Q1 2024

Investment Report

Joseph Boateng
Chair of Investment Committee

Thank you for choosing Seattle Foundation as your partner in philanthropy. We know that you share our commitment to creating a region of shared prosperity, belonging, and justice. We appreciate your confidence in us to manage your assets in service of a greater goal: fostering a community where everyone can thrive. We are pleased to share these results from Q1 and we welcome any questions or feedback.

Market Conditions

The first quarter of 2024 provided yet another period of strong, seemingly risk-free gains, with the S&P 500 rising 10.6% for the quarter alongside the MSCI ACWI Index's advance of 8.2%. Once again, U.S. large-capitalization growth stocks led the way, further cementing the impression that this group can be relied upon to produce market-leading returns and provide a strong hedge against difficult economic and geopolitical conditions.

If all of this wasn't good enough, the S&P 500's worst intra-quarter decline was a mere 1.7%; if this figure were to hold, it would be the smallest decline in over 80 years and a rare situation in which equities experienced an intra-year decline less than that of U.S. treasuries.

Considering the past, present, and future for markets, we find ourselves regularly thinking about the concept of complacency. Merriam Webster defines the term as "self-satisfaction especially when accompanied by unawareness of actual dangers or deficiencies." Despite the clearly negative connotation, the word does not generally strike overt fear into those who hear it—therein lies its true power as it is among the most dangerous of the behavioral tendencies that lead to poor/mediocre long-term outcomes.

Interestingly, like trust, complacency takes time to build and entrench itself, but it can dissipate in moments. Its manifestation within markets today is quite typical and atypically dangerous given the broad appeal of the securities that underpin this cycle.

	10-Year Cumulative Return
S&P 500	+230.5% (+12.7% per year)
Russell Top 200 Growth	+380.9% (+17.0% per year)
Russell Top 50 Technology	+673.5% (+22.7% per year)

One can draw a straight line from strong outcomes to overconfidence to complacency. Today, this trajectory has the potential to be unusually pronounced, as a direct correlation has existed between simple/inexpensive investment strategies and exceptional success.

To illustrate, for the 10 years ending December 2023, a 70% S&P 500/30% Bloomberg Aggregate portfolio generated a 9.1% annualized return, outperforming the median endowment and foundation by more than 3% per year and ranking in the top 1% of participants. Depending on one's perspective, this is either a stunning outcome or entirely expected; either way, it's self-evident that the latter perspective was rare to non-existent across the E&F community for a good part of the last decade.

Yet, this has clearly changed, as many investors now allocate capital heavily to index funds such as the S&P 500 or MSCI All Country World Index. While most do not expect returns that exceed virtually all endowments and foundations, they do expect both top results and an outcome that supports their missions.

Is this fundamentally sound, or reactionary? While we won't definitively know the answer for another seven to 10 years, we can wonder if such a strategy will continue to prove as successful as it has been for the past 10 years. Never say never of course, although prudent investing should be based on probabilities and the fundamental factors that drive long-term returns. Perhaps the most important and reliable of these factors is human nature.

Why didn't the Foundation and other nonprofits simply allocate to the 70% S&P 500/30% Bloomberg Aggregate portfolio a decade ago? Wasn't a universally known, simple, two-fund portfolio focused on our home markets an obvious choice?

One reason is that such a portfolio rarely achieves the types of results we have seen of late. In fact, this same 70/30 mix had a very weak long-term track record a decade ago. For the 10-year periods as of year-end 2009, 2010, 2011, and 2012, such a portfolio ranked in the bottom quartile of the E&F universe and generated low-single-digit annualized returns. Exactly a decade ago (year-end 2013), the 70/30 portfolio snuck into the top half of the E&F universe, but still only delivered 6.8% per year.

Not only was today's popular index blend a poor performer, but its extended inability to support spending policies naturally drove capital elsewhere.

To be clear, we are not suggesting that overly complex, expensive strategies are inherently superior to a straightforward index blend; in fact, there is little doubt that the opposite is true. What we are saying is little to no logic exists behind the idea that a commoditized index strategy should rank in the top 1% of the E&F universe while generating a 9.1% annualized return. Essentially, it was incorrect in 2013 to see the index as a perennial loser; it is equally wrong today to see it as a perennial winner.

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Generating mission-supporting returns over multi-decade periods is difficult and each investment strategy must be designed with this in mind. Complexity may contribute to the solution, but only when executed with great respect for the challenging set of hurdles that must be overcome—of far greater importance is recognizing the behavioral traps that investors must actively work to avoid.

The Foundation's investment strategy is designed to embrace diversification, contrarian thinking all with a constant focus on generating returns that support the philanthropic goals of its fundholders.

Portfolios

The Balanced Pool is the Seattle Foundation's primary investment pool and is actively managed to deliver returns at 5% plus CPI over a long-term horizon. It maintains a diversified portfolio that includes exposure to global equity markets, alternative investments, and more conservative asset classes such as U.S. Fixed Income. Over the last 10 years, the Balanced Pool has gained 6.5% per annum. The Pool gained 4.1% in the first quarter and registered a 14.0% gain in the last 12 months. The portfolio's forward returns tend to be highly correlated to complexity of an investment climate—greater challenges translate to higher returns.

In addition to our Balanced Pool, we offer other investment options to meet our fundholders' needs. Our Socially Responsible Pool, designed to meet ESG (Environmental, Social, and Governance) requirements while also providing competitive economic returns, gained 5.4% for the quarter. Our Intermediate-Term Pool, designed to meet the expectations of donors with a grantmaking horizon in the 2-7-year range, gained 2.3%. The Foundation also manages a Short-Term Pool for donors with very short grantmaking horizons. This pool, intended to preserve capital as best as possible, gained 1.2% for the quarter. Lastly, the Foundation offers an Index Pool, which is all passive, and a Growth Pool. These pools gained 5.2% and 5.6% in the quarter, respectively.

We are thankful for the opportunity to support you in creating powerful, rewarding philanthropy to make King County a stronger, more vibrant community for all. We welcome your questions and comments about Seattle Foundation.

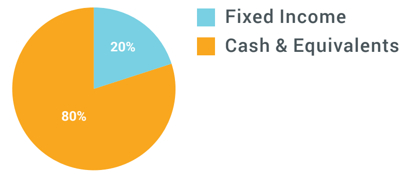
Sincerely,

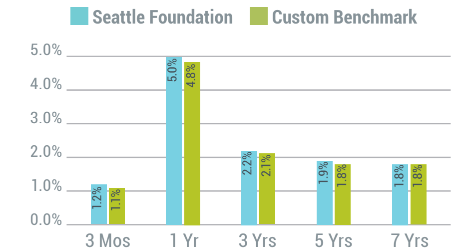
Joseph Boateng
Chair of Investment Committee

Investment Pool | Target Asset Allocation | Performance

Short-Term Pool

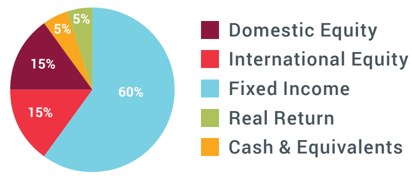
0-2 year giving horizon

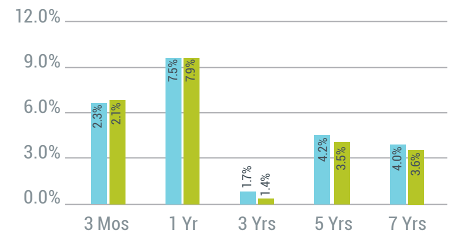




Intermediate Pool

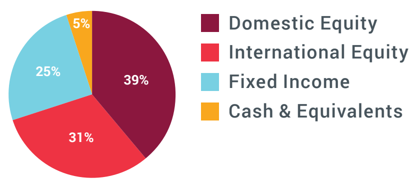
3-7 year giving horizon

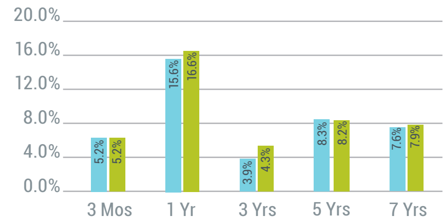




Index Pool

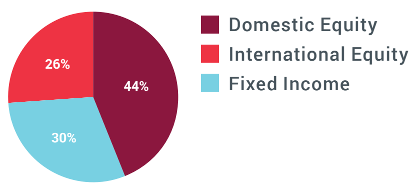
10+ year giving horizon

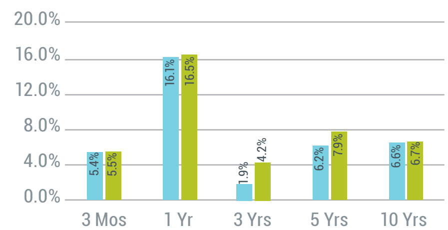




Socially Responsible Investment Pool

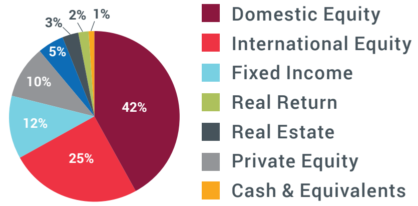
10+ year giving horizon

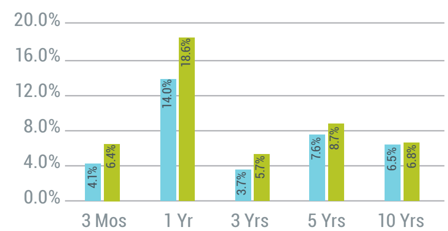




Balanced Pool

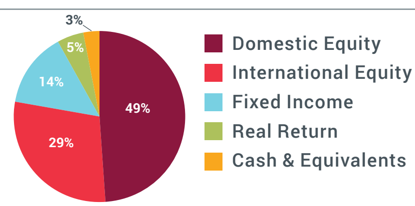
10+ year giving horizon

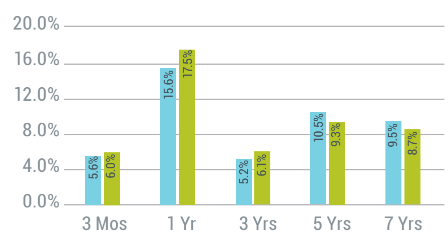




Growth Pool

10+ year giving horizon





Seattle Foundation returns are net of investment management fees. The fee schedules for each investment pool vary based on the pool's holdings, performance, and size. Current management fees range from 0.08 to 1.01% and generally will not exceed 1.5% in any investment pool. Returns are not net of fees for investment consulting and custodial services. Individual fund performance may vary due to the timing of contributions and grants. The Balanced Pool has a number of private asset investments that periodically provide valuation updates too late to be reflected in this report.

Seattle Foundation Philanthropic Partners may request a change to their investment pools no more than once in a 12-month period during two windows annually. The current window closes August 31, 2024 and transfers will occur no later than October 31, 2024. Please note endowed funds are solely invested in the Balanced Pool. If you have any questions, please contact your Philanthropic Advisor or our Philanthropic Services team at ps@seattlefoundation.org or 206.515.2111.

Investment Philosophy and Strategy

Effective stewardship of assets is key to Seattle Foundation's ability to fulfill its mission of igniting powerful and rewarding philanthropy to make Greater Seattle a stronger, more vibrant community for all. Reflecting the infinite life of a community foundation, we take a long-term approach to our investment management to maximize the philanthropic resources available over time to meet community needs. Our long-term return objective is to generate annual returns of 5% plus inflation over a full market cycle of 10+ years through prudent management of a diversified portfolio.

We are oriented towards a total-return approach to investing, which aims to blend income and capital appreciation to address the challenge of preserving long-term purchasing power while dealing with unanticipated inflation. This approach to investment management is consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as implemented by Washington State.

As a prudent steward, the Foundation has the following main priorities for our Balanced Pool: ***maximize total return and protect principal.*** In addition to the Balanced Pool, the Foundation offers five other pools for philanthropists with different investment interests (Socially Responsible Investment and Index), risk profiles (Growth) and giving horizons (Intermediate and Short-Term). Outside management for funds larger than $750,000 is also available.

Investment Committee

The Investment Committee, a standing committee of the Board of Trustees, is charged with overseeing the investment activities of the Foundation. This includes advising the Board of Trustees on the investment policy, asset allocation strategies to meet the return objectives, and monitoring portfolio performance. The committee consists of 13 members selected for their investment expertise and judgment.

Joseph Boateng, **CHAIR**

Joseph Boateng joined **Casey Family Programs** as its first Chief Investment Officer in 2007 and is responsible for overseeing the foundation's $2.6 billion endowment. Before joining Casey, he was a member of the Johnson & Johnson Investment Committee, responsible for managing over $17 billion. Joseph received his MBA from UCLA and is an alumnus of the Said Business School at Oxford. He is a CFA Charterholder, CPA/PFS, and Chartered Global Management Accountant designee.

Debra Somberg, **BOARD MEMBER**

Debra Somberg is founder of **NewView**, a nonprofit unlocking the power of tri-sector engagement to build innovative and successful business models that tackle social problems in new and sustainable ways. She also currently serves as Chair-Elect on the board of BECU, The Port Blakely Companies, and the National Advisory Board of Stanford University's Public Service Center. Debra graduated from Stanford University, phi beta kappa, and received an MBA from Harvard Business School.

Sheng-Sheng Foo

Sheng-Sheng Foo is Director of Investments at **Casey Family Programs**, where she has investment responsibilities across asset classes globally in supporting the foundation's endowment. Prior to this, she worked at The University of California Investment Office and previously oversaw the Public Markets portfolio at The California Endowment. She has an MBA from The Wharton School at the University of Pennsylvania and is a CFA charter holder and earned the Certificate in Quantitative Finance (CQF).

Michelle Goldberg

Michelle Goldberg is the former General Partner for venture capital firm **Ignition Partners** and has over a decade of investment experience. She currently sits on a number of boards, including Bakkt, Glympse, Visible Technologies, and Ice.com. She received an MA from Harvard University and a BA from Columbia College.

Steve Hill

Steve Hill is the former director of the **Department of Retirement Systems and Health Care Authority** and former Senior Vice President of Human Resources at **Weyerhaeuser**. His investment committee experience includes service on the Washington State Investment Board, Consumer Reports (Finance Chair), Washington State University Endowment, and the Weyerhaeuser Pension committee. Steve received a BS from UC Berkeley and an MBA from UCLA.

Jason Malinowski

Jason Malinowski is the Chief Investment Officer of the **Seattle City Employees' Retirement System**. Prior to joining the City of Seattle, he was a Managing Director at BlackRock, serving as the Head of Risk and Quantitative Analysis for Alternative Investments. He received a BA in Economics and Mathematics from New York University and a MA in Policy Studies at the University of Washington, Bothell.

Patrick Martinell

Patrick Martinell is an Investment Officer and Director of Research with the **University of Washington**. He also spent two years at the Washington State Investment Board (WSIB) on the Risk Management and Asset Allocation team and 14 years at Cascade Asset Management. Patrick holds a double degree in Economics and Mathematics from Claremont McKenna College. He is a member of the Seattle Society of Financial Analysts and a CFA Charterholder.

Jeff Nita

Jeff Nita is the retired Vice President, Treasurer and Pensions for **Weyerhaeuser Company**. At Weyerhaeuser, he led capital markets and treasury activities, risk, and oversight of its pension investments. He has served on the board of Seattle Children's Hospital and Seattle Cancer Care Alliance and at both organizations served as chair of their investment committee. Jeff has a BA and MA in Public Policy from UC Berkeley.

Daniel Regis

Daniel Regis is currently the General Partner of **Regis Investments, LP**. Prior experience includes Chairman of the Advisory Board for Fluke Venture Partners, Managing Director of Digital Partners and President of Kirlan Venture Capital, Inc. and Managing Partner of its venture funds. He also spent more than 30 years with Price Waterhouse LLP, including Managing Partner of the Seattle and Northwest Group of offices. Daniel received a BS from Seattle University.

Kenla Torres-Sibley

Kenla Torres-Sibley is a member of the asset allocation division and leads the external public manager team for the **Bill & Melinda Gates Foundation Trust** and **Cascade Investment**. Prior to joining Cascade, she was an Investment Director at Brown University's endowment. Kenla holds an MS in Investment Management from Boston University and a BS in Finance and Economics from the University of South Florida. She is a member of the investment committee of the United Negro College Fund's Gates Millennium Scholars program.

Greg Wilson

Greg Wilson is a Portfolio Manager at **Pugh Capital Management**. He has spent his career analyzing, trading, and developing strategies supporting the mortgage-backed, asset-backed, and commercial mortgage-backed sectors across Pugh Capital's products. Greg earned his MS in Finance from Seattle University and his BA in Economics and Psychology from Claremont McKenna College.