Quarterly Investment Report: October-December 2019

Financial Markets Review
Global economic growth slowed in 2019 driven by the global trade slowdown and weakness in capital spending. Growth is expected to rebound moderately in 2020 as the effects from easier monetary policy and reduced trade tensions continue to take hold. US economic growth slowed in 2019 but remained near its long-term trend supported by consumer spending. The global trade slowdown had a larger impact on Eurozone growth but the region avoided recession.

Global equities returned +9.0% in the fourth quarter, capping off an excellent year for stocks. The S&P 500 Index returned +9.1% in the quarter, advancing +31.5% for the year. International developed markets gained +8.2% during the quarter and +22.0% for the year. Emerging markets gained +11.8% during the quarter and +18.4% for 2019. Growth stocks continued to outperform value stocks in 2019 while large-cap stocks outperformed their small-cap counterparts.

Fixed income markets also fared exceptionally well in 2019 as the Fed cut interest rates three times during the year. The Bloomberg Barclays US Aggregate Index advanced +8.7% for the year following a +0.2% return for the quarter as the yield curve steepened and credit spreads narrowed.

Investment Pool Commentary
The Long Term Diversified Pool (LTD) returned +4.3% for the quarter and +14.9% for the calendar year. The LTD Pool underperformed its benchmarks in 2019 driven by four factors: 1) strategic bias towards value as the growth factor outperformed; 2) strategic bias towards small-cap stocks as large-caps outperformed; 3) diversifying strategies underperformed the exceptional returns of public equity and fixed income markets; 4) the private equity program is experiencing normal “J-curve” effects due to the relative infancy of the portfolio. Given its diversified structure, the LTD Pool typically will underperform its benchmarks when equity markets rise rapidly as we saw in 2019. The LTD Pool slightly underperformed its benchmarks for the 5- and 10-year primary evaluation periods.

Since its establishment in April 2019, the Long Term Aggressive Growth Pool (LTAG) returned +7.9%, slightly ahead of its benchmark. The LTAG Pool has benefited from strong performance from its active fixed income manager, Western Asset Management.

The Socially Responsible Pool (SRI) returned +7.5% during the quarter and +22.1% for the calendar year. The SRI Pool outperformed its benchmark over both periods driven by strong performance from its equity managers, Vanguard and Boston Common.

The Intermediate Pool (INT) returned +4.5% for the quarter and +16.9% for the calendar year. The INT Pool slightly lagged its benchmark in 2019 driven by the strategic value bias of DFA, who manages US small-cap and emerging markets equity strategies within the Pool.

For questions or additional information, please contact your relationship manager or [click here to visit our website](https://www.arizonacommunityfoundation.org).
Per industry standard, investment pool returns are reported net of underlying investment manager fees. Returns do not incorporate other pool expenses including custody, consulting, and legal fees, or ACF’s investment oversight fee. Actual returns for individual fund-holders may vary from the pool(s) in which they are invested due to the timing of contributions and grants/distributions.

The Strategic Policy Benchmark represents the weighted average return of the underlying asset class benchmarks using the pool’s strategic asset allocation through time. The Public Markets Benchmark represents 70% MSCI All Country World Index (ACWI) / 30% Bloomberg Barclays Aggregate Bond Index.
Long Term Aggressive Growth Pool
Established April 2019

Net Returns - As of December 31, 2019

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<thead>
<tr>
<th>Quarter</th>
<th>YTD</th>
<th>1 Year</th>
<th>5 Years</th>
<th>10 Years</th>
<th>Since Est.</th>
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<tr>
<td>7.4%</td>
<td>7.3%</td>
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<tr>
<td>7.9%</td>
<td>7.6%</td>
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Intermediate Pool
Established December 2005

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Short Term Pool
Established May 2003

Net Returns - As of December 31, 2019

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