

## Commentary and Investment Overview Prepared for the Ohio Association of Broadcasters

|                                    | <i>YTD through<br/>02/29/2024</i> | <i>Prev. 1 YR through<br/>02/29/2024</i> | <i>Inception through<br/>02/29/2024</i> |
|------------------------------------|-----------------------------------|--|---|
| <b>Reserve Portfolio (Net IRR)</b> | <b>3.33%</b>                      | <b>13.82%</b>                            | <b>4.09%</b>                            |

**Asset Allocation and Cash Reserve:** No changes to the portfolio allocation. It remains near the neutral targets for all five asset classes. The Reserve's cash account is currently holding \$156,206.72 in cash as the reserve. Of this amount, \$124,943.82 is invested in Schwab Treasury Obligation Money Fund (SNOXX). The 7-day yield on the fund is 5.03%.

| Asset Class             | Current Value      | Current Percent | BRR 65 Value       | BRR 65 Percent |
|-------------------------|--------------------|-----------------|--------------------|----------------|
| Cash & Equivalents      | \$15,363           | 0.86%           | \$0                | 0.00%          |
| Fixed Income            | \$348,098          | 19.57%          | \$391,289          | 22.00%         |
| Alternative Investments | \$235,894          | 13.26%          | \$231,216          | 13.00%         |
| Global Real Estate      | \$45,707           | 2.57%           | \$53,358           | 3.00%          |
| Domestic Equities       | \$692,994          | 38.96%          | \$658,077          | 37.00%         |
| International Equities  | \$440,531          | 24.77%          | \$444,647          | 25.00%         |
| <b>Total</b>            | <b>\$1,778,586</b> | <b>100.00%</b>  | <b>\$1,778,586</b> | <b>100.00%</b> |

Allocation as of 02/29/2024

We saw broadening of the market during November and December of 2023, meaning the market was not being driven by a concentrated group of stocks (a.k.a. the Magnificent Seven), and hope that trend will continue into 2024. Similar to 2024, growth stocks continue to outperform value stocks where growth-oriented strategies like Harbor Capital Appreciation returned close to 13% while most value strategies returned closed to mid-single digits for the first two months. Notable exception is Berkshire Hathaway which continue to perform well, returning close to 15% for the same time period.

In January of this year, we removed one of our long-held positions called Meridian Growth Fund (MERDX) and replaced it with GMO Small Cap Quality Fund (GMAYX). While the Meridian Growth fund has performed well over our holding period, we believe we have identified a better long-term investment opportunity in the smaller segment of the U.S. equity market. The GMO Small Cap Quality fund is managed by a strong team, has lower expenses, and has outperformed the Meridian fund in the recent rally since inception of the fund in Q3 2022. While this is a short period of time, the team has nearly two decades of success managing similar quality strategies at GMO in large cap markets. GMO has been around since the 1970s and has a long track record of success as a firm. We have long followed and frequently quoted one of GMO's founders, Jeremy Grantham (the G in GMO) and consider him to be among the greatest living strategists and historians of markets.

**GMO Small Cap Quality (GMAYX)** is an active small cap equity strategy investing in U.S. markets. The team employs quantitative and fundamental techniques to identify quality companies with established track records of profitability trading at attractive valuations. Fundamental analysis aims to enhance the quantitative process by improving on the limitations inherent to traditional passive quantitative methods. The investment process results in a relatively concentrated portfolio of their 35-45 highest conviction quality small cap stock ideas.

We have known GMO dating back over twenty years and have great respect for the institutional investment franchise they have built. The firm was founded philosophically on tenets of investing through a value-based fundamental investment style, later augmenting this process through robust quantitative methods. GMO has built an investment platform largely on institutional investors, such as large pensions, endowments, and sovereign wealth funds. The strategy is managed by a highly talented team within GMO, the Focused Equity group: a group comprised of three portfolio managers and supported by a tight knit team of analysts. The team has successfully managed a nearly identical strategy in large cap since the early 2000's.

## **Why?**

- While we continue to like the process and management team of the Meridian Growth Fund, our due diligence process has arrived at what we believe to be a more compelling long-term opportunity.
- We believe there to be a unique opportunity in small cap that the team at GMO is well equipped to capture, having successfully applied a similar process in large caps for nearly two decades.
- GMO Small Cap Quality has a relatively favorable fee structure for an active small cap equity manager. The fee of the fund is over 10bps lower than the Meridian Growth fund and is highly competitive in the active small cap manager universe.

## **Opportunity:**

- Empirically, thoughtful quality investing in the small cap universe provides a unique risk/reward profile for long-term investors. Investors have historically achieved higher returns with lower risk by owning the highest quality stocks in this universe.
- Biasing a U.S. small cap portfolio toward higher quality businesses fundamentally makes sense from a risk standpoint, as long as it doesn't jeopardize too much in the way of expected returns.
- While current profitability of the average small company in the U.S. is strong relative to history, they can be more cyclical with profits drying up during more challenging economic periods.
- The recent rise in interest rates and changes in U.S. tax policy have created a particular issue for highly levered U.S. companies, and high-quality U.S. small caps may outperform lower quality, highly leveraged companies during future difficult periods.
- The Small Quality factor works for long-term investors as it has historically lost less in down markets than it trails in sharp upward trending markets, leading to favorable compounding characteristics.
- We believe the team at GMO is well equipped to capture this long-term opportunity. Applying simple quantitative techniques to identify quality in small cap has led to excess returns when compared to the broader small cap universe as well as the broader U.S. market. We believe these favorable characteristics to be meaningfully more robust when applying GMO's version of quality. Generic versions of quality often come at the expense of

paying elevated valuations for securities. Paying too high of a price may offset long-term returns of the quality process. The GMO process integrates a valuation sensitive approach to assessing the investment merits of a quality business.

| Asset Class                             | Value              | Weight         | Year to Date Net Return | Previous 1 Year Net Return | Inception to Date (4/30/2008) Net Return |
|---|--------------------|----------------|-------------------------|----------------------------|--|
| <b>Cash &amp; Equivalents</b>           |                    |                |                         |                            |  |
| Cash & Equivalents Total                | \$15,363           | 0.86%          | (7.56%)                 | (24.72%)                   | (5.07%)                                  |
| FTSE USBIG 3 Mo. Treasury Bill          |                    |                | 0.90%                   | 5.44%                      | 0.94%                                    |
| <b>Fixed Income</b>                     |                    |                |                         |                            |  |
| Fixed Income Total                      | \$348,098          | 19.57%         | (0.45%)                 | 5.85%                      | 3.54%                                    |
| Bloomberg US Agg. Bond Index            |                    |                | (1.68%)                 | 3.93%                      | 2.63%                                    |
| <b>Alternative Investments</b>          |                    |                |                         |                            |  |
| Alternative Investments Total           | \$235,894          | 13.26%         | 3.03%                   | 12.44%                     | 1.03%                                    |
| HFRI Fund of Funds Composite Index      |                    |                | 0.78%                   | 5.62%                      | 2.29%                                    |
| <b>Global Real Estate</b>               |                    |                |                         |                            |  |
| Global Real Estate Total                | \$45,707           | 2.57%          | (2.30%)                 | 3.37%                      | * (0.04%)                                |
| S&P Global REIT                         |                    |                | (3.62%)                 | 4.12%                      | 5.26%                                    |
| <b>Domestic Equities</b>                |                    |                |                         |                            |  |
| Domestic Equities Total                 | \$692,994          | 38.96%         | 7.18%                   | 23.75%                     | 7.93%                                    |
| Wilshire 5000 Index                     |                    |                | 6.51%                   | 29.21%                     | 10.68%                                   |
| <b>International Equities</b>           |                    |                |                         |                            |  |
| International Equities Total            | \$440,531          | 24.77%         | 2.15%                   | 11.74%                     | 3.39%                                    |
| MSCI All Country World Index X - US Net |                    |                | 1.51%                   | 11.79%                     | 2.71%                                    |
| <b>Total</b>                            | <b>\$1,778,586</b> | <b>100.00%</b> | <b>3.33%</b>            | <b>13.82%</b>              | <b>4.09%</b>                             |

\* Partial period return  
Returns for periods exceeding 12 months are annualized.

For the first two months of 2024, the portfolio is holding up well with the market with all the asset class either at par or slightly ahead of the relevant benchmarks.

We continue in our research and due diligence to look for better opportunities, similar to the most recent small cap swap into GMO. While you should not expect high turnovers in your portfolio, you may see changes to your holdings from time to time.

As always, please reach out with any questions.

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