Community Foundation
of Greater Muscatine

INVESTMENT COMMITTEE

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Vice President, retired
HNI Corporation

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President
First National Bank
of Muscatine

Angela Johnson
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Edward D. Jones

Gary Slight
Vice Chairman of the Board
& Senior Trust Officer
Community Bank and Trust

Jim Stein
Chairman Emeritus
Central Bancshares, Inc.

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EMPOWERING ENDOWMENT & OTHER LONG-TERM FUNDS

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This document represents an overview of the principal financial and investment philosophies and practices of the Community Foundation of Greater Muscatine Investment Committee and its investment portfolio performance. The Committee is governed by a much more comprehensive "Investment Policy" that is available upon request.

Community Foundations

Community foundations are tax-exempt charitable organizations created by and for the people of their respective communities or counties. The mission of a Community Foundation in its simplest form is building community! The stated Mission of the Community Foundation of Greater Muscatine is to actively work to improve the quality of life in Muscatine County through philanthropy.

Community foundations provide personalized service to their clients to achieve charitable and financial goals by offering tools and resources that make both giving and the investment of funds easy, flexible, and effective. They typically represent a collection of endowed funds established by many individuals, organizations and businesses and to which many different types of donors contribute. The goal is to empower or grow these endowed funds to ensure grants support the community in perpetuity.

Accredited community foundations receive the most favorable tax advantages allowed by law. For example, in Iowa, the Endow Iowa Tax Credit provides a 25% state tax credit for donors to endowments even if they don't itemize – this is in addition to a normal federal charitable income tax deduction.

People Make the Difference

We suggest the most important consideration in determining the effectiveness of any community foundation is the quality of the organization and people behind it. The Community Foundation of Greater Muscatine has given highest priority to attracting an expert Board of Directors, Board-appointed Committee members, and executive staff. The Board and its Committee members generously volunteer their time, knowledge, and leadership skills, which dramatically lowers the overhead cost of operating the Community Foundation, including the investment of funds. And, professional executive staff makes it all happen!

Investing with Conviction

The Community Foundation's Investment Committee is responsible for advising all Foundation investment decisions. The Committee is comprised of eight independent volunteer community members and two Community Foundation executives who provide administrative support to the Committee: Scott Ingstad, Angela Johnson, David Jones, Gary Slight, Bob Sheets, Jim Stein, Mike Wilson, Chair Mel McMains and Charla Schafer, Executive Director.

The Community Foundation does not utilize an outside independent investment advisor at this time but may choose to do so at some point. All independent volunteer community committee members are active community leaders who have been selected for their professional financial and investment expertise AND extensive record of community service which gives them a deep-seated understanding of the serious fiduciary responsibility inherent in investing client monies. The Committee meets routinely on a quarterly basis, but is also available on an ad hoc basis, as warranted.

The Investment Committee has adopted and faithfully practices time-tested and proven investment philosophies and strategies that are summarized in this document. The investment of all Community Foundation funds is guided by a formal and comprehensive written "Investment Policy." *It is all about employing investment discipline.*

Foundation and client funds are pooled for investing purposes. The power of pooling enables greater buying power than would be possible by any individual investor. This allows for investing in a wider range of securities more effectively than would be possible by any investor on their own which also has huge portfolio diversification benefits. Plus, this larger investment pool also enables having more professional fund management who does the daily and longer-term work of supporting the investment strategy, executing trades, filing the needed paperwork and recordkeeping, monitoring fund holdings and performance, and conducting in-depth research and analysis to investigate new opportunities while pursuing investment goals. On average, the Community Foundation charges a modest 1% per annum service fee on all funds invested to partially offset the cost of providing all client services, not just investment-related services.

Investment portfolios are diversified in to various asset classes of the financial market to average the returns, minimize risk and to mitigate loss. This is recognition that individual asset class values tend to go up and down at different times which allows an investor to reduce risk and participate in the potential rewards each market sector offers over time. The investment portfolios employ both fixed income and equity investments and targeted asset allocation mixes.

- The favored fixed income investments are laddered bank certificates of deposit and quality mutual bond index funds.
- The favored equity investments are quality mutual funds with a strong preference for index funds.
- Primarily employ a "buy and hold" long-term investment strategy.
- The favored fund vendor is The Vanguard Group, Inc. selected for its broad product offering of mutual and exchange-traded funds, low administrative fees, exceptional fund performance, and sterling reputation.

The aforementioned Foundation's "Investment Policy" provides a much more in-depth explanation of the major investment principles and practices employed by the Investment Committee. A copy of the Policy is available upon request.

Investment Portfolio Options

The Community Foundation currently has four model investment portfolios available to clients: one short-term and three long-term. In addition, new portfolios may be added to address special investment needs. Regardless of the investment portfolio, they all have a comparatively conservative investment bias although each intentionally represents a different risk/return profile.

<u>Short-Term Investment Portfolio</u>
Investment Model A Portfolio is a fixed income portfolio designed to invest short-term funds – funds projected to be needed within the next twelve months. In this instance, the investment objective is to preserve the asset principal of a fund while earning a competitive rate of interest income on the fund. The Community Foundation pools short-term funds that allows it to make a higher denomination investment that typically earns a higher interest rate than if a lesser amount was invested separately.

The Model A Portfolio typically uses a combination of fixed income securities: money market, short-term certificates of deposits, and on occasion short-term bond funds. Short-term certificates of deposits are always laddered by duration.

The short-term investment goal is to exceed the annual rate of inflation, at a minimum.

<u>Long-Term Investment Portfolios</u>
The three current long-term investment model portfolios: Conservative Growth, Active Growth and Dynamic Growth, all invest in essentially the same or very similar investment securities, but with different asset allocation mixes

(percentages). The purpose of these mix differences is to change the investment risk/return character of the portfolios. A client may choose to invest in one or more of these long-term portfolios.

The investment risk/return of all long-term portfolios are managed through a combination of three different asset allocation mixes: (1) the percentage of the portfolio allocated between fixed income and equity securities; (2) the specific investment fund choices included in each portfolio; and (3) the targeted allocation mix assigned to each investment security.

Conservative Growth Portfolio

This portfolio is designed to be a more conservative investment portfolio option with its 60% fixed income allocation and 40% equity allocation. It employs similar fixed income and equity mutual funds as the much larger Active Growth Portfolio but with different targeted mixes.

The long-term investment goal of this portfolio is to exceed the annual rate of inflation by a minimum of 2% with a longer-term target of a compounded annual growth rate of 5-7% prior to charging the Community Foundation's annual service fee.

Active Growth Portfolio

This portfolio is the "default" long-term investment portfolio for continuing charitable funds, endowment funds, and unrestricted Foundation funds for long-term capital growth. Most Community Foundation long-term funds are currently invested in this investment model. It is comprised of approximately 40% fixed income investments and 60% equity investments.

The long-term investment goal of this portfolio is to exceed the annual rate of inflation by a minimum of 2% with a longer-term target of a compounded annual growth rate of 7-9% prior to charging the Community Foundation's annual service fee.

Dynamic Growth Portfolio

This portfolio is designed to be a bolder portfolio option consisting of approximately 25% fixed income and 75% equities coupled with a modified asset mix. This portfolio was developed to capitalize on the fact that history has proven that equities have outperformed any other type of investment over the long-term. So this portfolio is best utilized for investing long-term endowment funds that can tolerate the normal short-term ups and downs of the market and is seeking long-term capital appreciation that equities have historically delivered.

The long-term investment goal of this portfolio is to exceed the annual rate of inflation by a minimum of 2% with a longer-term target of a compounded annual growth rate of 9-11% prior to charging the Community Foundation's annual service fee.

The Community Foundation believes making good quality diversified investments represents the best investment offense and defense. Patience and exercising good investment judgment will be rewarded.

INVESTMENT COMMITTEE CHARTER

Core Investment Principles

- ***Capitalism:*** an enduring belief in capitalism and how free capital markets function.

- ***Capital Markets:*** belief that capital markets are relatively efficient, that is, capital markets discount, or reflect, all widely known information at all times.

- ***Simplicity:*** keeping investment strategies and models as simple and straightforward as possible.

- ***Passive Investing:*** a belief in an investment strategy involving limited ongoing buying and selling actions – purchasing investments with the intention of long-term appreciation and limited maintenance.

- ***Equities:*** an ardent belief in equities – they have proven to deliver the highest net investment returns over time compared to any other investment alternative but invest with a conservative bias. Since 1928, stocks have returned an average 9.7% per year.

- ***Quality:*** invest in quality investments and proven mutual funds or exchange-traded funds and favor passive low-cost index funds.

- ***Time:*** time in the market is what matters, not timing! Favor a "buy and hold" long-term investment strategy, utilizing dollar-cost averaging whenever possible, and staying fully invested at all times.

- ***Pooling:*** pooling client funds benefits all investors through economies of scale, investment diversification, and investment return.

- ***Diversification:*** diversify each investment portfolio not to boost performance – it won't ensure gains or guarantee against losses – but to help set the appropriate level of risk for the investment's time horizon, financial goals, and tolerance for portfolio volatility. Diversification can be achieved by investing in different types of investment, styles of investment, by capitalization, by sectors, and by geography.

- ***Asset Mix/Rebalance:*** employ asset allocation target mixes, faithfully ladder fixed income securities and routinely monitor and rebalance investment portfolios.

- ***Earnings:*** earnings drive investment valuations. Funds and stock prices may deviate from a reasonable relationship to profits in the short-term, but in the long-term, they match up fairly well.

- ***Market Risk:*** it is a certainty that investment returns will fluctuate! The U.S. stock market historically drops by 5% or more several times a year, 10% about once every 15 months, and periodically a major market correction of 20% or more about one every five years. Even following time-proven investment principles does not assure a profit or protect against a loss in a declining market <u>and</u> past performance is no guarantee of future results.

- ***Confidence:*** finally have confidence that patience and exercising good investment judgment will be rewarded.

The effectiveness of applying these core investment principles is highly dependent on employing unnerving "investment discipline" to faithfully apply them regardless of the prevailing or anticipated broader economic/financial environment.

Long-Term Investment Model Portfolios

(**Targeted *% of Portfolio Invested in each Security)***

Investment Securities	*Conservative Growth*	*Active Growth*	*Dynamic Growth*	*Morningstar Credit Risk/Term*
Fixed Income:				
Prime Money Market (VMMXX)	<1.0%	<1.0%	<1.0%	
Certificates of Deposit	30.0%	32.0%	10.00%	
Vanguard I/T Bond Index (VBILX) (A)	15.0%	-	-	Mod/Med (I/T)
Vanguard Tot. Bond Mkt. Index (VBTLX) (B)	15.0%	8.0%	7.50%	Mod/High (i/T)
Vanguard Long-Term Bond Index (VBLAX) (C)	-	-__	7.50%	Ext/Med (L/T)
Total Fixed Income	60.0%	40.0%	25.00%	
				Morningstar/Vanguard Investment Style
Equities:				
Vanguard 500 Index (VFIAX) (1)	14.0%	18.0%	15.00%	Large Blend/Large Cap
Vanguard Mid-Cap Index (VIMAX) (2)	6.0%	9.0%	12.00%	Mid Blend/Mid Cap
Vanguard Small-Cap Index (VSMAX) (3)	6.0%	9.0%	12.00%	Small Blend/Small Cap
Vanguard Total World Stock Index (VTWAX) (4)	4.0%	6.0%	12.00%	Large Blend/Int'l Global
Vanguard Wellington (VWENX) (5)	4.0%	3.0%	-	Large Value/Balanced
Vanguard Windsor II (VWNAX) (6)	-	1.8%	-	Large Value/Domestic
Vanguard Dividend Growth (VDIGX) (7)	-	4.2%	-	Large Blend/Domestic
Vanguard Dividend Apprec. Indx (VDADX) (8)	4.0%	-	-	Large Blend/Domestic
Vanguard Growth Index (VIGAX) (9)	2.0%	3.0%	6.00%	Large Growth/Domestic
Vanguard Real Estate Index (VGSLX) (10)	-	3.0%	6.00%	Mid Blend/Sector
Driehaus Emerging Markets Growth (DREGX) (11)	-	-	6.00%	Large Growth/Emerging
Fidelity Select Biotechnology (FBIOX) (12)	-	3.0%	6.00%	Mid Growth/Specialty
Total Equities	40.0%	60.0%	75.00%	
Total Portfolio	100.0%	100.0%	100.0%	

Both the selection of investment securities and their respective targeted mix percentages in the portfolios have and do change over the course of time due to changing market conditions and expectations. However, such portfolio changes have been and are anticipated to be very infrequent.

Fund Benchmark/ Indexes

(A) Spliced BloomBarc US 5-10 Yr G/Cr FitAdj
(B) Spliced BloomBarc US Agg FitAdjlx
(C) Spliced BloomBarc US LongGv/Cr FitAdjlx

(1) S&P 500 Index
(2) Spliced Mid-Cap Index
(3) Spliced Small Cap Index
(4) Spliced Total World Stock Index
(5) Wellington Composite Index
(6) Russell 1000Value Index
(7) Dividend Growth Spliced Index
(8) NASDAQ US Dividend Achievers Select Index
(9) Spliced Growth Index
(10) Real Estate Spliced Index
(11) MSCI EM NR USD
(12) S&P 500 TR

Long-Term Investment Model Portfolios
Asset Allocation

Asset Class	Conservative Growth	Active Growth	Dynamic Growth
Fixed Income			
Certificates of Deposit	30.0%	32.0%	10.00%
Government Issued Bonds	17.5%	5.6%	8.25%
Corporate Issued Bonds	12.5%	2.4%	6.75%
Total Fixed Income	60.0%	40.0%	25.00%
Equities			
Large Blend	22.0%	28.2%	27.0%
Large Value	4.0%	4.8%	
Large Growth	2.0%	3.0%	12.0%
Mid Blend	6.0%	12.0%	18.0%
Mid Growth		3.0%	6.0%
Small Blend	6.0%	9.0%	12.0%
Total Equities	40.0%	60.0%	75.0%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%

THE FOUNDATION'S INVESTMENT SECURITIES OF CHOICE

The Foundation's investment securities of choice are a combination of certificates of deposit and mutual funds, specifically money market, bond and equity funds. These core investment products were chosen to help manage investment risk. Stocks are generally riskier than bonds, so an equity fund tends to be riskier than a fixed income fund. Some specialty equity funds may focus on certain kinds of investment such as emerging markets or a specific market sector to try to earn a higher return but they also have a higher investment risk. And, even within a fixed income portfolio, some bonds are riskier than others and bonds in general are clearly riskier than government guaranteed certificates of deposit. The Foundation chose the highly regarded Vanguard Group as its mutual fund company of choice. Vanguard administers all of its mutual funds even those that are not a Vanguard bond or equity fund.

Good fundamental investing is all about maximizing return while minimizing risk. To do so requires an understanding of financial objectives, risk tolerance, and the historical performance of an equity and fixed income portfolio by different weightings.

The fact is that every saving and investment product has a different risk and return. Investment risk is inescapable so it needs to be managed. The Foundation offers a variety of model portfolios and each is designed to have a different risk/return profile. It is important to appreciate that equities (stocks) are unmatched in terms of return in comparison to any other investment product. They are the leading way to make money and stay ahead of inflation over time. So equities have proven to be the best investment choice to achieve a long-term investment goal.

Why did the Foundation choose mutual funds rather than some other type of investment product? Mutual funds automatically offer a wide range of benefits including diversification, are professionally managed, come in many varieties, are simple to understand, highly accessible, transparent, liquid, have comparatively low administration costs, and have an audited track record. These benefits individually and collectively make mutual funds particularly attractive.

The Foundation has a strong investment bias toward "index" stock and bond funds verses "managed" stock and bond funds, but it has both. "Indexing" is a passive form of fund management that has been successful in outperforming most actively managed mutual funds. While the most popular index funds track the S&P 500, a number of other indexes, including the Russell 2000 (small companies), the DJ Wilshire 5000 (total stock market), the MSCI EAFE (foreign stocks in Europe, Australasia, Far East) and the Bloomberg/Barclays Capital Aggregate Bond Index (total bond market) are widely used for fixed income bond index funds.

The primary advantage of an index fund is its lower management expense ratio. Also, a majority of mutual funds fail to beat broad indexes, such as the S&P 500. Since the fund managers of an index fund are simply replicating the performance of a benchmark index, they do not need the services of research analysts and others that assist in the stock selection process. Actively managed funds do need to utilize a research team. In these cases, the extra costs of fund management get reflected in the fund's expense ratio, and get passed on to shareholders.

The Foundation's Investment Committee does have the option to also utilize exchange-traded funds (ETFs) in addition to mutual funds, but so far has only utilized mutual funds.

Risk-Return Tradeoff

The risk-return tradeoff is the balance between the desire for the lowest possible risk and the highest possible returns. In general, low levels of uncertainty (low risk) are associated with low potential returns and high levels of uncertainty (high risk) are associated with high potential returns. Each investor must decide how much risk they're willing and able to accept for a desired return. But, it's important to keep in mind that higher risk doesn't automatically equate to higher returns. The risk-return tradeoff only indicates that higher risk investments have the possibility of higher returns – but there are no guarantees.

Investing involves risk and there is no escaping this reality. The value of investments will fluctuate and principal can be lost. There are special risks inherent to international and emerging market investing, including currency fluctuations and foreign political and economic events. Even cash is not risk free -- there's inflation and changes in interest rates! There are also risks to not investing such as not reaching long-term goals.

The most effective way to manage investment risk is through diversification. Although diversification won't ensure gains or guarantee against losses, it does provide the potential to improve returns based on the target level of risk. Finding the right balance between risk and return helps ensure the achievement of financial goals while still being able to get a good night's sleep.

Fixed Income Securities

The only zero risk investments are treasury bonds held to maturity, money market accounts and CDs where the FDIC/NCUA guarantees up to $250,000 in losses.

The Foundation's fixed income securities encompass money market funds, laddered certificates of deposit and mutual bond index funds.

Money Market Funds: these funds invest in short-term fixed income securities such as government bonds, treasury bills, bankers' acceptances, commercial paper and certificates of deposit. This type of fund is used by the Foundation to temporarily invest money until the longer-term investment decision is made.

Laddered Certificates of Deposits and Mutual Bond Index Funds: these securities work similarly in that both investments generate income. A CD ladder is a way of setting up multiple CDs so they mature at staggered intervals. Each time a CD matures, there is an opportunity to access the money or to reinvest it. A CD ladder will usually earn higher interest rates without sacrificing accessibility. Bondholders and CD account holders are creditors who lend money to businesses, governments or banks, in return for interest payments. However, while bond funds and CDs have many similarities, these two investment types differ in major ways.

CDs and bond funds entail lower levels of risk than investing in stocks while also producing interest income. However, they are not identical. Things like rising interest rates, inflation and changes in the market can affect them differently. Both are affected by the current interest rate environment, albeit differently.

When the Federal Reserve institutes rate hikes, banks typically increase CD rates correspondingly. A higher rate translates to more interest earned. Conversely, when interest rates are low, the rates on CDs drop, meaning lower yields for investors. In other words, rising interest rates are a good thing for CD investors.

That's not necessarily the case for bond fund investors. Bonds and interest rates typically have an inverse relationship. When rates are low, bond prices are high; when rates rise, bond prices fall. If bond funds are owned in a rising rate environment, the prices of those bond funds will decline and the investor can actually experience a loss of principal in the bond fund.

However, not all bond funds are affected equally by rising rates. Bond funds that have a longer average maturity term tend to see more of an impact than those with a shorter term. A 10-year average bond fund, for example, will be more sensitive to changes in interest rates than a 2-year bond fund. If the bond fund is primarily composed of long-term bonds, the returns from CDs could easily outpace bond yields in the short-term.

The Foundation primarily invests in U.S. investment-grade bond funds: one short-term bond index fund in its Short-Term Model Portfolio and its Long-Term Model Portfolios have one long-term bond index fund with rest being intermediate-term index funds representing different sectors of the bond market. For additional information on the Foundation's specific bond funds, please refer to the "Long-Term Investment Model Portfolios" in this document.

Inflation is also an investment factor. When inflation rises steadily, the higher returns from CDs may have trouble keeping up. Rising consumer prices can also negatively impact the real rate of return from bonds, shrinking investors' purchasing power. When higher inflation is combined with rising rates, bond investors can experience a double hit.

Aside from returns, the safety and liquidity of CDs versus bonds is another key consideration. All things being equal, CDs and bonds are both safer than mutual equity funds or stocks. But when interest rates rise, bonds may become more of a gamble if their yield potential is diminished.

In short, there's a high probability of not getting a positive return on a bond fund when interest rates rise. CDs insured by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) are at the other end of the risk spectrum. Even if the bank issuing a CD goes bankrupt, the funds are insured by a government-chartered agency for up to $250,000 per depositor, per financial institution. Effectively, CDs have a government guarantee that the CD owner won't lose money. It is the Foundation's investment practice to take advantage of the FDIC and NCUA guarantees to the extent practicable which requires it to invest CDs with a multitude of financial institutions in order to keep each institution under the insured limit.

An advantage that bond funds have over CDs is liquidity. While it's possible to liquidate a CD, banks often charge a penalty for doing so ahead of the CD's maturity date. Turning a bond fund into cash is easy, simple and without penalty.

The Bottom Line

CDs and bond funds are attractive to investors for different reasons but whether to invest in one over the other often hinges on what's happening in the broader market. When interest rates rise, for instance, bonds may lose some of their luster, while CDs grow more appealing. On the other hand, if investing in short-term bonds, they may offer greater liquidity than a CD, while still producing solid yields. Weighing the advantages and disadvantages of both against the backdrop of where the market is currently – and where it's headed – can help determine where to put investment dollars.

Equity Securities

The Foundation's equity securities of choice encompass both indexed and managed mutual equity funds that collectively represent a wide range of market sectors. While the Foundation currently only invests in mutual equity funds, as noted earlier, it also has the option to invest in exchange-traded funds (ETFs) if ever deemed to be more favorable.

An ETF, or exchange-traded fund, is a marketable security that tracks a stock index (most common), a commodity, bonds, or a basket of assets. Although similar in many ways, ETFs differ from mutual funds because shares trade like common stock on an exchange. The price of an ETF's shares will change throughout the day as they are bought and sold whereas mutual funds are priced at the end of each trading day.

The Vanguard Group offers both ETFs and mutual funds, but offers many more mutual fund choices than ETFs and most of their ETFs mirror a sister mutual fund. The Investment Committee periodically compares the historical performance of its mutual funds against their respective sister ETF's to validate its on-going selection of mutual funds.

A mutual fund is at its core a managed portfolio of stocks and/or bonds. Mutual fund companies like The Vanguard Group bring together a large group of people and invest their money on their behalf in a mutual fund portfolio. Each investor owns shares of the mutual fund, which represent a portion of its holdings. A share of a mutual fund represents investments in many different stocks or entities (or other securities) instead of just one holding. The investment challenge is to select mutual funds to provide portfolio diversification while also managing risk.

The Foundation's long-term equity mutual funds encompass large, medium and small companies, U.S., international and foreign owned-companies, conservative dividend companies, REITs, emerging market companies, and specific sector industries. These funds provide broad investment diversification. Each equity index fund is driven by a different index and the equity mutual funds encompass a variety of investment styles. Please refer to the "Long-Term Investment Model Portfolios" in this document for more specific investment style and the fund benchmark/index information applicable to each fund.

The Investment Committee tracks over seventy Vanguard and a few select non-Vanguard fixed income and equity mutual funds each quarter to facilitate routinely comparing the on-going performance of its particular mutual fund selections to other similar fund options. Both long-term and short-term fund performance are tracked. This administrative process permits the Committee to be confident its fund selections continue to be top performers.

The long-term investment nature of the Foundation's endowment funds help immensely to manage the investment impact of inevitable stock market downturns.   Downturns have always been followed by market recoveries, but it typically requires time and patience so not having to cash-in investments during the downturn is a huge advantage in terms of protecting longer-term fund performances.

But, there is a reason every investment firm diligently discloses in its promotional literature a statement along the lines of "past performance of an investment is no guarantee of its future performance." This is an honest recognition that the future really is basically unknowable. Investment performance at any point in time is dependent on a multitude of factors and many, if not most, are unpredictable.

So, in summary, the Foundation's fixed income and equity investments represent money market funds, certificates of deposit, bond mutual funds and equity mutual funds that can be further differentiated such as balanced, indexed, managed, domestic, international, specialty, etc. The Foundation, by being able to pool its large base of assets, gives it the advantage of participating in this wide range of investments that ultimately works to financially benefit all.

Tracking Investment Performance

The Foundation's Investment Committee routinely reports and monitors the investment performance of each security by comparing its performance against its benchmark and to the performance of similar securities as well as alternative investments. The only security that doesn't have a solid comparable benchmark is certificates of deposit.

Most of the Foundation's fixed income and equity mutual funds are "index" funds so they are driven by their respective index so its index becomes its performance benchmark. For the few "managed" funds, the fund manager has established their benchmark. The Investment Committee determines each long-term "portfolio's" return quarterly by calculating the weighted average return of the securities in its portfolio that includes both fixed income and equities.

Each of the Foundation's long-term model portfolios represent a much broader range of asset allocation and diversification and is intentionally designed to be more conservative than the two major U.S. equity market indices: S&P 500 Index and Dow Jones Industrial Average (DJIA) so these two indexes do not represent reliable benchmarks for evaluating Foundation "portfolio" returns. However, the Committee does routinely track and report both indices simply as another frame of reference because they do represent an alternative investment. The S&P 500 Index is a market capitalization-weighted index that tracks the performance of 500 U.S. large-cap stocks. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 publicly traded U.S. "blue-chip" stocks.

As noted, all of the Foundation's long-term model portfolios have a more conservative bias than a pure equity portfolio given each has a significant allocation to fixed income securities. While the investment risk inherent in fixed income securities can be expected to be less than equities, so are their returns. But this is a prudent investment trade-off given the character of endowment funds. Empowering endowments, using a baseball analogy, is to routinely hit base runs to score rather than go for home runs and strike out more! Compounding growth over time is powerful stuff!

Community Foundation Short-Term Investment Model – Historical Performance

	2014	2015	2016	2017	2018
Model A Portfolio (Reported years invested 100% in fixed income certificates of deposit)					
Fixed Income Return	*1.20%*	*1.16%*	*1.33%*	*1.52%*	*2.02%*

Community Foundation Long-Term Investment Models - - Historical Performance

	2007	2008 *	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Conservative Growth (60% FI/40% EQ) (1)												
Fixed Income Return	5.78%	4.61%	4.46%	4.45%	4.84%	3.24%	.003%	3.53%	1.29%	1.90%	2.62%	0.96%
Equity Return	7.63%	(38.95%)	31.86%	16.74%	(3.05%)	15.11%	26.06%	11.65%	(0.47%)	11.69%	18.88%	(7.13%)
Total ***(2)***	6.52%	(12.81%)	15.42%	9.43%	1.68%	7.99%	10.23%	6.78%	0.58%	5.04%	6.10%	(0.30%)
Active Growth (40% FI/60% EQ) (1)												
Fixed Income Return	5.16%	4.45%	4.31%	2.94%	2.15%	1.81%	1.72%	1.72%	1 .39%	1.57%	2.06%	1.47%
Equity Return	7.63%	(38.95%)	31.86%	16.74%	(3.05%)	15.11%	26.06%	11.65%	(0.47%)	9.87%	19.60%	(6.73%)
Total ***(2)***	4.90%	(21.60%)	16.39%	10.40%	0.19%	8 .11%	15.53%	7.77%	0.61%	6.95%	11.31%	(3.19%)
Dynamic Growth (25% FI/75% EQ) (1												
Fixed Income Return	6.02%	5.86%	3.62%	6.00%	9.79%	4.52%	(2.70%)	4.22%	1.48%	1.93%	4.75%	(0.51%)
Equity Return	9.06%	(41.17%)	36.93%	19.96%	(3.75%)	17.28%	24.77%	8.49%	(2.05%)	8.73%	22.31%	(8.31%)
Total ***(2)***	8.30%	(29.41%)	28.60%	16.47%	(0.04%)	14.09%	17.90%	7.42%	(1.17%)	6.92%	15.92%	(6.46%)
Broad Equity Market Indices												
DJIA Index	6.43%	(33.84%)	18.82%	11.02%	5.53%	7.26%	26.50%	7.52%	(2.23%)	13.42%	25.08%	(5.63%)
S&P 500 Index	3.53%	(38.49%)	23.45%	12.78%	0.00%	13.41%	29.60%	11.35%	(0.69%)	9.54%	19.42%	(6.24%)

(1) Assumes the model portfolio was fully invested at all times in accordance with the current portfolio investment fund composition and mix targets. (2) Total represents the actual investment returns credited to client accounts before fund management fee.

Hypothetical Growth of Portfolios Assuming $10,000 Invested on January 1, 2007 and Held for Cumulative Growth

Growth Portfolio	2007	2008 *	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Conservative	$10,652	$ 9,287	$10,719	$11,730	$11,927	$12,880	$14,198	$15,161	$15,249	$16,018	$16,995	$16,944
Active	$10,490	$ 8,224	$ 9,572	$10,568	$10,588	$11,447	$13,225	$14,253	$14,340	$15,337	$17,072	$16,404
Dynamic	$10,830	$ 7,645	$ 9,831	$11,450	$11,445	$13,058	$15,395	$16,357	$16,344	$17,475	$20,257	$18,948

Fund Compounded Annual Growth Rate (CAGR)

Portfolio	(2014-2018) Last 5-Years	(2007-2018) Last 12-Years	Long-Term Investment Goal	Portfolio Fixed Income/ Equity Mix
Conservative Growth	3.60%	4.49%	5.0-7.0%	60%/ 40%
Active Growth	4.40%	4.21%	7.0-9.0%	40%/60%
Dynamic Growth	4.24%	5.47%	9.0-11.0%	25%/75%
DJIA Index	7.07%	5.36%		
S&P 500 Index	6.28%	4.86%		

When comparing the Foundation's long-term portfolio performance against the major DJIA and S&P indexes, be reminded that virtually all of its portfolios have significant fixed income asset allocations to intentionally make them more conservative from an investment risk perspective than the 100% equity indexes.

* **The Lessons of 2008-09 Major Market Corrections**

It is important to recognize that 2008 was one of the world's worst market crashes of all time. Thus, this market crash is a good proxy for a "worst case" bad market cycle and investment timing. On Sept. 16, 2008, failures of massive financial institutions in the U.S., due primarily to exposure of securities of packaged subprime loans and credit default swaps issued to insure these loans and their issuers, rapidly devolved into a global crisis resulting in a number of bank failures in Europe and sharp reductions in the value of equities and commodities worldwide. On Oct. 28, 2008, the International Monetary Fund warned that the world financial system was teetering on the "brink of systemic meltdown." This economic crisis caused countries to temporarily close their markets. In December 2008, the Federal Reserve dropped the Fed funds rate to zero its lowest level in history. The Dow Jones Industrial Average Index (DJIA) ended 2008 at 8,776.39, down nearly 34% for the year and the S&P 500 Index ended at 903.25 down nearly 39%. By March 6, 2009 the DJIA had dropped 54% to 6,469 before beginning to recover from its peak of 14,164 on October 9, 2007, a span of 17 months.

There is no doubt that the 2008-09 dramatic market correction challenged the faith and confidence of every investor. In fact, many individual investors bailed and have not yet returned. We witnessed years of market appreciation literally erased in a matter of a few months. So, what did this experience teach us?

We confirmed every one of the Investment Committee's core investment principles. Most notably the importance of portfolio diversification and confidence in the capital market to eventually self-correct. The Active Growth Portfolio achieved a loss of 21.6% for calendar year 2008 that was clearly shielded from the broader market loss of nearly 40% by its diversified asset allocation in fixed income securities. But, the most challenging aspect of 2008-09 was to "stay the course." We have to assume that there will be another major market correction, but there is no way to know what will cause it or when it may occur. It is this reality that makes it so critical to have a sound and proven long-term investment plan!

For more historical factual information about past stock market disruptions, please read "Putting the U.S. Stock Market in Rational Perspective" that follows. This information is critically important to be reminded of especially during periods of stock market hysteria.

Hypothetical Growth of Portfolios Assuming $10,000 Invested on January 1, 2009 and Held for Cumulative Growth

Portfolio	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Conservative	$11,542	$12,630	$12,842	$13,868	$15,287	$16,323	$16,418	$17,245	$18,297	$18,242
Active	$11,639	$12,849	$12,873	$13,917	$16,078	$17,327	$17,433	$18,645	$20,754	$19,943
Dynamic	$12,860	$14,978	$14,972	$17,082	$20,140	$21,634	$21,381	$22,861	$26,500	$24,788

Fund Compounded Annual Growth Rate (CAGR): January 1, 2009 through December 31, 2018 (10 Years)

Portfolio	*(2009-18) Last 10-Years*	*Long-Term Investment Goal*	*Portfolio Fixed Income/ Equity Mix*
Conservative Growth	6.20%	5.0-7.0%	60%/40%
Active Growth	7.11%	7.0-9.0%	40%/60%
Dynamic Growth	9.50%	9.0-11.0%	25%/75%
DJIA Index	10.27%		
S&P 500 Index	10.75%		

Putting the U.S. Stock Market in Rational Perspective

Investing in the stock market is as much a psychological event as it is a financial event. U.S. stock market behavior is influenced by many geopolitical and global economic factors. These complex factors and their interpretations drive markets up and down each trading day. Unfortunately, in most instances the stock market goes down a whole lot faster than it goes up thanks to electronic trading technology. While the market seeks rationality, it is often irrational. It is totally understandable why the immediate response of many investors is to panic as a response to the suddenness and often severity of market downturns. Thus, a major challenge to investing is to not panic when they occur, even dramatic downturns, and get out of the market at the most inopportune time. For sure, it takes a deep faith and understanding of the market to hold and wait for the market to eventually recover when the market appears to be in chaos seemingly with no end in sight. But, the serious evidence to date suggests this is the most financially productive stance.

To help put the U.S. stock market in a rational perspective, below are important "nuggets" of factual information provided by Nick Murray and published in July 2017 in his article **"** Client's Corner: Of Corrections, Recessions, Bear Markets and Other Distractions" that even the most seasoned investor needs to be reminded of, especially when chaotic market events occur, which are fundamentally just a natural part of long-term investing:

- All stock market corrections so far have been temporary. So have all economic recessions and bear markets in stocks. Each has given way in time to the resumption of a major long-term uptrend.

- During the 71 years 1946-2016, there were 57 stock market corrections which are usually defined as declines in the S&P 500 Index of ten percent or more on a closing basis. *That's an average of about one every fifteen months*.

- During this same 71-year period, there have been eleven economic recessions, usually defined as a decline in U.S. GDP lasting for at least two calendar quarters. *That's an average of about one every six and a half years.*

- The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP. (Another way of looking at this is to consider that there were 852 months in the 71 years and that the economy was in recession for 121 of them, or 14%. The other 86% of the time, the economy was growing.)

- During this 71 years, there have been 14 bear markets in stocks, usually defined as a decline in the Index of 20% or more on a closing basis. *That's an average of about one every five years.*

- During these 71 years, when stocks were correcting 57 times, and experiencing 14 bear markets, the S&P 500 Index went from 15 to 2,240, an increase of about 150 times.

- During the same 71 years, while the economy was experiencing 11 recessions, real (inflation-adjusted) U.S. Gross Domestic Product went from about $2 trillion to nearly $17 trillion. That's a multiple of more than 8 times in a country whose population grew less than two and a half times, so per capita real GDP growth has been pretty darn terrific.

- Inference: for these 71 years, an equity investor who stayed focused on the long-term trends – the 86% of the time the economy was expanding, probably did well. But the investor who got panicked over one of the temporary declines in the economy in stock prices probably did a whole lot less well.