Q3 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 Q3 and we welcome any questions or feedback.

Market Conditions

Capital markets rose in the latest quarter, with the S&P 500 up 5.9%, the S&P 500 Equal Weight Index up 9.6%, and the MSCI EAFE and MSCI Emerging Markets indices rising 7.3% and 8.9%, respectively. Not to be left behind, the Bloomberg Aggregate Index advanced 5.2%. And if that wasn't enough, consider the 12-month gains through September 30.

S&P 500	+36.4%
S&P Equal Weight	+28.8%
MSCI EAFE	+25.4%
MSCI EM	+26.5%
Bloomberg Aggregate	+11.6%

Equity market returns are ultimately driven by two forces: corporate results (as it relates to generating cash/earnings for shareholders) and the attitude of market participants (which determines how much optimism or pessimism is attached to future earnings/cash generation).

Today, considerable optimism is reflected in a small number of very large U.S. businesses, which in turn has led to unusual levels of concentration within the S&P 500 and rarely seen valuation levels.[1] This observation arose in a recent discussion with a very experienced and successful investor, who noted that it was odd today to see such high valuations at a time of so much uncertainty and risk.

Such a situation has significant long-term implications for anyone responsible for deploying capital; it also illustrates the difference between clear and present versus pernicious risks, with markets having a long history of exaggerating the impact of the former while failing to fully appreciate the latter.

With the caveat that we believe the most important risks and opportunities are frequently the ones the consensus has not considered, below is a quick summary of the items that, today, fit the two risk categories.

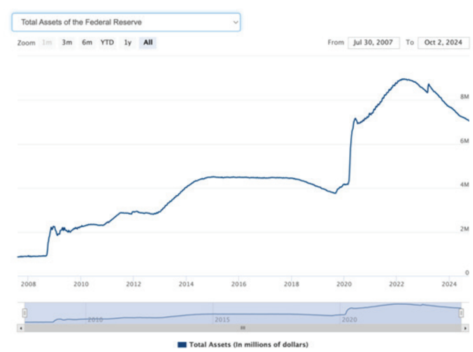
Clear and Present Risks

- **Geopolitics** – Half of the world's population have elected or will be electing new leaders in 2024, with the U.S. presidential election of particular significance; increasing levels of conflict; and trade wars (to name a few).
- **Fiscal Policy** – The U.S. budget deficit is extraordinarily large and seems to be heading to ever higher levels. This is particularly noteworthy at a time of low unemployment. Is there a limit to how much debt the U.S. government can assume? And to what extent can significant levels of borrowing crowd out other investments when capital is less plentiful? This is arguably both a clear and present risk, as budget-deficit figures receive plenty of attention, while also being pernicious, as there has historically been little in the way of a meaningful implication from these considerations.

Unemployment Rate At Widest Budget Deficit

Date	Unemployment Rate (%)	Budget Deficit, % of GDP
Covid Era	14.8%	-14.0%
Global Financial Crisis	10.0%	-10.2%
1982 Recession	10.2%	-5.6%
Early 1990s Recession	7.3%	-5.1%
Mid 1970s Recession	7.9%	-4.6%
Current	**4.2%**	**-6.7%**

Source: Strategas, FactSet



Pernicious Risks

- **Inflation** – Bond markets seem to have concluded that this has been contained; history and logic suggest a strong probability this is not the case.
- **Monetary Policy** – While the U.S. Federal Reserve has begun to move short-term rates lower, it also continues to reduce the size of its balance sheet. Many investors have little in the way of relevant experience investing at a time when capital is becoming increasingly scarce.
- **Overconfidence** – The number of industry professionals we run into who are worried about major and durable price declines and are willing to express that view has become very, very small, as rose-colored optimism regarding the profit potential of AI has quieted serious debate. In fact, this is a key reason why the risk of underperforming benchmarks has decisively risen above concerns related to preserving long-term purchasing power or mitigating the risk of large losses.

We understand why many would prefer to disregard these risks and others, as each represents a major challenge with no easy answers Stewards of long-term capital have the luxury of disregarding some of these, as their near-term impact far exceeds their long-term implications. Ironically, clear and present concerns tend to fall into this category; for example, the above analysis, provided by JP Morgan, suggests that geopolitical risks have limited to no impact on long-term returns.

Opportunities

The good news is that capital markets have a wonderful ability to persistently serve up opportunities. In fact, our earlier statement regarding

[1] This statement is based on current Shiller or CAPE Ratios.

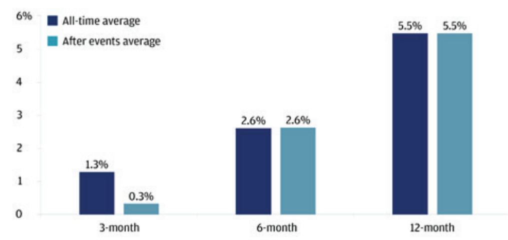
high valuations primarily applies to capitalization-weighted indices that include U.S. large-cap stocks, such as the S&P 500 or MSCI ACWI, not the broader opportunity set.

Whereas we have serious concerns about how some securities are being priced in such a complex period, many corners of the market exhibit risks that are likely being exaggerated. Not surprisingly, these are the areas reflecting a combination of negative performance trends and a relatively narrow focus on present risks. This implication is threefold:

- **Availability of Inexpensive Stocks** – Despite the optimism embedded in many of the largest and most successful U.S. companies, a far larger universe of choices exists across the quality spectrum. While controversies and downside scenarios will always exist, many businesses offer high expected returns, as they generate significant levels of cash as a percentage of their enterprise value. Critically, future returns for this group are far more heavily influenced by its financial performance than on ever-changing and volatile investor sentiment.

Historical data shows the typically fleeting impact of geopolitical events on equity returns

Average real S&P 500 return vs. average real S&P 500 return after geopolitical events



Sources: Robert Shiller, Haver Analytics. Data as of December 31, 2023. Note: Return refers to price return. Geopolitical events in the above chart refer to 36 events selected from 80 years of geopolitical events beginning with Germany's invasion of France in 1940 and ending with the war in Ukraine in 2022. We measured the 3-month, 6-month and 12-month returns following these events.

- **Rising Market Inefficiency** – Conventional wisdom suggests a weakening opportunity set for longer-term fundamental investors amid the rise of highly sophisticated trading models. In essence, how can a human investment team compete with AI, machine learning, etc.? Yet, while fundamental investing has become more difficult, that does not mean it's obsolete; the explanation for some of the extraordinary opportunities present today can be found in the fact that the short-term direction of prices will always be interrupted by the vacillating and non-linear fortunes of particular companies. There is little evidence (nor much motivation) for short-term-oriented quantitative approaches to capture this; our view is that they actually make these shifts more rewarding for disciplined investors.

- **Diversification** – Despite the fact that this idea led to a Nobel prize, many investors apparently do not care that concentration equals risk, even though such positioning is clearly at odds with the complexities of the world. This shift away from meaningful diversification has been a source of frustration for those committed to the concept, but it has also directly contributed to the extraordinary opportunities that can be found outside the more generic or consensus-based approaches that have become so popular. Effectively, an opportunity currently exists to capitalize on the specific risk/reward qualities available while at the same time benefiting from the time-tested risk-mitigating benefits that holistic diversification offers despite recent trends.

The net result of all of this is that the Foundation has a choice to make. We can elect to conform to the prevailing market narrative—that today's concentration does not in fact correlate to higher risk given the dominance of the current leaders—or we can allow history to be our guide and look outside what is working now or has been over the last decade. With the latter mindset, we can adopt the view that change is perhaps the only constant and remain committed to simple ideas such as staying diversified, looking for asymmetric return opportunities, and building portfolios that can achieve long-term objectives—portfolios that do not accept the idea that current trends will persist indefinitely.

An exceptionally wise investor recently wrote, "We continue to believe that there's an objective truth that lies out in the world, not in our heads or in the heads of others. Long-term investing isn't a popularity contest. In the end, truth will out." In the end, the choice is clear: follow the crowd or forge a path that endures. Our advice is to choose the latter.

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 6.9% per annum. The Pool gained 6.4% in the third quarter and registered a 19.9% 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 6.6% 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 5.1%. The Foundation also manages a Short-Term Pool for donors with very short grantmaking horizons. This pool, which is intended to preserve capital as best as possible, gained 1.7% for the quarter. Lastly, the Foundation offers an Index Pool, which is all passive, and a Growth Pool. These pools gained 6.1% and 6.5% 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,

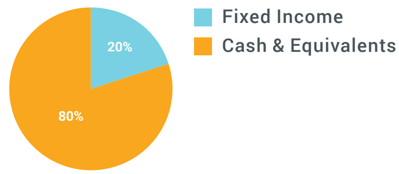
Joseph Boateng
Chair of Investment Committee

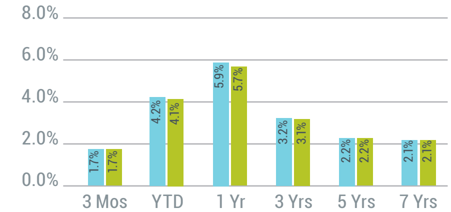
Investment Pool | Target Asset Allocation | Performance

Seattle Foundation | Custom Benchmark

Short-Term Pool

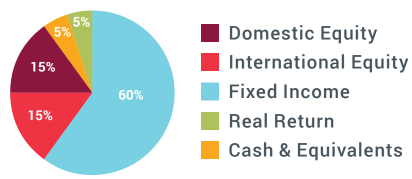
0-2 year giving horizon

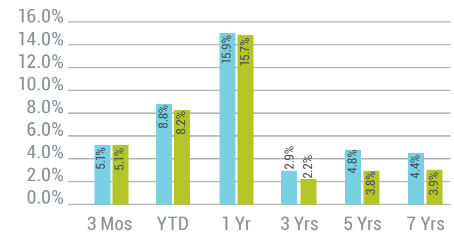




Intermediate Pool

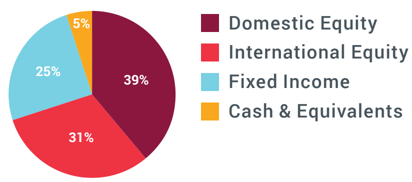
3-7 year giving horizon

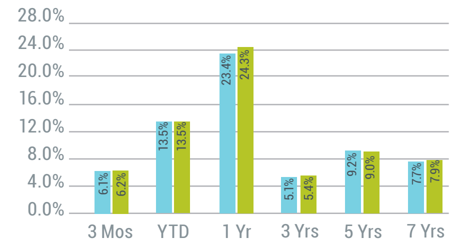




Index Pool

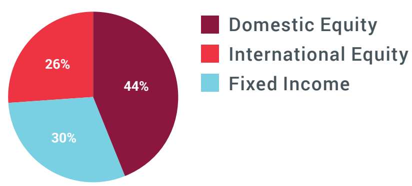
10+ year giving horizon

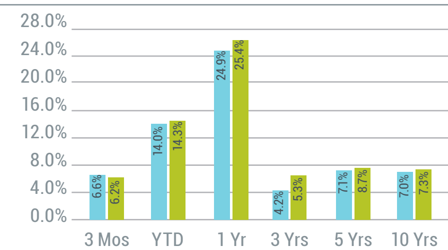




Socially Responsible Investment Pool

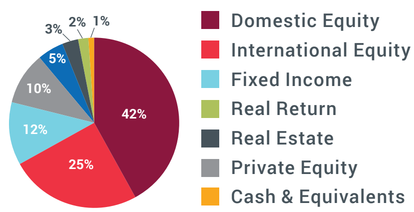
10+ year giving horizon

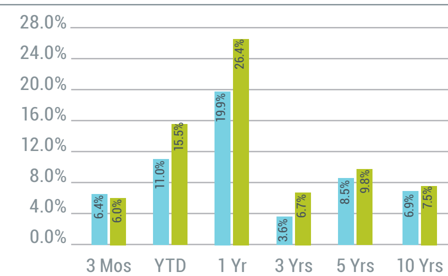




Balanced Pool

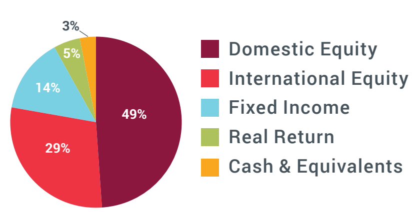
10+ year giving horizon

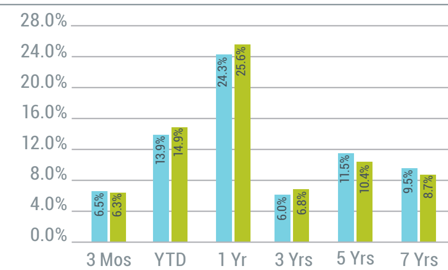




Growth Pool

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 1.06% 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 March 31, 2025 and transfers will occur no later than May 31, 2025. 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.

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.

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.