Presentation to Economic Outlook and Revenue Assessment Committee

January 4, 2024

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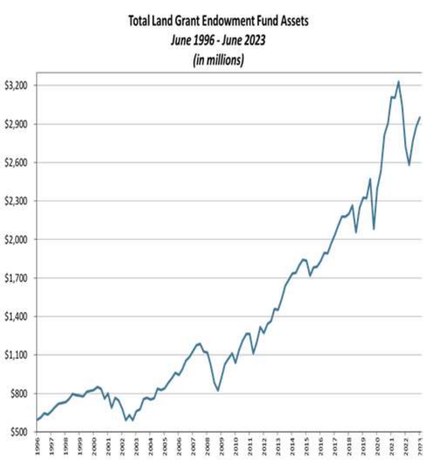
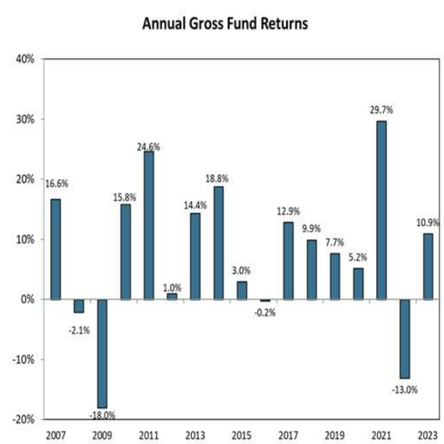
Endowment Fund Investment Board

FY2023 was a solid year for the Endowment Fund





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Callan Periodic Table of Investment Returns

Financial markets rebounded after a very challenging 2022

Annual Returns						Monthly Returns						
2017	2018	2019	2020	2021	2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	YTD
Emerging Market Equity 37.28%	U.S. Fixed Income 0.01%	Large Cap Equity 31.49%	Small Cap Equity 19.96%	Large Cap Equity 28.71%	High Yield -11.19%	Small Cap Equity 9.75%	High Yield -1.29%	Global ex-U.S. Fixed Income 3.73%	Dev ex-U.S. Equity 2.84%	Large Cap Equity 0.43%	Small Cap Equity 8.13%	Large Cap Equity 16.89%
Dev ex-U.S. Equity 24.21%	High Yield -2.08%	Small Cap Equity 25.52%	Large Cap Equity 18.40%	Real Estate 26.09%	U.S. Fixed Income -13.01%	Real Estate 8.98%	Small Cap Equity -1.69%	Large Cap Equity 3.67%	Real Estate 1.89%	High Yield -0.92%	Large Cap Equity 6.61%	Dev ex-U.S. Equity 11.29%
Large Cap Equity 21.83%	Global ex-U.S. Fixed Income -2.15%	Dev ex-U.S. Equity 22.49%	Emerging Market Equity 18.31%	Small Cap Equity 14.82%	Dev ex-U.S. Equity -14.29%	Dev ex-U.S. Equity 8.20%	Dev ex-U.S. Equity -2.33%	Emerging Market Equity 3.03%	Large Cap Equity 1.56%	Small Cap Equity -0.92%	Dev ex-U.S. Equity 4.75%	Small Cap Equity 8.09%
Small Cap Equity 14.65%	Large Cap Equity -4.38%	Real Estate 21.91%	Global ex-U.S. Fixed Income 10.11%	Dev ex-U.S. Equity 12.62%	Large Cap Equity -18.11%	Emerging Market Equity 7.90%	Large Cap Equity -2.44%	U.S. Fixed Income 2.54%	High Yield 1.00%	U.S. Fixed Income -1.09%	Emerging Market Equity 3.80%	High Yield 5.38%
Global ex-U.S. Fixed Income 10.51%	Real Estate -5.63%	Emerging Market Equity 18.44%	Dev ex-U.S. Equity 7.59%	High Yield 5.28%	Global ex-U.S. Fixed Income -18.70%	Large Cap Equity 6.28%	U.S. Fixed Income -2.59%	Dev ex-U.S. Equity 2.22%	U.S. Fixed Income 0.61%	Emerging Market Equity -1.68%	Real Estate 3.00%	Emerging Market Equity 4.89%
Real Estate 10.36%	Small Cap Equity -11.01%	High Yield 14.32%	U.S. Fixed Income 7.51%	U.S. Fixed Income -1.54%	Emerging Market Equity -20.09%	High Yield 3.81%	Global ex-U.S. Fixed Income -3.99%	High Yield 1.07%	Global ex-U.S. Fixed Income 0.29%	Global ex-U.S. Fixed Income -2.69%	High Yield 1.67%	U.S. Fixed Income 2.09%
High Yield 7.50%	Dev ex-U.S. Equity -14.09%	U.S. Fixed Income 8.72%	High Yield 7.11%	Emerging Market Equity -2.54%	Small Cap Equity -20.44%	Global ex-U.S. Fixed Income 3.48%	Real Estate -4.41%	Real Estate -3.26%	Emerging Market Equity -1.13%	Dev ex-U.S. Equity -4.36%	Global ex-U.S. Fixed Income 0.26%	Real Estate 1.02%
U.S. Fixed Income 3.54%	Emerging Market Equity -14.57%	Global ex-U.S. Fixed Income 5.09%	Real Estate -9.04%	Global ex-U.S. Fixed Income -7.05%	Real Estate -25.10%	U.S. Fixed Income 3.08%	Emerging Market Equity -6.48%	Small Cap Equity -4.78%	Small Cap Equity -1.80%	Real Estate -4.48%	U.S. Fixed Income -0.36%	Global ex-U.S. Fixed Income 0.83%

Sources: ● Bloomberg Aggregate ● Bloomberg Corp High Yield ● Bloomberg Global Aggregate ex US ● FTSE EPRA Nareit Developed
● MSCI Emerging Markets ● MSCI World ex USA ● Russell 2000 ● S&P 500

A Resilient Global Economy

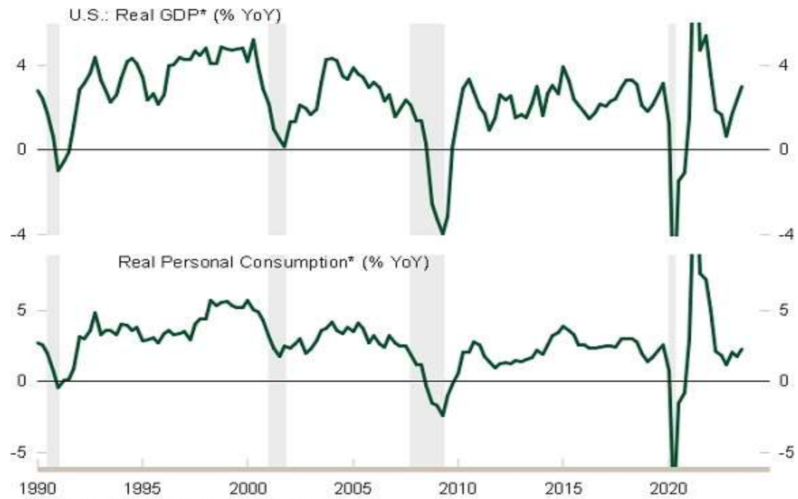
The U.S. economy has remained sturdy and supported by healthy consumers and businesses. Restrictive monetary policy has not triggered a recession yet.

Global manufacturing and trade should rebound next year. This will provide a boost to the rest of the world, which is more trade-dependent than the U.S.

The euro area should be a beneficiary of stronger global trade, especially Germany, which has been a regional drag this year.

China is growing at a decent 5% pace, despite considerable headwinds.

U.S. GDP Growth Has Remained Solid Despite Tighter Monetary Policy



* Source: U.S. Bureau of Economic Analysis
Note: Both panels are truncated; shaded for NBER-designated U.S. recessions

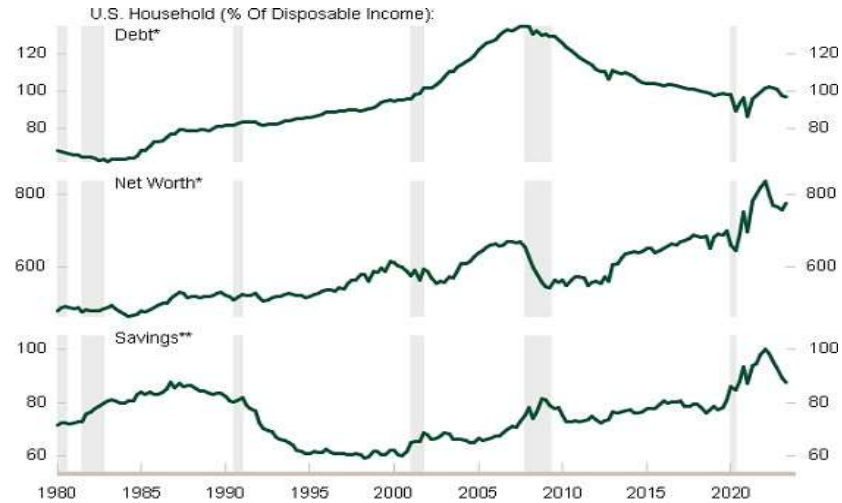
Solid U.S. Consumer Fundamentals

Income: The job market is softening but has remained strong during the Fed's interest rate hiking campaign. Consumers have had the benefit of elevated savings built up during the pandemic. Consumer confidence is weak but spending remains firm.

Balance Sheet: Households debt has fallen and net wealth has increased markedly over the past decade boosting balance sheet strength. Excess savings are shrinking and are anticipated to be gone by mid-2024.

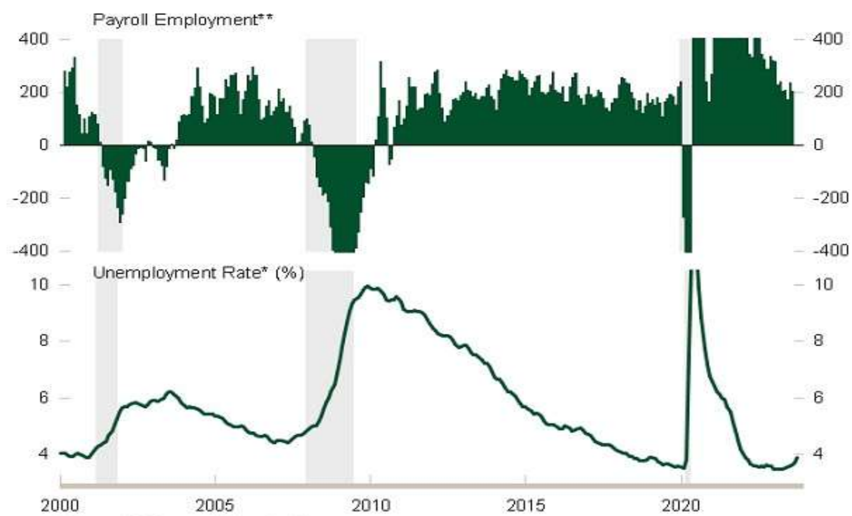
Debt Servicing: Lower debt and prior borrowing at low interest rates have reduced households' sensitivity to interest rates. Debt-service is low relative to disposable income.

Consumer Balance Sheets Are Deteriorating But Still In Good Shape



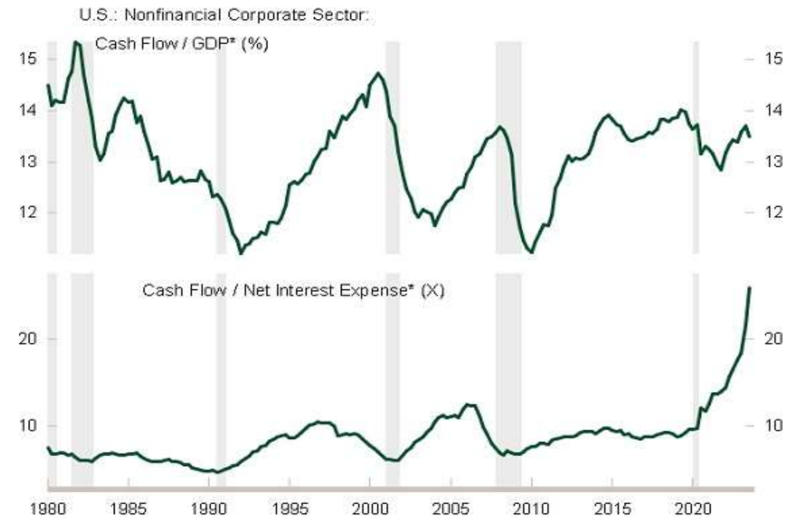
* Sources: Federal Reserve and Bureau of Economic Analysis
** Checkable and time deposits, short-term investments and money market funds
Note: Shaded for NBER-designated U.S. recessions

The U.S. Job Market Remains Healthy But Is Softening



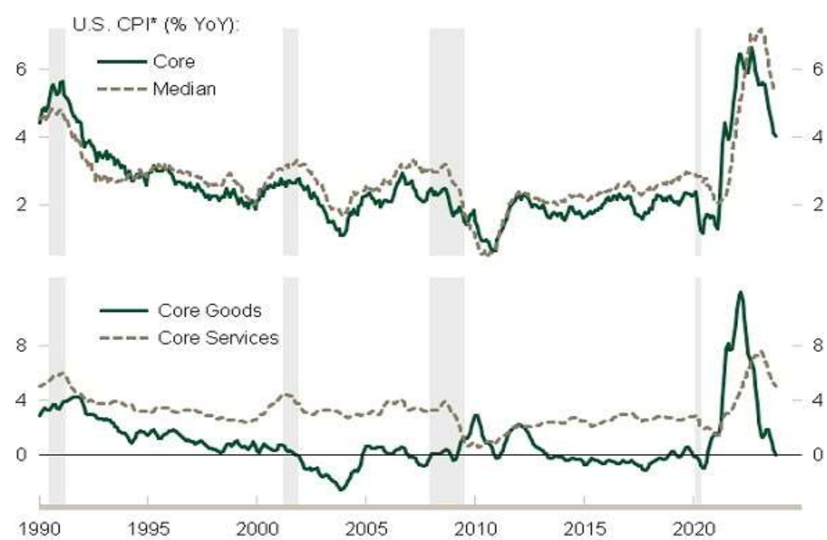
* Source: U.S. Bureau of Labor Statistics
Note: Both panels truncated; shaded for NBER-designated U.S. recessions

Corporate Cash Flows And Interest Coverage Are Good



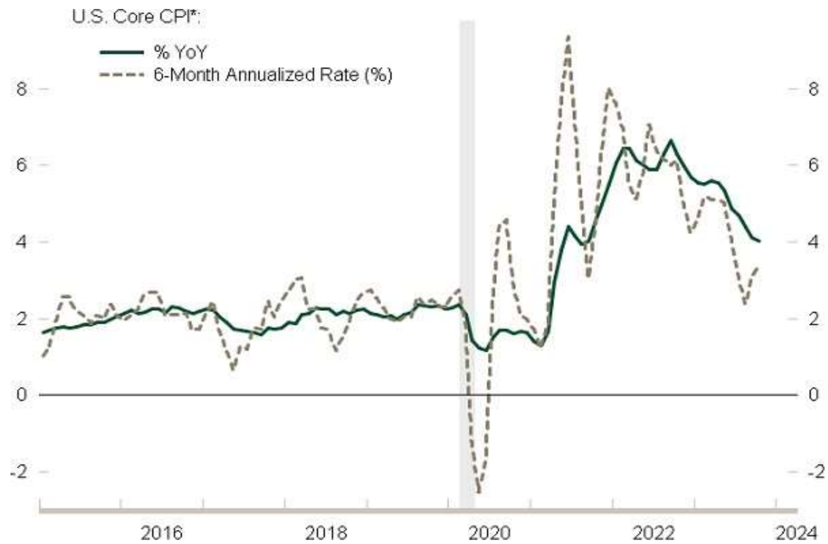
* Cash flow is earnings before interest, taxes and depreciation; source: Bureau of Economic Analysis
Note: Shaded for NBER-desingated U.S. recessions

Inflation Has Declined Significantly But Is Still Above The Fed's 2% Target



* Smoothed; source: Bureau of Labor Statistics

Core Inflation Continues To Ease But The Path Has Been Choppy



Hurdles To The Path Of 2% Inflation

Demand: Consumer demand remains strong and many companies still have pricing power.

Other effects: Goods inflation has declined dramatically. The main challenge now is to reduce shelter (housing) inflation.

Tight labor market: Unemployment is low, wage growth is strong and companies appear willing to pay up for skilled labor. There are still 1.3 job openings for every person looking for work.

De-globalization: Off-shoring and globalization have helped dampen domestic inflation but those trends are fading/reversing.

Federal debt and politics: Inflation is a politically expedient means to reduce the federal debt burden and avoid tough fiscal decisions.

The U.S. Banking System Is Sound

Of the 4,614 financial institutions, 13 large banks account for 56% of total assets.

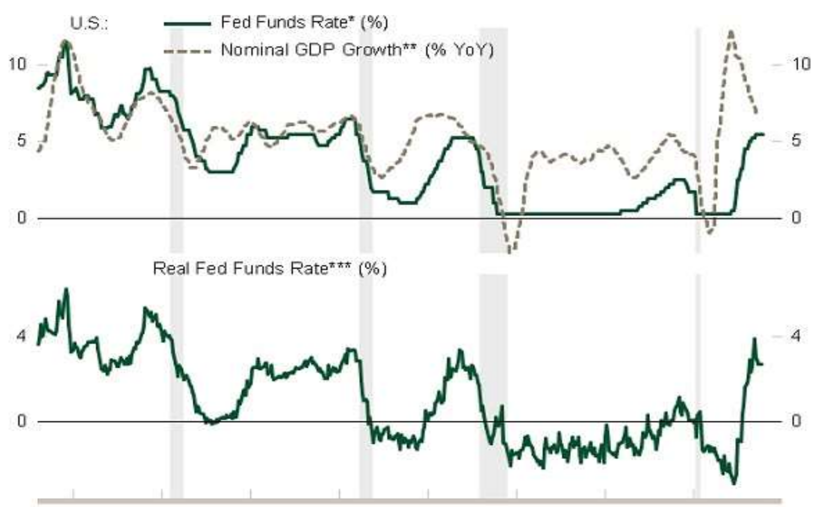
Large banks are profitable, well capitalized, have a low ratio of loans to deposits and are well provisioned. Commercial real estate loans make up just 13% of their loan portfolios.

Unrealized bond losses are high and depend on bond yields, but large banks can absorb losses over time.

Smaller banks are more vulnerable with commercial real estate making up 44% of loans and with much higher loan/deposit ratios than the large banks.

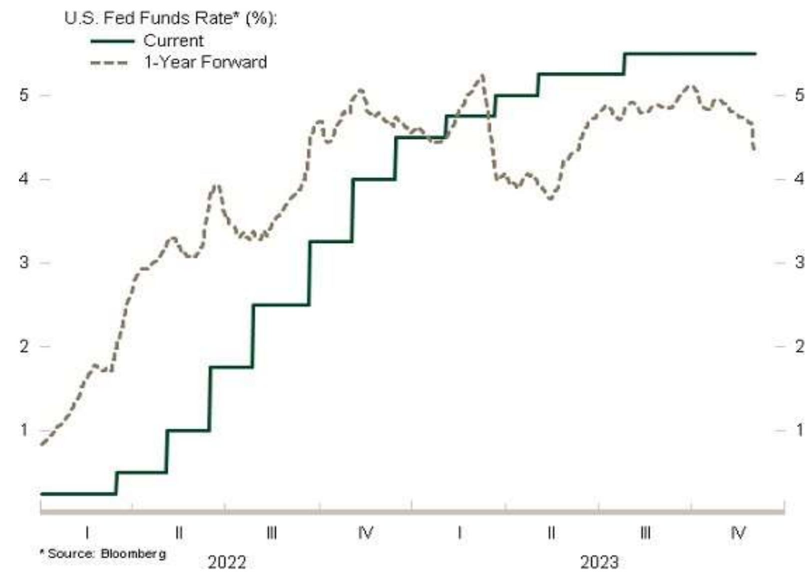
Individual banks may go bust but the overall system is much less fragile than in years past and both politicians and the Fed will likely provide backstops.

Fed Policy: Restrictive, Or Return To "Normal"?



* Source: Federal Reserve** Smoothed; source: Bureau of Economic Analysis
*** Nominal rate minus Cleveland Fed 1-year inflation expectations

Investors Are Prematurely Expecting Aggressive Fed Rate Cuts



* Source: Bloomberg

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Treasury Yields: Last Decade Lows Were The Anomaly

* Source: Federal Reserve
** Nominal rate minus Cleveland Fed 10-year inflation expectations

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Commercial Real Estate Is A Problem But Not A Crisis

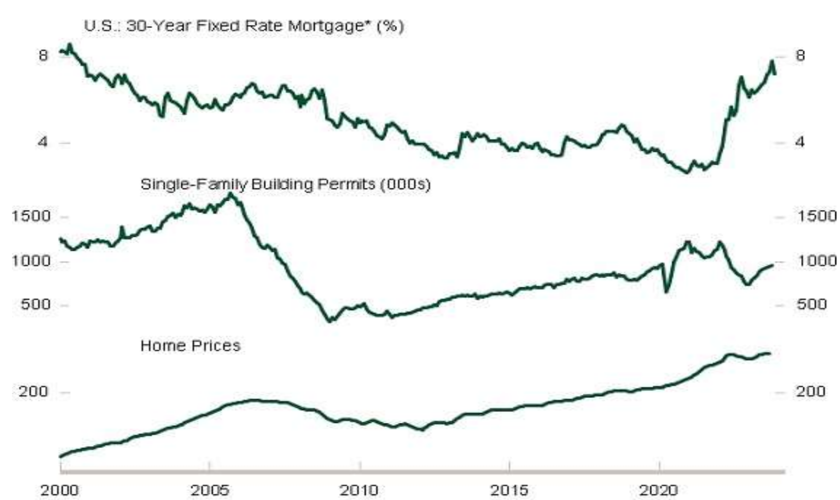
Commercial real estate loans total US$3.6 trillion or 10% of outstanding loans.

Held mostly by small banks and issued to noncorporate businesses.

Commercial real estate loans equal 14% of GDP. In 2007 residential mortgages were 80% of GDP.

Commercial real estate challenges are primarily related to big city office buildings rather than in other sectors like industrial, residential and retail.

Housing Is Soft Due To Higher Mortgage Rates But Not Faltering



* Source: Freddie Mac via FRED
** Source: U.S. Census Bureau
*** Source: Case Shiller

Federal Budget/Debt: Political Realism Required

The federal government does not face an imminent crisis despite high debt and deficits.

Deficits are projected to be high relative to GDP for the foreseeable future.

The aging population is a major factor because social security is inflation-adjusted and Medicare/Medicaid demand is growing.

Higher-for-longer interest rates also add to the fiscal challenges.

A combination of spending cuts and tax increases is inevitable but finding political will to address the issue remains difficult.

U.S. Equities Are Expensive, Global Less So

* Source: MSCI
--- = period average

Tech In The U.S. Is Expensive And The Valuation Culprit

The Magnificent Seven Are Distorting The U.S. And Global Equity Markets

The magnificent 7* represent 28% of the U.S. MSCI market capitalization and 17% of the MSCI ACWI (global) market.

They are bigger than any other major market, including emerging markets or the euro area. They are double the size of Japan and the U.K. combined.

Apple and Microsoft represent 50% of U.S. tech sector market cap!

They trade at huge premiums to the rest of the market and are priced to grow at rapid rates over the medium term, despite already being global behemoths.

* Apple, Microsoft, Google, Amazon, NVIDIA, Meta and Tesla

Conclusion

The Fed has worked aggressively over the last year and a half to control inflation and their efforts are bearing fruit. They've been able to make progress on inflation without a significant impact to employment or economic growth because we went into the monetary tightening cycle with robust labor markets and healthy consumer and corporate balance sheets.

The Fed will be reluctant to cut interest rates until its inflation target of 2% has been achieved. They recognize that cutting rates prematurely could allow inflation to reaccelerate, like it did in the Volker era in the late 1970's and early 1980's. Financial markets current assuming a "soft landing" with the Fed starting to cut interest rates in the middle of 2024.

Timing the interest rate pivot is extremely important but timing is difficult to determine. If the Fed cuts too soon, we run the risk of a reacceleration in inflation. If the Fed waits too long, we run the risk of a recession. Only time will tell.