

Piano Cleveland
Investment Sub-Committee meeting
January 17, 2024

Present: Colby Krahe (PNC), Lucas Good (PNC), Steve Strayer (Regional Director- PNC), Leslie Dumm, Marissa Moore, Robin Baum, Cindy Resch, Herb Wainer

Robin called the meeting to order at 3:07pm. She welcomed Colby Krahe and Lucas Good from PNC. Colby introduced his Regionals Director, Steve Strayer, who indicated that he had been part of original group who pitched PIANO along with Paul Clark. Before presenting the Investment Report, Colby inquired as to whether there had been any decisions made as part of the strategic planning process that PNC needed to be made aware of. Robin indicated that there had been no decision to change the spending policy but that we may have a need for additional cash availability. Marissa offered to send Colby a copy of the strategic plan as soon as the public document was available. Colby indicated that because PNC adjusts capital market assumptions on annual basis which happened in October, 2023, the asset allocation in IPS should be able to support the current spend rate.

Colby then began his presentation of the December 31, 2023 Investment Report. As of December 31, 2023 the endowment fund value totaled \$1,157,919. As of January 16, 2024, it was down about 1% for a total value of \$1,143,806.

In reviewing the asset allocation, he indicated that all asset classes were pretty close but slightly under for policy targets. Holding about 4% in cash to fund the annual draw at beginning of 2024. He indicated that the overweighting in cash been good for the p portfolio, as we are earning 5.5% interest on the cash balance. The interest rate will decline to 2-2.5% after this year's draw.

Equity - Colby indicated that we are currently overweight in large cap equity by 6.5% due to a reallocation from international equities. This overweight has significantly benefited the portfolio in 2023. Similar for slight overweight in mid-cap securities.

For time being, no anticipated changes on equity allocations or in the active asset managers currently being utilized.

Fixed income – PNC Introduced 7-10 treasury ETF which has benefited the portfolio (up 7% for fourth quarter last year) but it's very specific with 7-10 year time horizon. In the 1st Q of 2024 this fund will be replaced with broad government allocation, something with a 'more balanced approach' and dialed back on strategic income opportunities. Slightly reduce duration on portfolios and high-yield portfolio. These changes should reduce high-yield exposure and improve the credit quality of the holding. Basically, getting more conservative. The current credit rating of the holdings is AA-.

Robin questioned whether PNC's view of changes in the interest rate markets this year influenced the changes mentioned above. Colby indicated that PNC's outlook on rates and effect on fixed income is based upon a divergence between what fed has said and what market is anticipating. PNC expects three cuts of 25 basis points each (more in line with what feds are saying, summaries they've posted) rather than 5-6 interest rate cuts that the market is anticipating of 150 basis points in total.

Colby also indicate that PNC has officially updated expectations that they do not think we will see recession, but instead modest growth (1% growth). Right now S&P is demonstrating an 11% earning growth rate which usually indicates positive equity returns. PNC would expect mid -single digits returns in S&P in 2024, with domestic equities outperforming international equities.

2023 performance:

- Very strong returns, about half came from a great 4th quarter in both equity and fixed income allocations.
 - Up 15% on one year basis
- Selective in active management in less efficient asset classes such as mid-cap and small cap securities.
- The changes made in the portfolio over the past year have been very positive, but PNC is still digging out of hole in comparison to longer term policy and blended benchmark comparisons.

Equity – saw a lot of narrow market leadership, top handful of stocks driving handful of returns. See that in strength of S&P 500 vs. MSCI EAFE (international). – 11.14% vs. 11.55% benchmark

Underperformance on whole portfolio really comes on the 3/5 year scale in equities.

Pleased with fixed income (outperformed benchmark on every time period) – 5.16% vs benchmark of 4.56%

Alternatives continue to beat benchmarks across all time periods. 2.22% vs. benchmark at 1.7% Purpose in portfolio is a risk mitigation tool to help stabilize portfolio.

Colby asked if there were any questions or comments on the presentation. Cindy Resch complimented the PNC team and indicated this is much more of what we were expecting, more righted.

Robin asked if there were any plans to make manager changes at this time. Colby indicated that they had no plans to do so because currently 70% of active managers (12/17) are beating their benchmark since they got into the portfolio. Benefit that diversification can provide.

Herb Wainer then asked if PNC had any thoughts on what they might do if the markets begin to backslide due to the international chaos in the world? He wondered what affect these things might have on markets?

Colby recognized that there are currently two wars going on, and that the China recovery hasn't been what we expected to be. As long as it's not anything greater, PNC don't see any bigger impact. Half of earnings growth rate internationally compared to domestic equities.

Robin inquired as to how much the 2024 endowment distributions would be in order to be sure that PNC had sufficient cash available to fund the distributions. Leslie is currently working on the calculation and will get dollar figure for endowment distribution to Colby shortly.

Marissa then questioned whether PNC had any ability to raise the interest rate being earned on our business banking accounts to 5.25%? Colby explained that on the Institutional side, they can't just 'hold cash'. He offered to help PIANO explore the possibility of gaining access to "T-bill ladder" to get that rate but that's for reserve cash, not operating cash. Cannot do a "sweep account".

Robin indicated that it would be best to contact our business banker to see if there are any promotions that they can apply to raise the interest rate on our current accounts. Colby offered to reach out to our business banker, Aaron Arnosky to see if there any rates like this that are available. He indicated that he might be able to apply pressure to help us get one of these accounts.

Robin than thanked the PNC representatives and spoke directly to Steve Strayer in conveying the importance of the changes that have occurred in our relationship since Colby and Lucas took over managing the relationship. Big increase in communication and in performance, both of which we appreciate! Reports early, etc.

Colby, Lucas and Steve then left the meeting.

Closed part of meeting

Robin indicated that last year PNC sent out a ton of flyers looking for new deposits, offering 5%. She said that her business account was earning nothing, so she called and reminded her business banker of the importance of taking care of current customers! In doing so, she was able to obtain the same 5% promotional rate on her business's existing money market account.

New business – Robin indicated that Linda MacDonald had requested that each committee prepare their goals for 2024. Robin indicated that she had submitted one goal that directly impacted the Investment Sub-Committee. She explained that having had Cindy aboard has been phenomenal! She is extremely knowledgeable and will keep PNC on task, but we would love to consider having an additional person with similar expertise on the committee who is a non-board member. This increases our bench strength and allows Cindy to join other committees as a new Board member.

Robin then made the comment that PNC doesn't seem to think it will be a rocky year, but she wondered what other committee members thought? Cindy Resch provided the following thoughts:

- Probably more difficult locally - politically what's happening in the US, dysfunctional, lack of confidence that ppl have in all government system. May weigh on markets since it's 'home turf'.
- Ukraine/middle east – not going to be quick solutions in either place
- Still think mid-single digit returns might be right
- Does think a recession is a possibility, fed will likely not lower rates as much as market is anticipating (just as PNC thought)
- Agree in their tilting towards large cap domestic equities
- Alternatives being basically held as a fixed income substitute
- Think generally they are on the right path, especially compared to what they were doing before. This is much more long-term approach. No longer 'chasing the market'

Marissa then reported on a current opportunity that the Cleveland Foundation has pitched to PIANO:

Cleveland Foundation would make a \$500k match if we

1. Moved our endowment funds to the Cleveland Foundation for management.
2. Raised \$500 for a specific restricted purpose – sponsorship of a specific prize that would fund a one-year residency in Cleveland for the winner.
3. Both the funds raised and the match would be fully restricted in use for this prize.

Marissa's biggest concern was that she would want the funds available for general funds. Herb and Robin both indicated that if the board so chose, they could designate funds for a specific purpose.

Leslie reminded us all that this is the last year we will receive Mixon gift. Fundraising for to replace this will be needed and to date, we have only completed fundraising for endowment prizes that have been well established.

The committee agreed that this was an interesting idea to consider, but not for 2024 with the other campaigns that we have currently committed to which are really legacy campaigns. They also agreed that there were big concerns around spendable dollars when this proposal would restrict a big chunk of endowment distributions.

Robin indicated that her biggest concern was that under the creation of the strategic plan, large increases from budget standpoint are long-term developmental commitments. If we were to accept the Cleveland Foundation's proposal, it would mean programs or staff would have to be cut, takes legs out of strategic plan and what we've built thus far.

Marissa inquired whether we could instead set aside these development funds, possibly using some Board designated fund? One that makes money...? Mid-term timeline?

The committee members agreed that this was a topic to be further discussed in the full Finance Committee meeting in two weeks. Robin promised to add it to the agenda.

Leslie asked Robin to review the 2024 schedule that she had prepared for the Investment Subcommittee, "Gang of Six", and Finance Committee meetings so that she could disperse the dates to the committee members. Robin agreed to do so and to get back to Leslie.

Robin closed the meeting at 4:39pm.