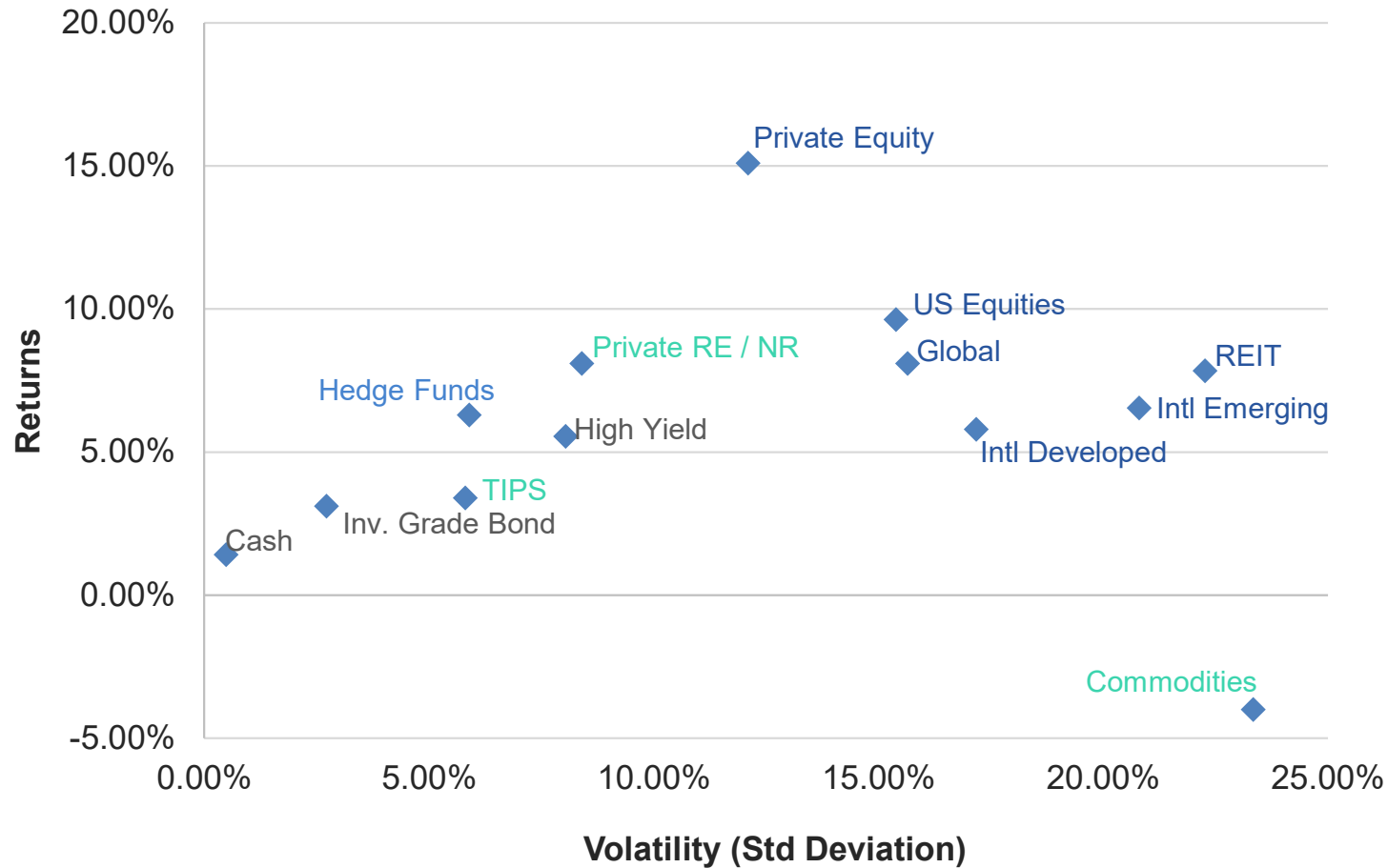
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Source: 2023 NACUBO-CommonFund Study of Endowments (NCSE)

For illustrative purposes only. The data contained herein is not a recommendation and should not be relied upon with regard to specific asset management strategies.



Risk and Return, 20 Years Ending December 31, 2023



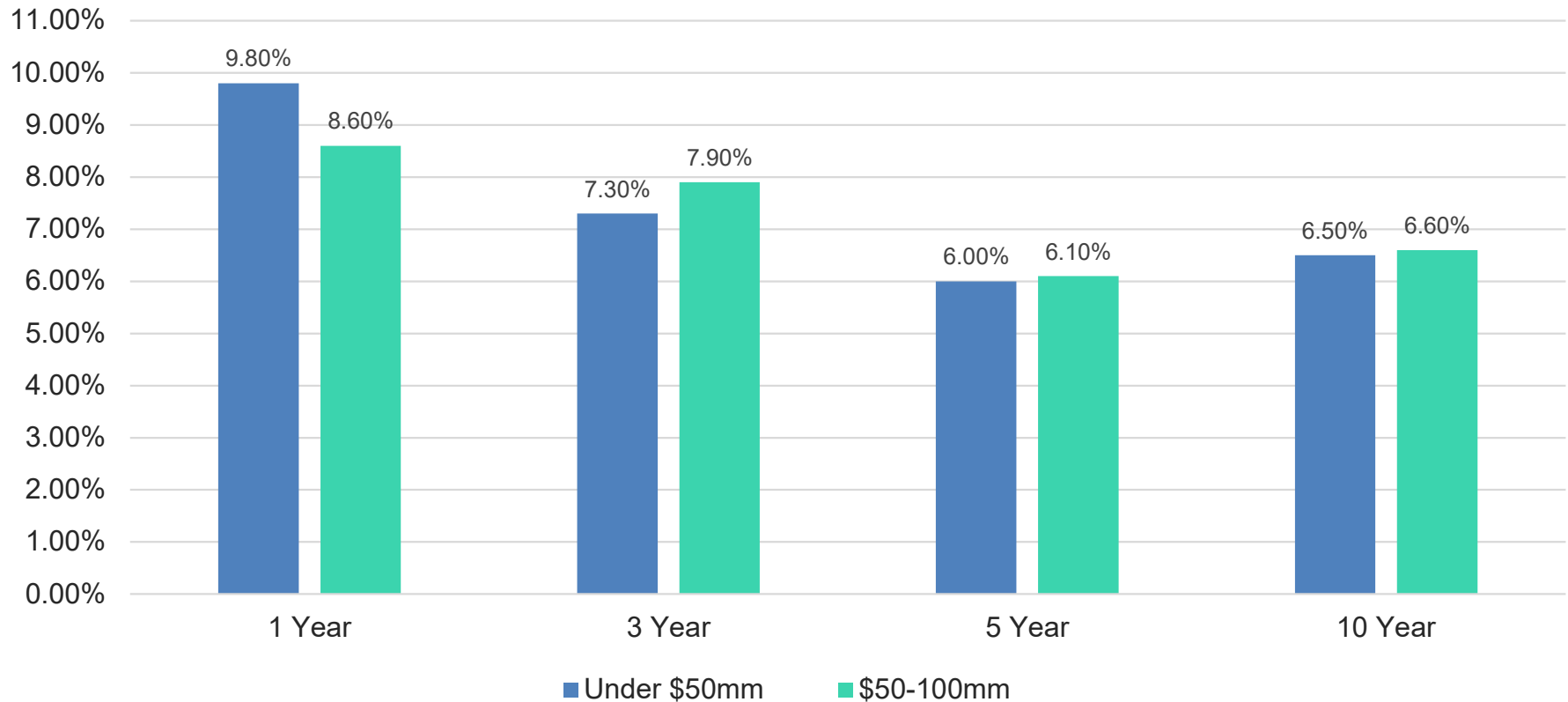
Sources: PMA Asset Management, Portfolio Visualizer

For illustrative purposes only. The data contained herein is not a recommendation and should not be relied upon with regard to specific asset management strategies. Assumptions based on historical return data for the applicable asset class indices from 2008-2023. Index returns are provided to represent the investment environment during the period shown and is used as a performance benchmark only as PMA does not attempt to replicate an index. For comparison purposes, an index is unmanaged and is fully invested which includes the reinvestment of dividends and capital gains but does not include management fees, trading costs or other costs that would reduce returns. An investor may not invest directly in an index.



Average Net Returns for Study Participants June 30, 2023

HISTORICAL PERFORMANCE



Source: 2023 NACUBO-Commonfund Study of Endowments. Table prepared in February 2024.

Note: The data in this table are based on the U.S.-based institutions that volunteered to participate in the 2023 NACUBO-Commonfund Study of Endowments (NCSE).



Asset Classes

Characteristics



Purpose of Asset Classes for Consideration (Sample)

Appropriate assets for investment are determined through evaluation of your characteristics, IPS or other constraints, liquidity needs and spending policy, and board/ management direction.

PURPOSE/NEED	BROAD ASSET CLASS	ALLOWABLE?	NOTES
Yield & Preservation	Investment Grade-Public	✓	
	Municipal	✓	
	RMBS (Agency)	✓	
	RMBS (Private)		Inappropriate given AUM and Regulation
	ABS Other structured	✓	
	US Governments	✓	
	CMBS (Agency)	✓	
	CMBS (Private)		Inappropriate given AUM and Regulation
	Foreign Governments		May be inappropriate given Regulation
	Preferred	✓	
	Hybrid Securities		Inappropriate given AUM
	High Yield	✓	Fund vehicle options available for AUM size
	Investment Grade Private Debt		Inappropriate given AUM
	Emerging Mkt Debt	✓	Fund vehicle options available for AUM size
	Bank Loans		Inappropriate given AUM
CBO's/CLO's		Inappropriate given AUM	
Direct Mortgages, Loans		Inappropriate given AUM	
Growth	Large Cap Core & Growth	✓	
	Large Cap Value & Dividend	✓	
	Mid Cap & Small Cap	✓	
	REIT	✓	
	International (Developed)	✓	
	Emerging Market Equity	✓	
	Buy out Private Equity		Inappropriate given liquidity needs and AUM
	Venture Private Equity		Inappropriate given liquidity needs and AUM
	Convertibles	✓	
	Private Debt		Inappropriate given liquidity needs and AUM
Risk Mitigation	Hedge Funds	✓	Fund vehicle options available for AUM size
	Derivatives		Inappropriate given client risk profile
	Currencies		Inappropriate given client risk profile
Inflation Protection	Real estate (private)		Client sensitivity and AUM, Liquidity
	Commodities	✓	
	TIPS	✓	



Yield Generation Overview (Typically Fixed Income)

Common Yield-Generating Assets

- Cash & Equivalents
- Governments and Agencies
- Investment Grade Corporates
- Municipals (Taxable & Tax-Exempt)
- MBS / CMBS / RMBS
- Commercial Mortgage Loans**
- High Yield (non-Investment Grade Bonds)

	Cash	Inv. Grade Bonds	High Yield
Form	<ul style="list-style-type: none"> ✓ Cash, Money Markets, Investment Trusts, Savings ✓ Daily Liquidity ✓ May include short term CDs, which are not liquid 	<ul style="list-style-type: none"> ✓ Direct bonds: Governments & Agencies, Corporates, Municipals, MBS, CMBS, etc. ✓ Exchange Traded or Mutual Fund options ✓ T+1 Liquidity 	<ul style="list-style-type: none"> ✓ Exchange Traded and Mutual Fund options ✓ T+2 Liquidity
Benefits	<ul style="list-style-type: none"> ✓ Preservation of capital ✓ Liquidity ✓ Low volatility and correlations with other assets 	<ul style="list-style-type: none"> ✓ Preservation of capital ✓ Liquidity ✓ Moderate correlations ✓ Diversification of risk and return ✓ Cash Flows 	<ul style="list-style-type: none"> ✓ Higher long-term returns than core fixed income ✓ Historically provides higher yield than most assets, currently over 7%
Risks	<ul style="list-style-type: none"> ✓ Lower yield, rate environment dependent ✓ Opportunity cost for other investments ✓ Worst Year: 0.03%* 	<ul style="list-style-type: none"> ✓ Duration Risk ✓ Interest Rate Risk ✓ Reinvestment Risk ✓ Credit Risk ✓ Worst Year: -6.3%* 	<ul style="list-style-type: none"> ✓ Duration Risk ✓ Interest Rate Risk ✓ Credit Risk ✓ Higher volatility ✓ Worst Year: -21.3%*
Allowable?	✓ Yes	✓ Yes	✓ Yes

* Representative index returns.

** Commercial Mortgage Loans often require minimum allocation sizes of \$10-50mm.

Source: PMA Asset Management



Growth Overview (Typically Equities)

Common Growth Assets

- US Equities
 - Large Cap (Growth, Value, Core)
 - Mid Cap
 - Small Cap
- International
 - Developed
 - Emerging
- Global
- REIT
- Private Equity
- Convertibles
- Private Debt

	US Equities	International	REIT	Private Equity
Form	<ul style="list-style-type: none"> ✓ Direct Stocks ✓ Exchange Traded or Mutual Funds ✓ T+1 or 2 Liquidity 	<ul style="list-style-type: none"> ✓ Direct ADRs ✓ Exchange Traded or Mutual Funds ✓ T+1 or 2 Liquidity 	<ul style="list-style-type: none"> ✓ Direct Stocks ✓ Exchange Traded or Mutual Funds ✓ T+1 or 2 Liquidity 	<ul style="list-style-type: none"> ✓ Limited Partnerships ✓ Private Subscription ✓ 5-12 Year Liquidity
Benefits	<ul style="list-style-type: none"> ✓ Growth / Appreciation potential ✓ Dividend Income ✓ Diversification, moderate correlations 		<ul style="list-style-type: none"> ✓ Historically high long-term returns ✓ Provides yield, pass through income 	<ul style="list-style-type: none"> ✓ Potential for higher returns than public equity ✓ Diversification
Risks	<ul style="list-style-type: none"> ✓ Price Risk, Volatility ✓ Corporate Earnings Risk ✓ Worst Year: -37.0%* 	<ul style="list-style-type: none"> ✓ Price Risk, Volatility ✓ Corporate Earnings Risk ✓ Foreign Exchange Risk ✓ Worst Year: -41.3%* 	<ul style="list-style-type: none"> ✓ Price Risk, Volatility ✓ Corporate Earnings Risk ✓ Interest Rate Risk ✓ Worst Year: -37.1%* 	<ul style="list-style-type: none"> ✓ Liquidity Risk ✓ Concentration Risk ✓ Credit Risk ✓ Worst Year: -27.6%
Allowable	✓ Yes	✓ Maybe	✓ Yes	✓ Maybe

* Representative index returns for public markets. Representative basket of fund investments for private markets.
Source: PMA Asset Management



Risk Mitigation Overview (Hedge Funds)

Common Risk Mitigation Assets

- Hedge Funds
 - Equity Hedge
 - Event Driven
 - Relative Value
 - Macro
- Currencies
- Derivatives

	Hedge Funds
Form	<ul style="list-style-type: none"> ✓ Limited Partnerships, with quarterly or annual Liquidity ✓ Includes both long and short assets ✓ Mutual Funds, with T+1 Liquidity
Benefits	<ul style="list-style-type: none"> ✓ Lower volatility than public equities ✓ Long term returns between fixed income and equities ✓ Utilizes leverage ✓ Diversification of risks and correlations
Risks	<ul style="list-style-type: none"> ✓ Price Risk ✓ Concentration Risk ✓ Liquidity Risk ✓ Credit Risk ✓ Option Risk ✓ Low income and liquidity ✓ Worst Year: -18.3%*
Allowable?	<ul style="list-style-type: none"> ✓ Maybe

* Representative index returns for public markets. Representative basket of fund investments for private markets.
Source: PMA Asset Management



Inflation Protection Overview

Common Inflation Protection Assets

- Private Real Estate
- Private Infrastructure
- Commodities
- TIPS

	Private Real Estate / Infrastructure	TIPS
Form	<ul style="list-style-type: none"> ✓ Limited Partnerships ✓ 5-12 Year liquidity 	<ul style="list-style-type: none"> ✓ Direct bonds ✓ Exchange Traded or Mutual Funds ✓ T+1 Liquidity
Benefits	<ul style="list-style-type: none"> ✓ Lower volatility than public equities ✓ Long term returns between fixed income and equities ✓ Diversification of correlations and risks ✓ Moderate correlation to inflation 	<ul style="list-style-type: none"> ✓ Preservation of capital ✓ Liquidity ✓ Diversification of correlations and risks ✓ Moderate correlation to inflation
Risks	<ul style="list-style-type: none"> ✓ Low income ✓ Liquidity Risk ✓ Concentration Risk ✓ Credit Risk ✓ Worst Year: -4.7%* 	<ul style="list-style-type: none"> ✓ Lower income ✓ Interest Rate Risk ✓ Duration Risk ✓ Reinvestment Risk ✓ Worst Year: -12.0%*
Allowable?	✓ Maybe	✓ Yes

* Representative index returns for public markets. Representative basket of fund investments for private markets.
Source: PMA Asset Management



Asset Allocation Considerations

Criteria



Asset Allocation Considerations: Be Holistic and Strategic

Consider the Whole Organization

- Balance Sheet
- Governance and Policies
- Granting Needs
- Spending Policy
- Capital Campaign Plans
- Enrollment Projections
- Program Needs
- Overall Comfort with Risk

Determine Strategic Needs and Objectives

- Long Term Asset Level Preservation
- Growth Targets
- Annual Income Targets
- Spending or Granting Increases

SAMPLE OBJECTIVES & MEASURES

GROW ASSETS, TARGET CPI+5%

Enhance return, invest into perpetuity

- ✓ CAGR returns improved almost 1%, annualized
- ✓ Potential Year 20 ending balance improved by \$875,000
- ✓ Potential Year 20 distributions improved by \$45,000

IMPROVE YIELD, INCOME

Improve portfolio yield, cash flows to support distributions

- ✓ Yield improved by 20%
- ✓ Income by 25%
- ✓ Portfolio structured to help support cash flows

PRESERVE PRINCIPAL

Maintain likelihood of preservation

- ✓ Sharpe ratio maintained (return relative to risk)
- ✓ Probability of meeting goals over 20 years at 80%

Source: PMA Asset Management



Asset Allocation Considerations: Risk Management

Determine Risk Tolerance and Establish Constraints

- Research – Know Your Investments
- Types of Risk
- Diversification of Risk
- Establish Appropriate Ranges or Limits

Your allocation change may be designed to preserve capital, add growth, or increase income.

But there are always risks to consider and manage appropriately.

MARKET / PORTFOLIO RISKS

EQUITY RISK

Risk of events impacting entire market

LIQUIDITY RISK

Risk of being unable to sell and get fair price

CONCENTRATION RISK

Risk of over concentration in one type of investment

DURATION RISK

Risk of events impacting entire market

INTEREST RATE RISK

Risk of losing money as interest rates rise

REINVESTMENT RISK

Risk of loss from having to reinvest at a lower rate

CREDIT RISK

Risk that entity won't be able to repay at maturity

LONGEVITY/PRESERVATION RISK

Risk of outlasting the portfolio

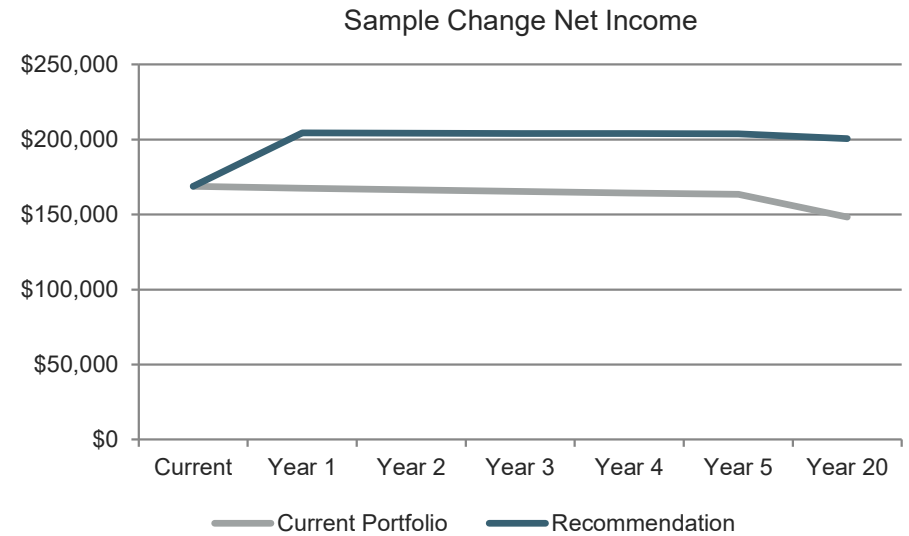
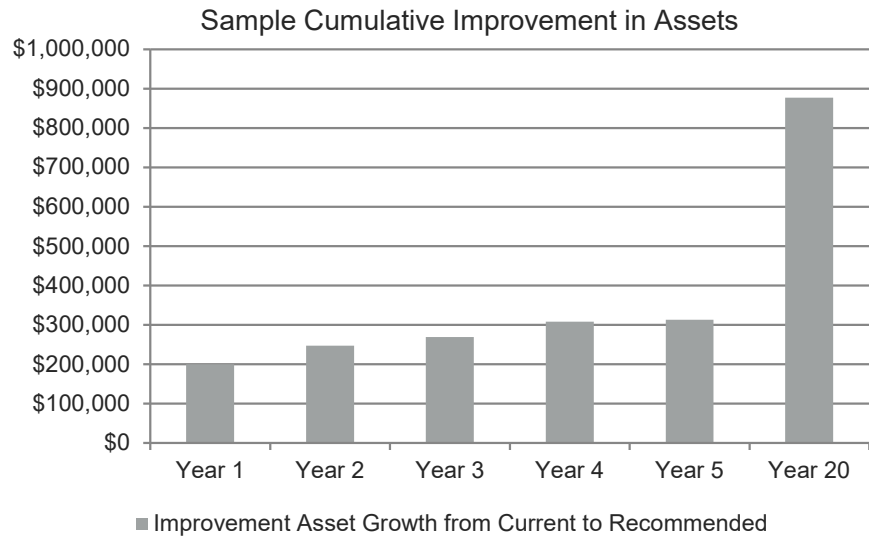
FOREIGN GOVERNMENT RISK

Risk of loss when investing in foreign countries



Asset Allocation Considerations: Compare Outcomes

Compare Potential Outcomes Based on Your Objectives



	20 YEARS TOTAL ESTIMATED IMPROVEMENT	CURRENT PORTFOLIO	RECOMMENDATION
INITIAL BALANCE (CURRENT)		\$7,500,000	\$7,500,000
POTENTIAL FINAL BALANCE (AFTER 5% DISTRIBUTIONS)		\$8,926,026	\$9,803,525
PROJECTED RETURN (TWRR)		6.27%	7.26%
PROJECTED GROWTH RATE AFTER INFLATION, DISTRIBUTIONS (CAGR)		1.05%	2.00%
VOLATILITY (STANDARD DEVIATION)		10.92%	12.01%
MAXIMUM DRAWDOWN		-39.80%	-41.08%
INVESTMENT YIELD (CURRENT)		2.25%	2.73%

Source: PMA Asset Management



Asset Allocation Considerations: Review and Adjust as Needed

Dynamically Adjust

- Economic Conditions
- Market Conditions
- Cash Flow Needs

Review Annually

- Organizational Needs
- Changes in Objectives
- Changes in Projections
- Assets vs. Targets
- Risk Tolerances

Do not Market Time!
But there are considerations for making tactical shifts or long-term strategic policy changes.



Investment Management Other Services



Industry Services and Types of Providers

Client Services	Brokers	Investment Managers
Fiduciary		✓
Assistance to the Board	✓	✓
Strategic Asset Allocation	Some	✓
Investment Policy Statement Support	Some	✓
Active Portfolio Management		Some
Investment Structure & Selection	✓	✓
Benchmark Recommendation	Some	✓
Performance Monitoring & Reporting	Some	✓
Ongoing Compliance with Statutes and Investment Policies		✓
Spending Policy Analysis		Some
Foundation Peer Benchmarking		Some
Donor Discussion Support	Some	Some
ESG		Some
Trading, Best Execution, Settlement Support	✓	✓
Cash Flow & Liquidity Management Support		✓
Committee / Board Communication & Meetings	✓	✓
Quarterly Reporting	✓	✓
Education & Guidance	Some	✓
Economic Outlook, Strategy & Firm Communications	✓	✓
Custody Search & Liaison Services		✓
Operational Support (Including Daily Reconciliation)		✓
Proxy Voting		✓
Fees	Transaction Based	AUM Based



Conclusion

Thank you for your time.

Questions?



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