

Morgan Stanley



Colorado Gives Foundation: Annual Investor Meeting Highlights

February 2025

Capital Markets Summary

2024 Recap

- The S&P 500 surged 25% in 2024, marking its second consecutive year of over 20% gains. The yield curve began to normalize with 90-day treasury yields declining from 5.5% to 4.4% and 10-year yields moving from 4.0% to 4.6% over the course of 2024.
 - Robust economic growth was fueled by enthusiasm for artificial intelligence.
 - The US Aggregate Bond market rose only 1.3% as yields fluctuated over the year.

2025 Outlook

- 2024 marked a second year of top quartile returns for the US equity market. Continued price gains in the S&P 500 suggest best case scenarios are being priced in for 2025 where valuations are near extremes and expectations are rosy.
- Our forecast is that reality will prove more challenging while the vast policy agenda of the incoming administration will be noisy and “lumpy” making discounting of implications hard. Pro-growth changes to regulation and taxes, stimulating “animal spirits” are likely ideally exploited through idiosyncratic company and sector selection as systemic impact is apt to be at least partially offset by disruptive policies around tariffs and immigration.
- 2025 S&P 500 gains likely at highest up 5-10% as price/earnings multiple expansion is stalled and earnings struggle to surpass ambitious forecasts. Financials, domestic industrials, health care, energy infrastructure and mid-cap growth preferred. On a risk-adjusted basis, we suggest broad diversification where 10% potential total returns in areas like IG and real assets are possible.
- US equity valuations appear rich at more than 25x 2024 forward consensus earnings and 22.3x 2025 estimates; currently we are at an equity risk premium of only 26bps.
- Regarding Mag 7 (AI Stocks), we are observing rational “de-concentration” of the top of the index as idiosyncratic performance between and among the names become more pronounced.

EQUITIES

- **Continue to remain cautious in general given potential valuation pressures into 2025**
- **Expect modest market growth for the year.**
- **Favor cash flow strategies and companies / industries which can generate organic cash flow**

FIXED INCOME

- **With spreads widening and long-term rates reflecting a more reasonable terminal value, bonds are a decent relative alternative to stocks**
- **Cash flow opportunities exist with Investment Grade corporates showing greater than average debt service coverage**

Portfolio Highlights – Long Term

Long Term Pool Illustrated– As of 12/31/24

Performance

- Long-term trailing portfolio return lagging behind benchmark due to benchmark tech concentration
- Since inception, the portfolio has compounded capital at 6.7% annualized, ahead of the benchmark

Cost Efficiency

- Annual investment management costs of 0.29%

Positioning Highlights

Equity

- Tactical underweight to global equities with an emphasis on active management.
- While short-term estimates for equities are flat, we still see relative value opportunities within selective segments of the equity markets that should bode well for active managers.

Fixed Income

- Tactical overweight to investment grade fixed income.
- Front end investment grade offers attractive risk/reward with decent interest rate levels, amid improving credit quality and interest coverage

Multi-Period Performance Analysis



	QTD	1 Year	5 Years	10 Years	Since Inception Jan 2010
Long-Term Portfolio	-2.26	8.00	4.89	5.57	6.68
Long-Term Benchmark	-1.70	9.57	5.38	5.77	6.29

Calendar Year Performance Analysis



	YTD	2023	2022	2021	2020	2019	2018	2017	2016
Long-Term Portfolio	8.00	12.88	-16.49	9.94	13.45	16.97	-5.08	15.35	7.88
Long-Term Benchmark	9.57	14.03	-15.75	9.19	13.08	18.51	-5.04	14.37	5.66

Portfolio Highlights – Short Term

Short Term Pool Illustrated– As of 12/31/24

Performance

- Short-term trailing portfolio annualized return performing in line with benchmark.
- Since inception, the portfolio has compounded capital at 4.5% annualized, ahead of the benchmark return of 3.2%.
- Current Yield approx. 4.6%.

Cost Efficiency

- Annual investment management costs of 0.21%

Positioning Highlights

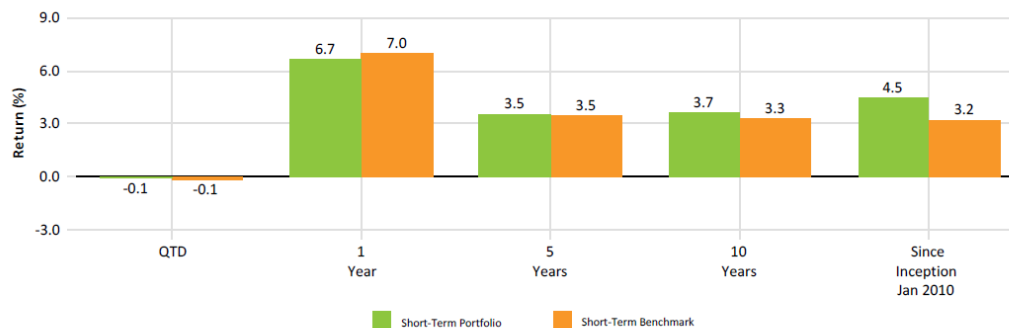
Equity

- Tactical underweight to global equities with an emphasis on active management.
- While short-term estimates for equities are flat, we still see relative value opportunities within selective segments of the equity markets that should bode well for active managers. Dividend / cash flow quality strategies are key overweights.

Fixed Income

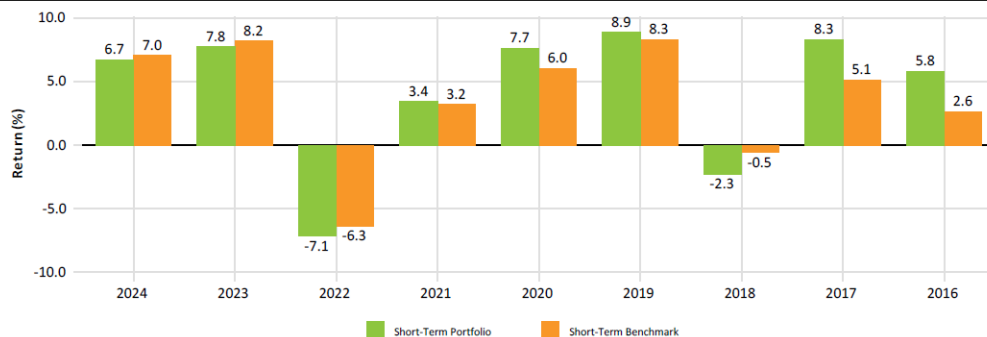
- Tactical overweight to investment grade fixed income, with a focus on interest rate sensitivity management
- Shorter duration investment grade offers attractive risk/reward with decent carry, amid improving credit quality and interest coverage

Multi-Period Performance Analysis



	QTD	1 Year	5 Years	10 Years	Since Inception Jan 2010
Short-Term Portfolio	-0.06	6.71	3.51	3.66	4.51
Short-Term Benchmark	-0.13	7.00	3.47	3.28	3.20

Calendar Year Performance Analysis



	YTD	2023	2022	2021	2020	2019	2018	2017	2016
Short-Term Portfolio	6.71	7.78	-7.15	3.37	7.67	8.88	-2.28	8.34	5.82
Short-Term Benchmark	7.00	8.16	-6.31	3.17	6.01	8.27	-0.54	5.15	2.63