

Investment Strategy

Frequently Asked Questions

The Duluth Superior Area Community Foundation (DSACF or Foundation) was established in 1983 by visionary community leaders. It is a collection of hundreds of endowed funds created by individuals, families, private foundations, and businesses to enhance the quality of life in the Duluth Superior region.

General Investment Strategy

% Who manages the endowment?

- The Investment Committee is charged by the Board of Trustees (Board) with the responsibility of overseeing the endowment. The Investment Committee has an obligation to ensure that assets are managed in a manner that is consistent with the policies and objectives of the Foundation.
- DSACF retained FEG Investment Advisors (www.feg.com) to provide investment counsel and services to the Investment Committee on aspects ranging from asset allocation, portfolio structure, and selecting investment managers to performance reporting, spending policy, and donor education.

& How can I be confident that DSACF will be a good steward of my funds?

- In seeking to attain the investment objectives for the endowment, the Foundation exercises prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the state of Minnesota. All investment actions and decisions must be based solely on the interest of the Foundation and the endowment. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflict of interest.
- The Investment Policy Statement (IPS), serves as a strategic guide to the planning and implementation of the investment program. It is a highly customized document that is uniquely tailored to the preferences, attitudes, and situation of the Foundation. The IPS also establishes accountability for the various entities that may work on behalf of the Foundation. Most importantly, the IPS serves as a policy guide that can offer an objective course of action to be followed during periods of market disruption when emotional or instinctive responses might otherwise motivate less prudent actions.

" In what types of assets does DSACF typically invest (e.g., equities, bonds)?

- Assets generally fall into one of four categories. Each category serves a specific role and can provide diversification to market risk factors.

Global Equity	Stocks are the primary source of long-term capital appreciation. While having higher expected returns than fixed income, they also have higher expected volatilities. Sub-categories include both public and private equities.
Global Fixed Income	Bonds offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. They are comprised primarily of fixed income (debt) securities and can be categorized as either interest rate or credit sensitive. Sub-categories include both public and private debt.
Real Assets	Real assets insulate from inflation shocks and provide a source of non-correlating returns with other assets. Categories include both public and private investments in real estate, natural resources, and infrastructure.
Diversifying Strategies	Diversifying strategies provide diversification from systematic market risk, with the primary determinant of returns typically derived from manager skill (alpha) rather than the market (beta). Sub-categories include both liquid and semi-liquid, non-directional strategies that seek low correlations to the public equity and fixed income markets.

Management and Oversight

(" Who selects and evaluates investment managers for the endowment?

- The Investment Committee is responsible for selecting investment managers for the endowment. In support of this function and in conjunction with FEG Investment Advisors, it evaluates products and strategies, which includes setting selection criteria, conducting searches, and performing due diligence. It also reviews contracts and fees for conformance with industry standards, communicates investment policies and objectives, and reviews investment managers for any significant changes in key personnel, philosophy, or performance of the firm.

)" What is the role of the Board in overseeing investment decisions?

- The Board bears the overall fiduciary responsibility for the Foundation. As such, the Board is ultimately responsible for making decisions that affect the endowment. The Board created the Investment Committee to assist with discharging its day-to-day duties.

*" Who serves on the Investment Committee?

Matthew Vaillant NorthShore Bank <i>DSACF Board Treasurer</i> <i>Investment Committee Chair</i>	Kerstyn Hendricks National Bank of Commerce <i>DSACF Board Chair</i>
Tara Anderson Allete, Inc. <i>DSACF Investment Committee</i>	Jon Hoel Miners National Bank of Eveleth <i>Chair, Eveleth Community Foundation Fund</i>
Jeff Corey One Roof Housing <i>DSACF Board Trustee</i>	Nels Ojard Krech Ojard & Associates <i>DSACF Board Trustee (Former)</i>
Julian Zebot Maslon Law, LLP <i>DSACF Board Trustee</i>	

Fees and Costs

7. What is the underlying investment management fee for the endowment?

Weighted Average Fee for Underlying Investments	
As of June 30, 2024	
Market Value Internally Managed Pool	Annualized Fee
\$105,179,746	0.24%

8. How are investment management fees communicated to fund holders?

- All pooled funds proportionally bear the costs associated with investment management fees. A line item reflecting all investment management fees charged to each fund is included on the fund's statement.

Risk Management

9. How does DSACF balance risk and return in its investments?

- The overall, long-term investment objective is to achieve an annualized total return (net of investment management expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses, thus protecting the purchasing power of the assets. The assets are managed in a manner to support the primary investment objective, while at the same time attempting to limit volatility in year-to-year distributions.

10. How diversified is DSACF's endowment?

- Asset allocation is one of the key determinants of the endowment's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly beneficial. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories is based on the impact to the endowment, rather than judging asset categories on a stand-alone basis.
- The asset allocation is set within the following ranges.

Asset Allocation Ranges		
	Minimum	Maximum
Global Equity	75.0%	95.0%
Global Fixed Income	5.0%	25.0%
Real Assets	0.0%	10.0%
Diversifying Strategies	0.0%	10.0%
Cash	0.0%	5.0%

11. How does DSACF adapt its investment strategy to market volatility or economic downturns?

- The Board and Investment Committee understand the long-term nature of the endowment and believe that investing in assets with higher return expectations outweighs their short-term volatility and risk. As a result, the majority of assets are invested in capital appreciation assets (e.g., equity or equity-like securities, including real assets).

Ethical and Social Considerations

12 . How does DSACF align its investment strategy with its mission and community values?

- To fulfill its mission, the Board adopted an Investment Policy Statement (IPS) to define the philosophy and objectives guiding endowment management. This policy sets standards for monitoring investment performance, making investment decisions, and guiding investment managers.
- The purpose of the endowment is to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligation to support current and future needs. While shorter-term investment results are monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.
- DSACF embraces impact investing to maximize the positive effect on the community and further the Foundation’s mission with an initial focus on affordable housing. This effort is characterized by three key factors that include intentionality, positive societal improvement, and a goal to generate a financial return on capital or, at minimum, a return of capital.

Performance and Reporting

13. What has been DSACF’s average rate of return over the last 3-, 5-, and 10-years?

Net of Fee Performance As of July 31, 2024			
	3-Year	5-Year	10-Year
DSACF	4.2%	8.4%	6.4%
Past performance is not indicative of future results.			

14. How is investment performance communicated to fund holders?

- Quarterly fund statements are issued, detailing year-to-date fund activity, including investments, administrative fees, contributions, and grants or scholarships.

Long-term Sustainability

15. How does DSACF plan for long-term sustainability and growth of its endowment?

DSACF is committed to long-term endowment growth and sustainability through a strategic, diversified investment approach focused on perpetuity.

1. **Diversified Investments:** Our investments span various sectors and asset classes to leverage market opportunities and mitigate volatility, creating a balanced, growth-oriented portfolio.
2. **Long-Term Perspective:** We maintain a steady focus on long-term gains, avoiding reactionary moves to market changes and instead seizing opportunities in challenging times.
3. **Regular Performance Reviews:** We routinely evaluate each asset's performance to ensure alignment with growth objectives, making adjustments to optimize returns.
4. **Strategic Growth Initiatives:** We explore new investment opportunities that align with our mission, enhancing potential returns.

These strategies build a resilient endowment, securing financial stability for future generations.

Disclosures

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Past performance is not indicative of future results.

Investments in private funds are speculative, involve a higher degree of risk, and are designed for sophisticated investors.

All data is as of October 2024 unless otherwise noted.