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# *Investment Survey Results*

*Does Volatility = Risk?*

September 19, 2011  
San Francisco, California

# The Investment Survey is Changing

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- Open to All Community Foundations
- Quarterly Return and Asset Allocation Information
- Library of Articles
- New Approaches for Creating Peer Groups

# June 30, 2011 Investment Survey - Key Findings

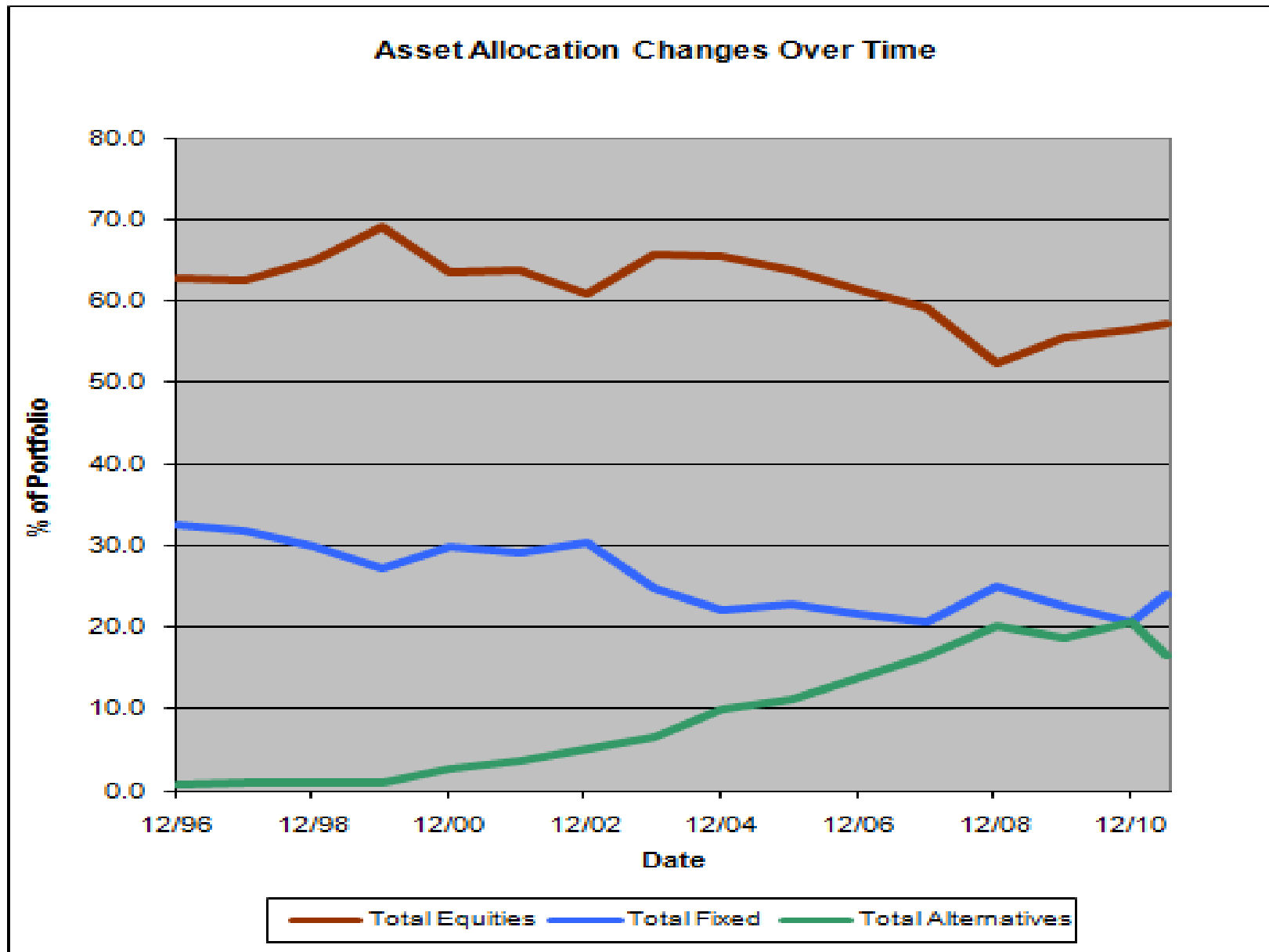
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- 188 participants in June 30, 2011 survey.
- Calendar year to date and one year median investment returns were +4.4% and +21.2% respectively.
- Dollar weighted asset allocation as of 6/30/11: 57% Global Equities, 24% Fixed Income, 16% Alternatives and 3% cash.

# Asset Allocation Changes Since 12/31/09

| <b>Asset Allocation Summary All Participants</b> |                |                 |
|--|----------------|-----------------|
| <b>Asset Category</b>                            | <b>6/30/11</b> | <b>12/31/09</b> |
| U.S. Large Cap Equity                            | 27.9%          | 27.9%           |
| U.S. Mid Cap Equity                              | 3.5%           | 3.1%            |
| U.S. Small Cap Equity                            | 5.8%           | 5.2%            |
| <b>Total US Equity</b>                           | <b>37.2%</b>   | <b>36.2%</b>    |
| Non-US Large/Mid Cap Equity                      | 13.3%          | 15.1%           |
| Non-US Small Cap Equity                          | 1.9%           | 0.8%            |
| Emerging Markets Equity                          | 4.7%           | 3.3%            |
| <b>Total Non-US Equity</b>                       | <b>19.9%</b>   | <b>19.3%</b>    |
| <b>Total Equities</b>                            | <b>57.1%</b>   | <b>55.5%</b>    |
| Domestic Fixed Income                            | 19.6%          | 19.3%           |
| High Yield Fixed Income                          | 1.9%           | 1.6%            |
| International Fixed Income                       | 2.4%           | 1.7%            |
| <b>Total Fixed</b>                               | <b>23.8%</b>   | <b>22.7%</b>    |
| Hedge Funds                                      | 8.1%           | 9.7%            |
| Private Equity                                   | 2.9%           | 2.8%            |
| Real Estate                                      | 1.5%           | 1.6%            |
| Real Assets                                      | 1.7%           | 2.2%            |
| Other  | 2.2%           | 2.4%            |
| <b>Total Alternatives</b>                        | <b>16.4%</b>   | <b>18.7%</b>    |
| Cash/Equivalents                                 | 2.7%           | 3.1%            |
| <b>Total Cash/Equivalents</b>                    | <b>2.7%</b>    | <b>3.1%</b>     |
| <b>Total</b>                                     | <b>100.0%</b>  | <b>100.0%</b>   |

# Asset Allocation Trends

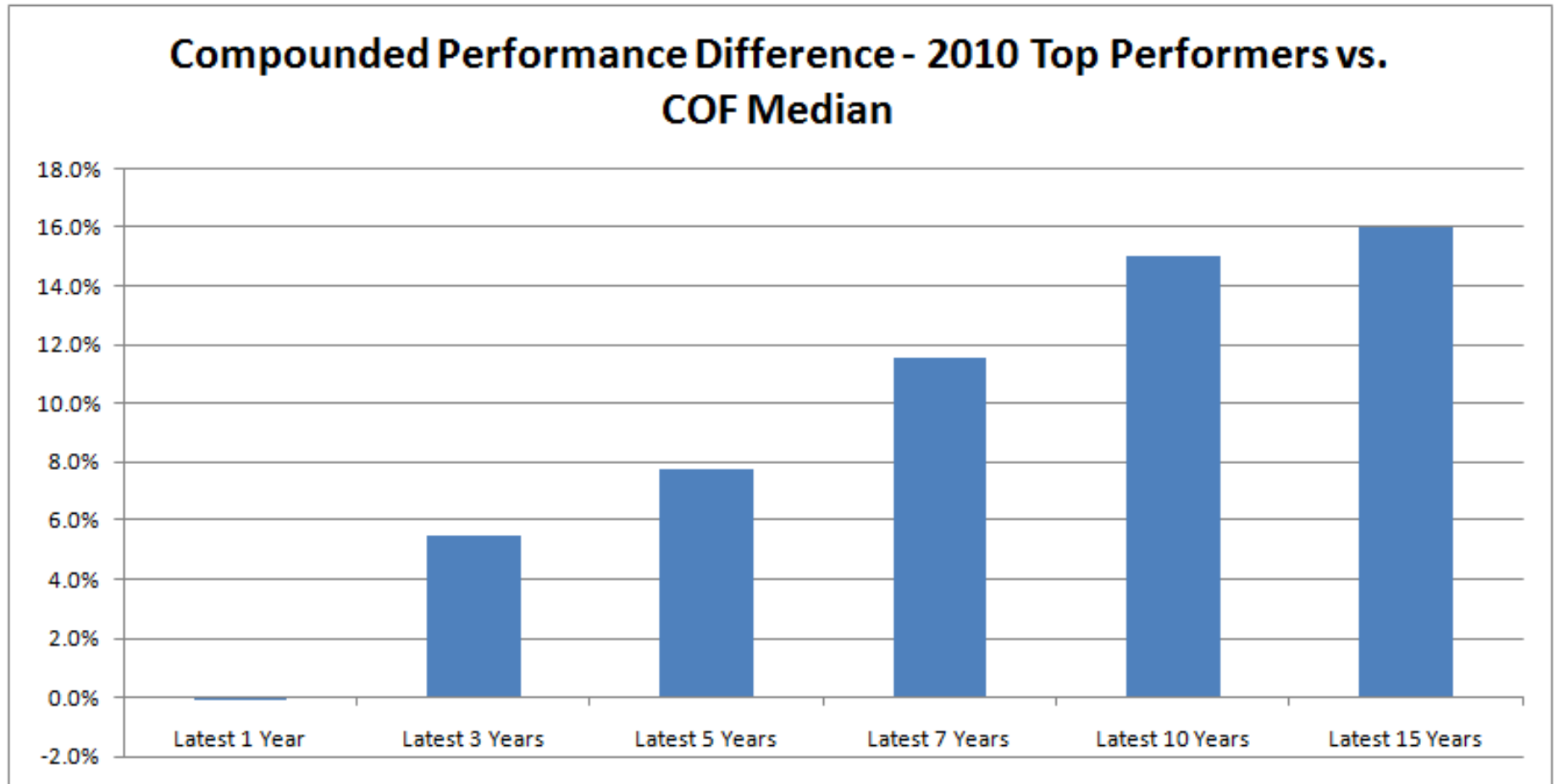


# Investment Return Summary

## Investment Return Summary as of June 30th, 2011 (Returns are Annualized)

|  | Latest 1 Year  | Latest 3 Years  | Latest 5 Years  |
|--|----------------|-----------------|-----------------|
| All Participants                         | 21.2%          | 4.2%            | 4.7%            |
| 60% MSCI World/40%<br>Barclays Aggregate | 19.9%          | 3.8%            | 4.8%            |
| CPI + 5%                                 | 9.2%           | 6.4%            | 7.4%            |
|  |                |                 |                 |
|  | Latest 7 Years | Latest 10 Years | Latest 15 Years |
| All Participants                         | 5.8%           | 5.3%            | 7.2%            |
| 60% MSCI World/40%<br>Barclays Aggregate | 6.1%           | 5.4%            | 6.4%            |
| CPI + 5%                                 | 7.7%           | 7.6%            | 7.7%            |

# Top Performer Update



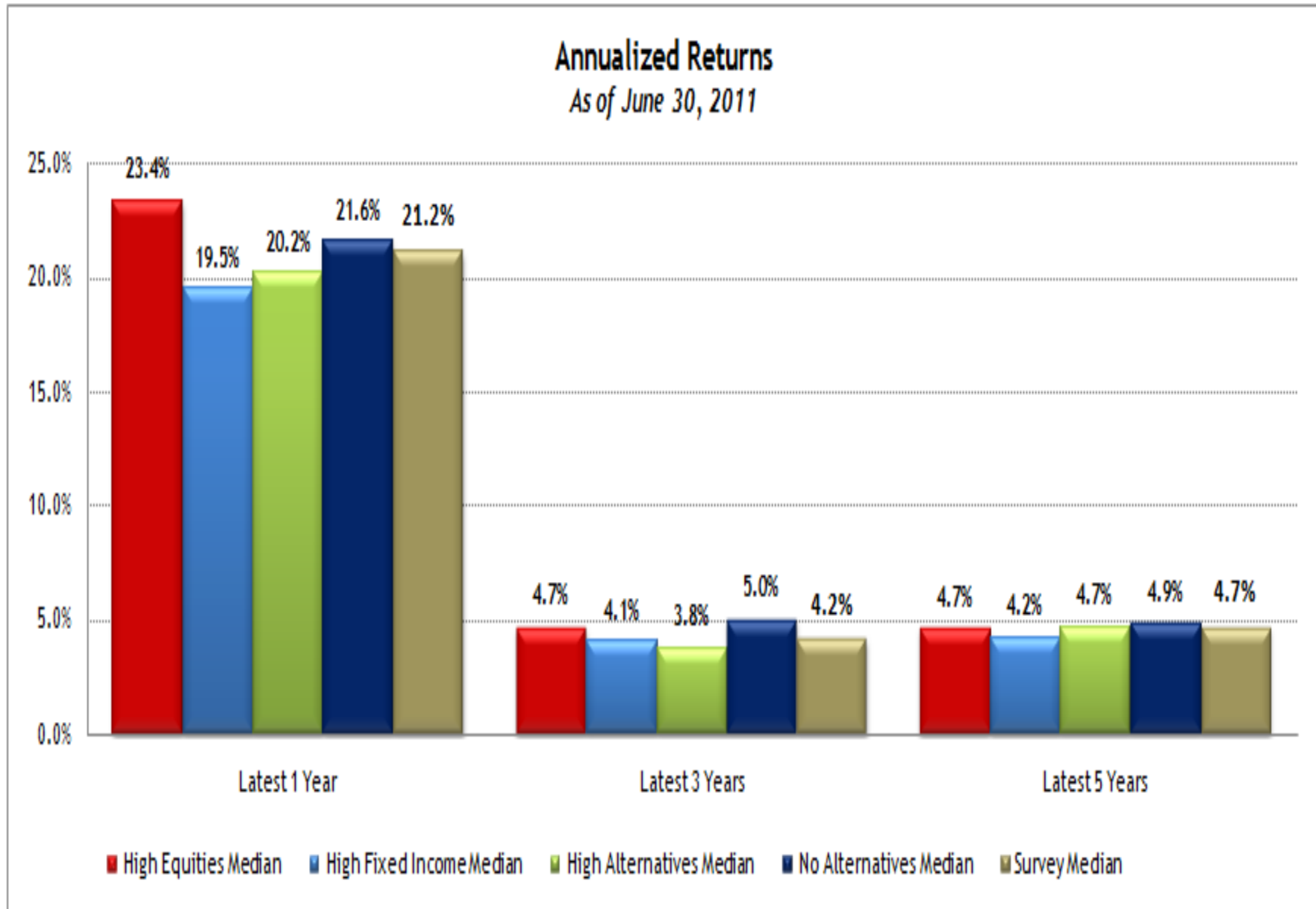
- We lost two top performers
- No return premium during last year

# New Peer Groups – One Approach

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- High Equities – 65%+ exposure  
23% of Participants vs. 45% on 12/31/06
- High Fixed Income – 35%+ exposure  
13% of Participants vs. 15% on 12/31/06
- High Alternatives – 20%+ exposure  
26% of Participants vs. 11% on 12/31/06
- No Alternatives  
22% of Participants vs. 34% on 12/31/06

# Performance of Peer Groups



# What is Risk?

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- Long term loss of purchasing power
  - Measured over very long periods
  
- Significant intermediate term spending disruption
  - Structure of spending policy is critical
  
- Large short term losses
  - Eye of the beholder

# Today's Investment Climate

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- Buy and Hold is Dead
- Macro Thinking/Flexible Strategies on the Rise
- Long Term Investors Should Buy Tail Risk Protection
- Equities are Risky

# Risk Management in early 2000

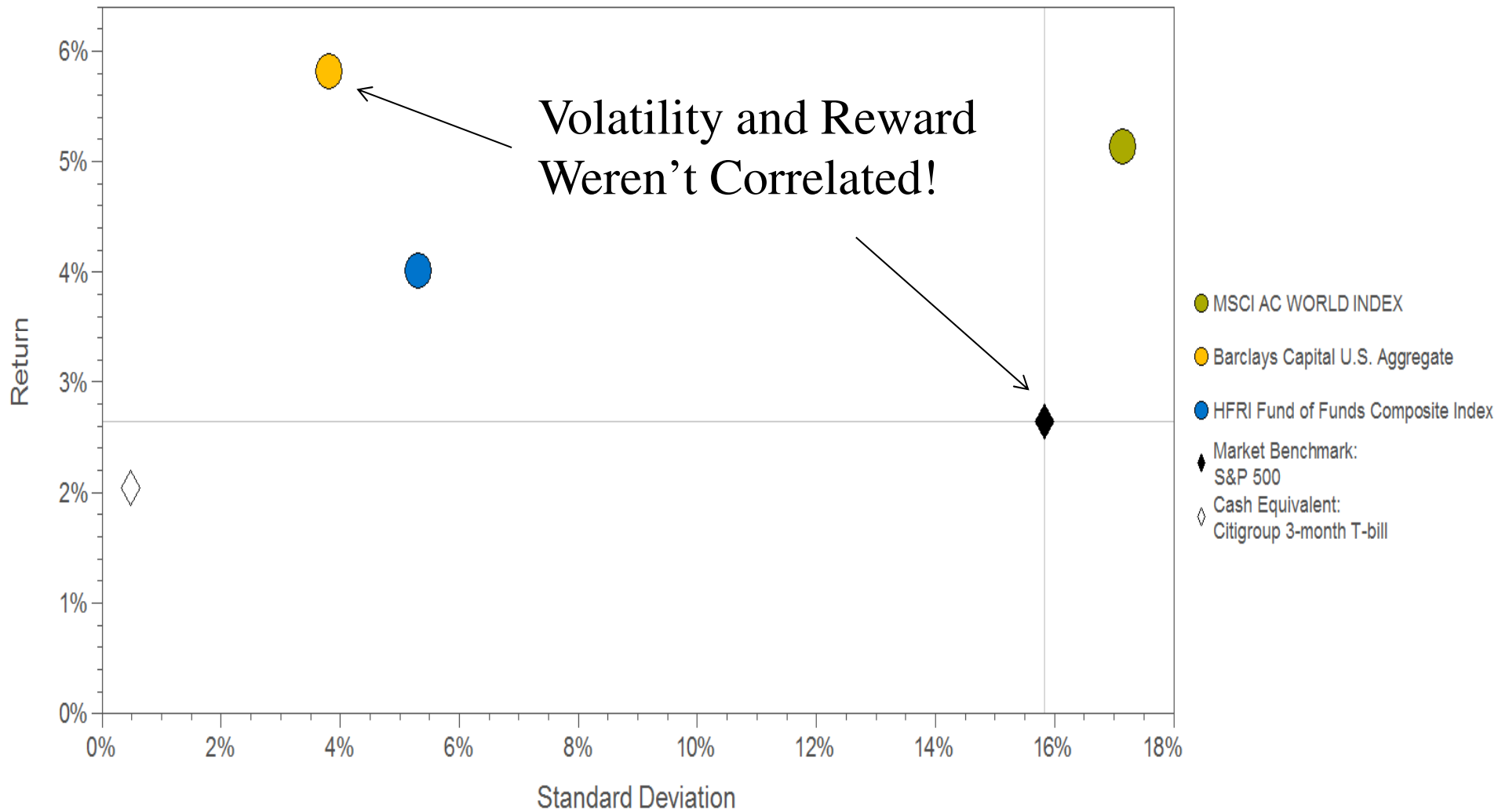
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- Consistent Commitment to Asset Classes
- Risk and Reward are Correlated
  - Higher equity exposure = Higher spending
- Why Own Bonds?

# What Happened?

## Risk / Return

10 Years Ending June 30, 2011

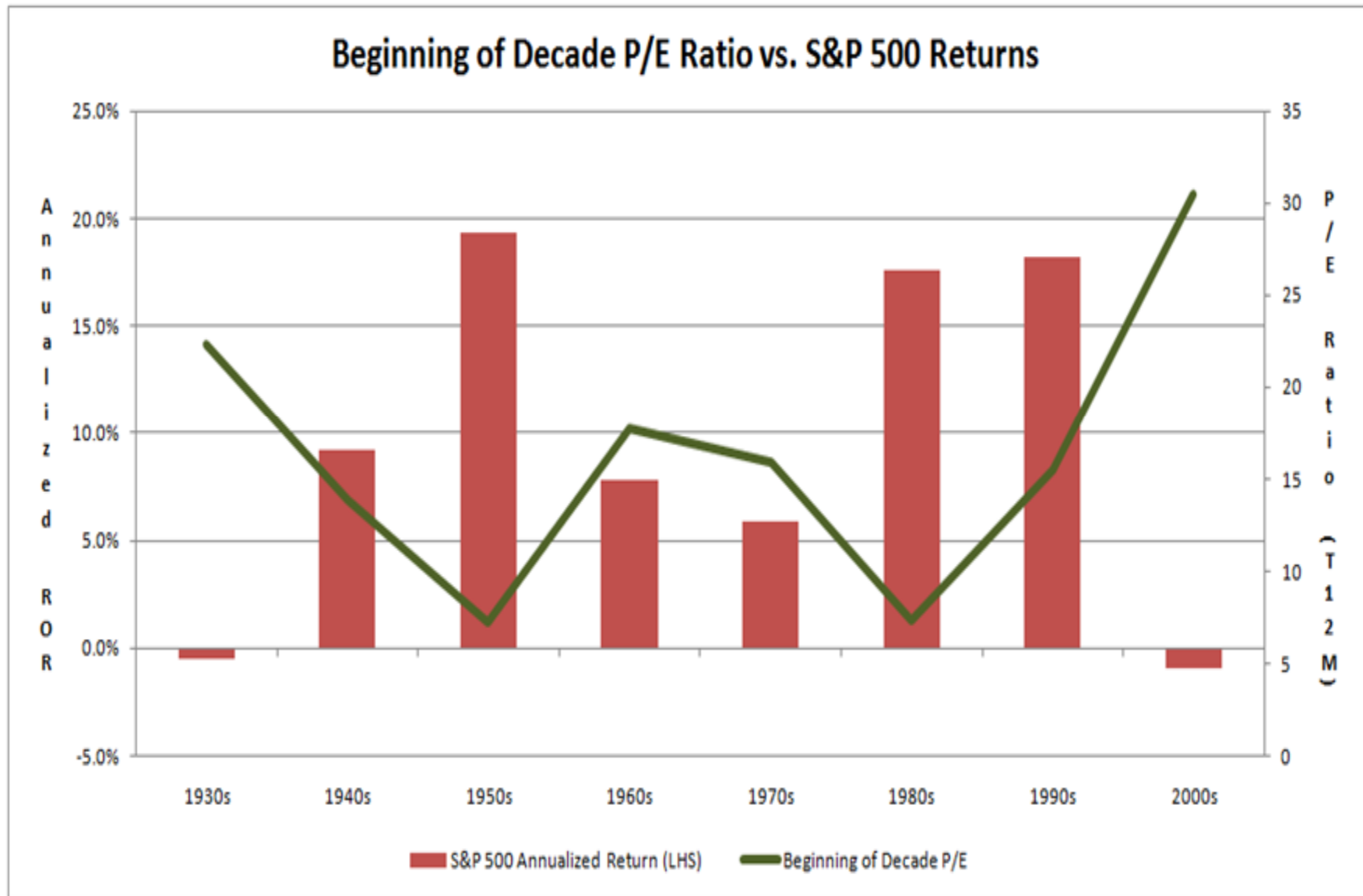


# Looking Ahead – The Popular View

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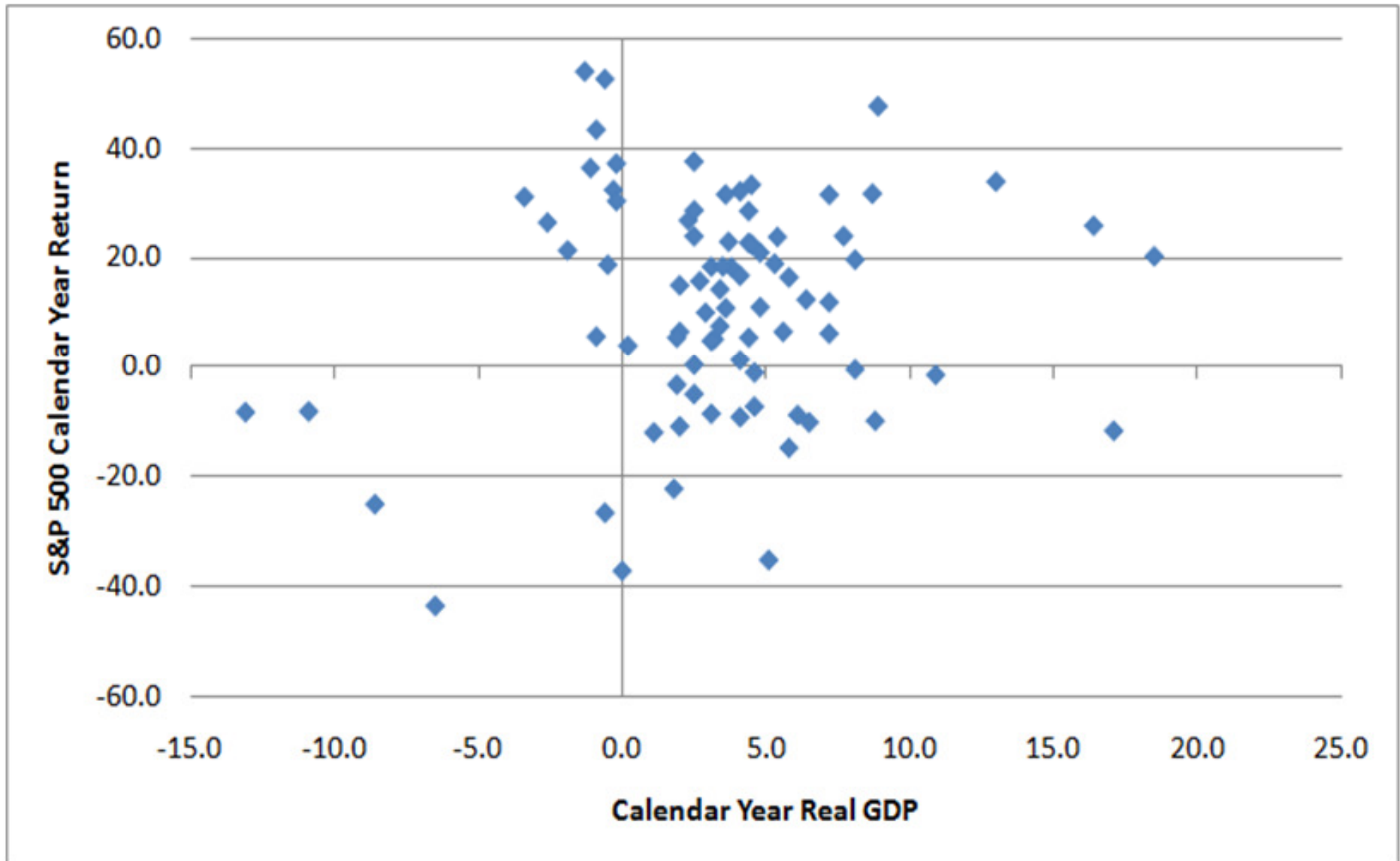
- Protracted economic weakness/deleveraging/crisis
  - Equities/risky assets unattractive
  
- Rising interest rates/inflation
  - Fixed income unattractive
  
- Low short term rates
  - Cash unattractive

# Markets are Terrible Forecasters



# Avoid One Dimensional Analysis

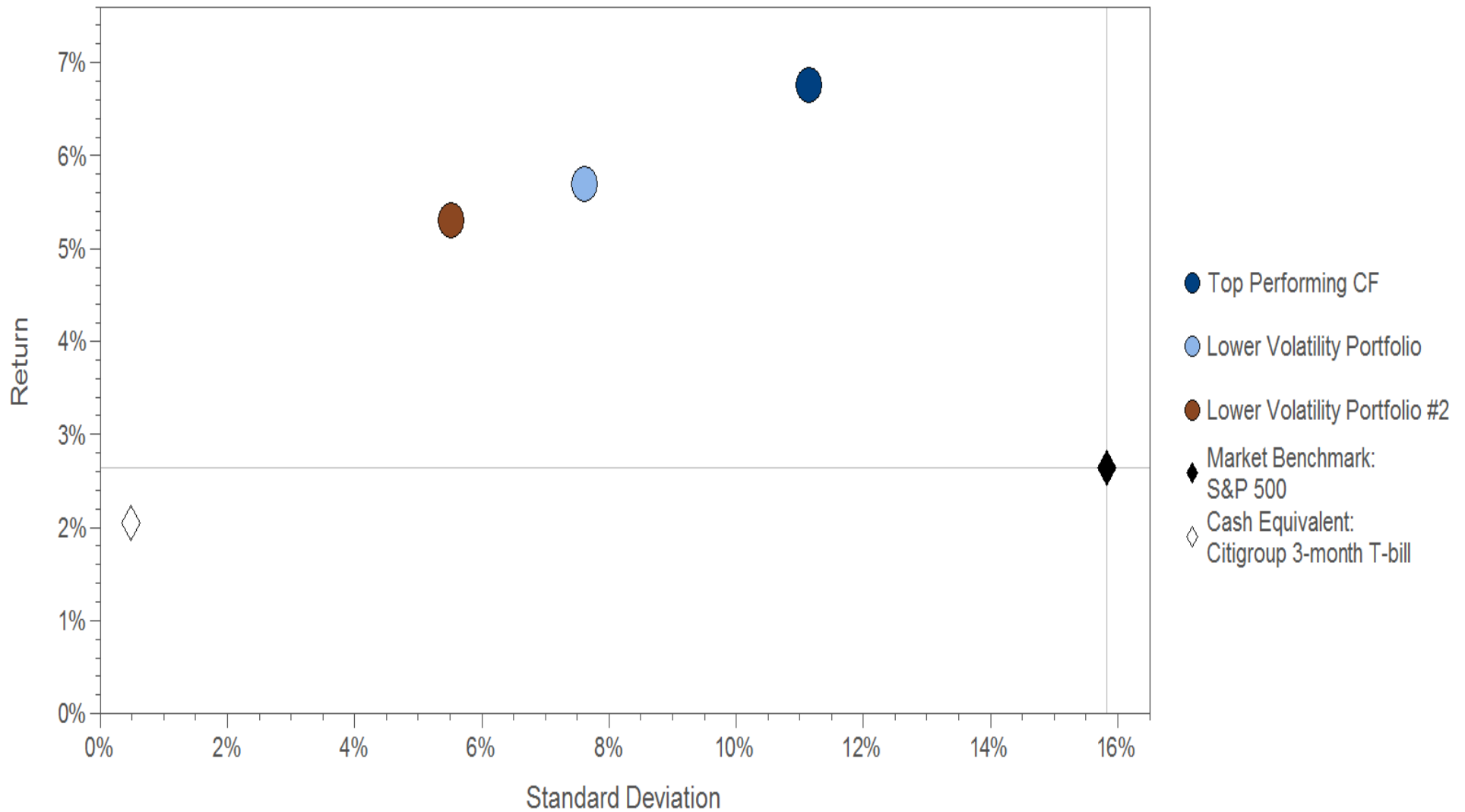
## S&P 500 Returns vs. US Real GDP: 1926 to 2010



# Can We Have it All?

## Risk / Return

10 Years Ending June 30, 2011



# Is Volatility Equivalent to Risk?

|                                     | Max Drawdown | Max Drawdown<br>Begin Date | Max Drawdown<br>Recovery Date |
|-------------------------------------|--------------|----------------------------|-------------------------------|
| Top Performing Community Foundation | -36.6%       | Nov-07                     | Dec-10                        |
| Lower Volatility Portfolio          | -27.6%       | Jun-08                     | Jan-11                        |
| Lower Volatility Portfolio #2       | -19.9%       | Nov-07                     | Dec-10                        |
| S&P 500                             | -51.0%       | Nov-07                     | N/A                           |

*Is avoiding a 36.6% drawdown in favor of a 19.9% drawdown worth 150 basis points per year in lost return over the course of a decade?*

# Final Thoughts

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- Miracles are Miracles
- Fees, complexity and hedging costs should never be ignored
- Intelligently embrace that which others avoid
- These are good times for endowment investors!