APPROVED

Veritas Preparatory Charter School

Minutes

Investment Sub-Committee Quarterly Meeting

Zoom Meeting

Date and Time
Tuesday February 8, 2022 at 4:00 PM

Location
Join Zoom Meeting
ID: 87376986569
Passcode: 989725

(US) +1 301-715-8592
Passcode: 989725

Trustees Present
A. Mendelson (remote), D. Ford (remote), M. Landon (remote)

Trustees Absent
None

Guests Present
N. Gauthier (remote), R. Romano (remote), Steve Howard (remote)

I. Opening Items

A.

Record Attendance

B. Call the Meeting to Order

M. Landon called a meeting to order on Tuesday Feb 8, 2022 at 4:04 PM.

II. Veritas Investment Portfolio

A. Update on Veritas Investment Portfolio

Steve Howard from Seeley Howard will present about Veritas' current investment portfolio.

Difficult time in the market - we have had our first shift in 18 months. Steve will talk about how assets are performing and how they have tweaked the portfolio a little to compensate. The projections show that this too will pass.

Their approach to asset allocation currently is to get rid of the over burden and find the quality information to discern how we should be positioned long and short term. Over the long term, which our portfolio is designed to do, will experience growth.

It's time in the market, not market timing. Over time, the market has a tendency to march higher so we don't want to get to acutely focused on what's happening now or even in the near future.

Macroeconomic discussion:

We're a little more cautious then we have been in a long time on the outlook for equities, given the potential for meaningfully slower economic growth, tightening financial conditions (high energy prices, lower savings rates, and a normalization of Federal Reserve monetary policy).

By December the market is forecasting 5 interest increases.

Tightening monetary policy into a slowdown is a challenging task: With growth slowing, we see the potential for a policy mistake and heightened volatility.

Long-term rates actually move lower when the FED tightens into a slowdown: Counterintuitively, long-term interest rates have ever risen when the Federal Reserve adjusts monetary policy tighter into a slowdown.

Positioning is far from defensive: The mega-caps have helped obfuscate this closet bear market. Investor complacency means that many investors remain leveraged and unprepared for a major drawdown.

Closet bear market: The average stock in the Russell 3000 is now down 32% from its 52 week high. The mega-caps have helped obfuscate this closet bear market. If they continue to topple, it would have a negative impact on the broader market.

Volatility measures point to the need for caution: The average stock in the Russell 3000 is now down 32% from its 52 week high. The mega-caps have helped obfuscate this closet bear market.

Outlook: In contrast with most of the past 18 months, we have turned cautious on the outlook for equities, given the potential for meaningfully slower economic growth, tightening financial conditions (high energy prices, lower savings rates, and a normalization of Federal Reserve monetary policy).

The biggest area of high yield is the energy markets.

Small Business Optimism: is perhaps the best approximation of Keynes " Animal Spirits". Current readings don't augur well for a hawkish federal reserve.

The Veritas Prep portfolio is currently positioned quite defensively, given the challenging growth, inflation, and policy backdrop.
Bonds: we're above target
Liquid alternatives: are at 15%
Performance: Early shifts have not provided instant gratification but over the long term we think they'll hold up well.

Current Veritas portfolio is currently positioned quite defensively, given the challenging growth, inflation and policy backdrop:

Rational special situations income fund: All leather bond fund. This bond fund is a good one, it was up about 7% last year. Subtle bonus about this fund is that the people who run it are very knowledgeable and know how to manage it well.

Matt asks as this fund grows and attracts capital how do they find similar opportunities?

Steve says its a very narrow market and a relatively small bond fund. They still can quintuple in size before having to look at capacity and liquidity issues.

Columbia Income Builder: Averaged about 6% returns and can have as much as 20% equity in the portfolio. You get 3% while you're waiting and moderate appreciation as you move forward. It's a good foundational element of this portfolio. This is a nice source of liquidity when the risk reward gets a little better.

Denise asks if it has a 0% yield this year?

Steve says yes but that's not the return. It's the distribution yield of the fund.

Sierra Tactical Bond Fund: It's been around since 1987. Everything in this portfolio has been cycle tested so we have a feel of how it reacts under stress. As a default, it is a high yield bond fund. When things are looking good, you are getting the most from your high yield bond funds. This time, people focused on high inflation and treasuries did not do well and this portfolio is down just over 2% for this year but is still outperforming other similar funds (e.g. Bloomberg).

Hartford Core Equity Fund: Managed by Wellington. Low cost fund for an active manager. Once we get some signals we'll increase the waiting here. It is outperforming the S&P 500. This is our foundational equity exposure.

Blackrock Credit Strategy: Most disappointing so far and is down 2.5-3% this year. Still in line with the bond market this year and still generating some income.

Innovator U.S. (Equity Ultra, Small Cap Pow, Equity Ultra): Buffer Funds. Provide some degree of downside protection S&P 500 or Russell 2000, they cap your upside a bit. They help manage risk quite well over a year because they give you an 8-15% upside while protecting you from the larger downside.

IShares 20+ Extended Duration Treasury: Cherry on top of the portfolio.

Blackrock Science & Tech: Should perform well for the portfolio over time. While we're waiting for the grip we're still getting decent income.

Innovator U.S. Small Cap Pow: Giving us some small cap exposure.

Eaton Vance Tax Management Global: Global equities exposure.

Innovator U.S. Equity Power: Good performer over time.

LHA Market State Tactical, Pacer US Small Cap Cash Cows: Token amount of other small cap exposures we bought last year.

Steve will continue to reduce some of the more aggressive areas if need be to where the opportunities lie. Portfolio will still make money because of some of the funds but right now it is more defensively positioned. He feels very optimistic that they have a lot of tools to capitalize when the time is right to get more appreciation.

B. Questions and Answers

Matt says performance YTD is right in line with our expectations. He just wants to make sure from a governance standpoint that we're always in line with our IPS. Our largest holding, the special situations, in a more normal market, what would the weight be there?

Steve thinks its plays a foundational role. Over the first 10 years of its life, it outperformed the S&P 500.

Matt asked about some of the newer funds that aren't cycle tested, did they come from other places that gives them more clout?

Steve says yes, they have a longer history and good track records.

Matt is more comfortable with Rational Special Situations being our largest holding now that he knows they have observed them through all market cycles.

Aaron says he always thought when interest rates go up, bond prices go down. So with a 58% investment in bonds, how do you defend that?

Steve says that would be indefensible if these were fixed rate bonds. He has been very keen to try to build and all weather, fixed income portfolio.

Denise said when she looked at the December statement she noticed that Steve is very active in trying to balance out the portfolio because she noticed things that have already been sold.

Steve said yes and he really follows the signals to determine what to keep, what to sell, and what to adjust. Now that we have a more cautious portfolio, we need to wait for confirming signals.

Denise asks how large of a revenue size is a small cap company?

Steve says 300 million - 2 billion. Matt confirms.

III. Closing Items

A. Adjourn Meeting

There being no further business to be transacted, and upon motion duly made, seconded and approved, the meeting was adjourned at 5:16 PM.

Respectfully Submitted,
M. Landon