



THE CATHOLIC
COMMUNITY FOUNDATION
OF SANTA CLARA COUNTY

Investment Briefing

June 7, 2018

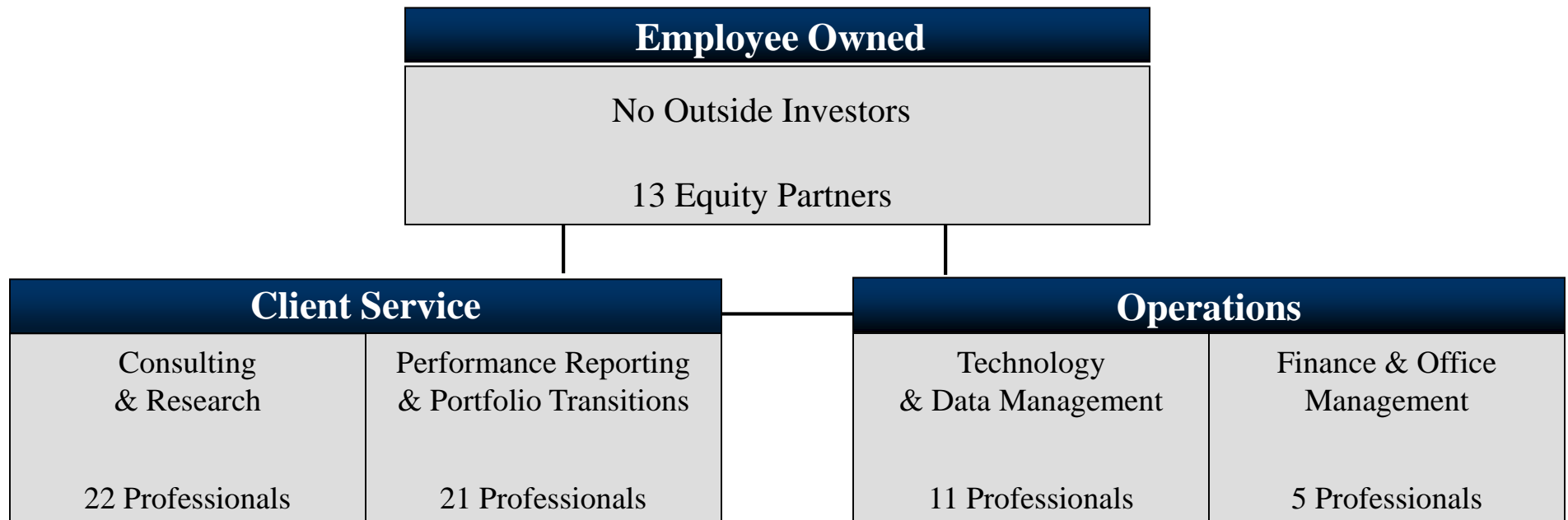
Colonial Consulting LLC.
Jim Russo, Partner

Colonial Consulting Firm Overview

Overview

- Founded in 1980
- 140 full service clients; \$35.4 billion under advisement
- Over 90% of client base consists of not-for-profit organizations
- 59 full-time staff members
- 100% internally owned and headquartered in New York City

Organizational Structure



Why Colonial?

CONFLICT FREE

- We place **client interests** above our own
- **Unbiased advice** – no internal strategies or financial arrangements with managers

FOCUS

- **Long history** of serving U.S. not-for-profits
- **Employee owned** with only one line of business

PERFORMANCE

- Assume **accountability** for recommendations and results
- Goal is to **achieve exceptional** investment outcomes across market cycles

The Community Foundation's Approach

- Establish a strategic asset allocation that is expected to achieve the Foundation's long term risk/return objectives (preserve Foundation's purchasing power in perpetuity)
- No attempt made to market time or change strategy based on near term outlook – does not preclude opportunistic allocations whose outcome is not driven by timing
- Diversify portfolio by asset class and strategy. Increases the likelihood of achieving return objectives under different scenarios
- Capitalize on the Foundation's scale to invest opportunistically and access top managers across a diversified asset mix that follow Catholic principles as outlined in the USCCB guidelines
- Provide donors with investment pool options that meet giving horizon and investment objectives

First Quarter 2018 Market Environment

| <i>Market Index</i> | <i>Q1 2018 Return</i> |
|--|------------------------------|
| Non-US Emerging Equity – MSCI EM | +1.4% |
| US Small Cap Equity – Russell 2000 | -0.1% |
| US Large Cap Equity – S&P 500 | -0.8% |
| Non-US Developed Equity – MSCI EAFE | -1.5% |
| Non-US Fixed – Citigroup Non-US WGBI Unhedged | +2.5% |
| CSFB Leveraged Loan Index | +1.6% |
| US Below Investment Grade Fixed – Merrill HY | -0.9% |
| US Investment Grade Fixed – Barclays Aggregate | -1.5% |
| Hedge Funds – HFRI Fund of Funds | +0.6% |
| Bloomberg Commodity Index | -0.4% |

Market Environment

- ✓ Emerging markets performed well
- ✓ Credit spreads remained tight
- ✓ Growth equity continues to dominate
- ✓ US Dollar fell
- ✓ Bonds and interest rate sensitive stocks fell
- ✓ Volatility increased

Investment Performance

| Investment Returns through 3/31/18 (%) | | | |
|---|-------------|---------------|----------------|
| | Q1 | 1 Year | 3 Years |
| Catholic CF Long-Term Growth Fund | -0.4 | 11.5 | 6.0 |
| Catholic CF Balanced Fund | -0.6 | 9.9 | 5.2 |
| FAOG Community Foundation Median* | -0.8 | 10.4 | 5.8 |
| CPI +5% | 2.1 | 7.8 | 7.2 |
| Morningstar Moderate Allocation Index | -1.3 | 7.7 | 4.9 |

*Community Foundations with \$25-\$50MM in assets

What Worked in Q1 2018?

- ✓ Active managers in equity and fixed
- ✓ Low core bond exposure
- ✓ Non-US equity exposure

What Didn't Work?

- ✓ Hedge fund managers
- ✓ Value tilt
- ✓ Commodities exposure

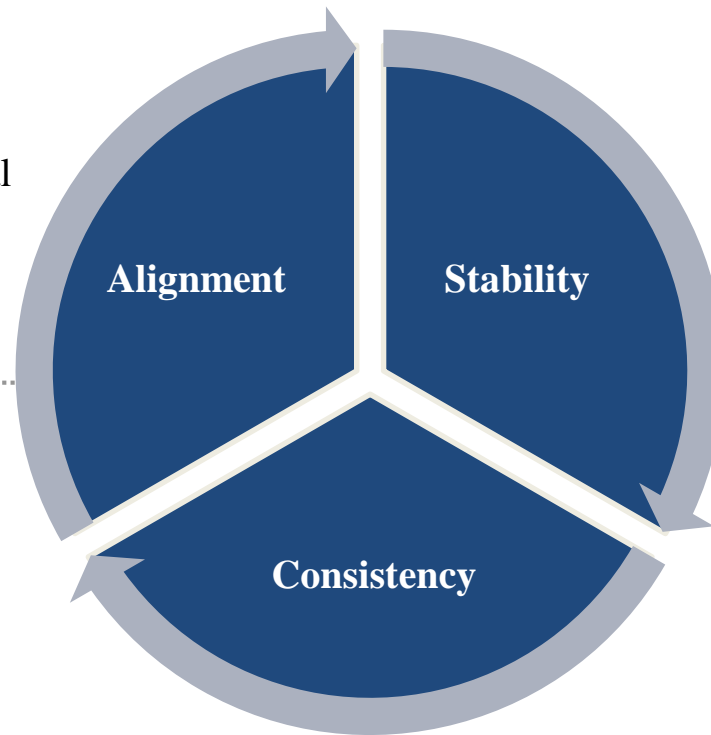
Asset Allocation Strategy

| Asset Class | Long-Term (%) | Balanced (%) |
|------------------------------------|----------------------|---------------------|
| Total Public Equity | 63.5 | 50.7 |
| US Large/Mid Cap | 21.5 | 17.2 |
| US Small Cap | 9.7 | 7.2 |
| Non-U.S. Developed Markets | 24.1 | 19.5 |
| Emerging Markets | 8.2 | 6.8 |
| Total Alternatives | 19.5 | 15.2 |
| Hedge Funds | 15.4 | 11.8 |
| Real Assets | 4.1 | 3.4 |
| Total Fixed Income and Cash | 17.1 | 34.1 |
| Aggregate Bonds | 4.5 | 15.4 |
| TIPS | 4.1 | 5.8 |
| Global Bonds | 4.2 | 5.0 |
| High Yield | 3.9 | 4.9 |
| Cash & Equivalents | 0.4 | 3.0 |

Portfolios are built to provide high single digit returns that can keep up with a 5% spending ratio + inflation to maintain the purchasing power of the corpus in perpetuity

Manager Due Diligence

- Aligned Ownership Structure
- Long-term Oriented Client Base Including Insider Capital
- Appropriate Asset Base



- Long Term Oriented Business Plan
- Low Personnel Turnover
- Succession Plan

- Strategy Throughout the Cycle
- Investment Edge Generates Superior Risk-Adjusted Return
- Focus on Core Competency

Always looking for opportunities to upgrade

Manager Roster

Long-Term Growth Fund

Large/Mid Cap Equity

Comerica S&P 500 Catholic
HS Management

US Small Cap

Vulcan

Non-US Developed Markets Equity

Aberdeen EAFE Ethical
DFA International Social

Emerging Markets Equity

DFA EM Social

Aggregate Fixed

Baird

TIPS

Vanguard

Global Fixed

Colchester

High Yield

KDP

Hedge Funds

Owl Creek SRI
Bogle SRI
Lone Juniper

Liquid Real Assets

Van Eck

Balanced Fund

Large/Mid Cap Equity

Comerica S&P 500 Catholic

US Small Cap

Vanguard

Non-US Developed Markets Equity

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Hedge Funds

Owl Creek SRI
J. Hancock Seaport (Wellington)

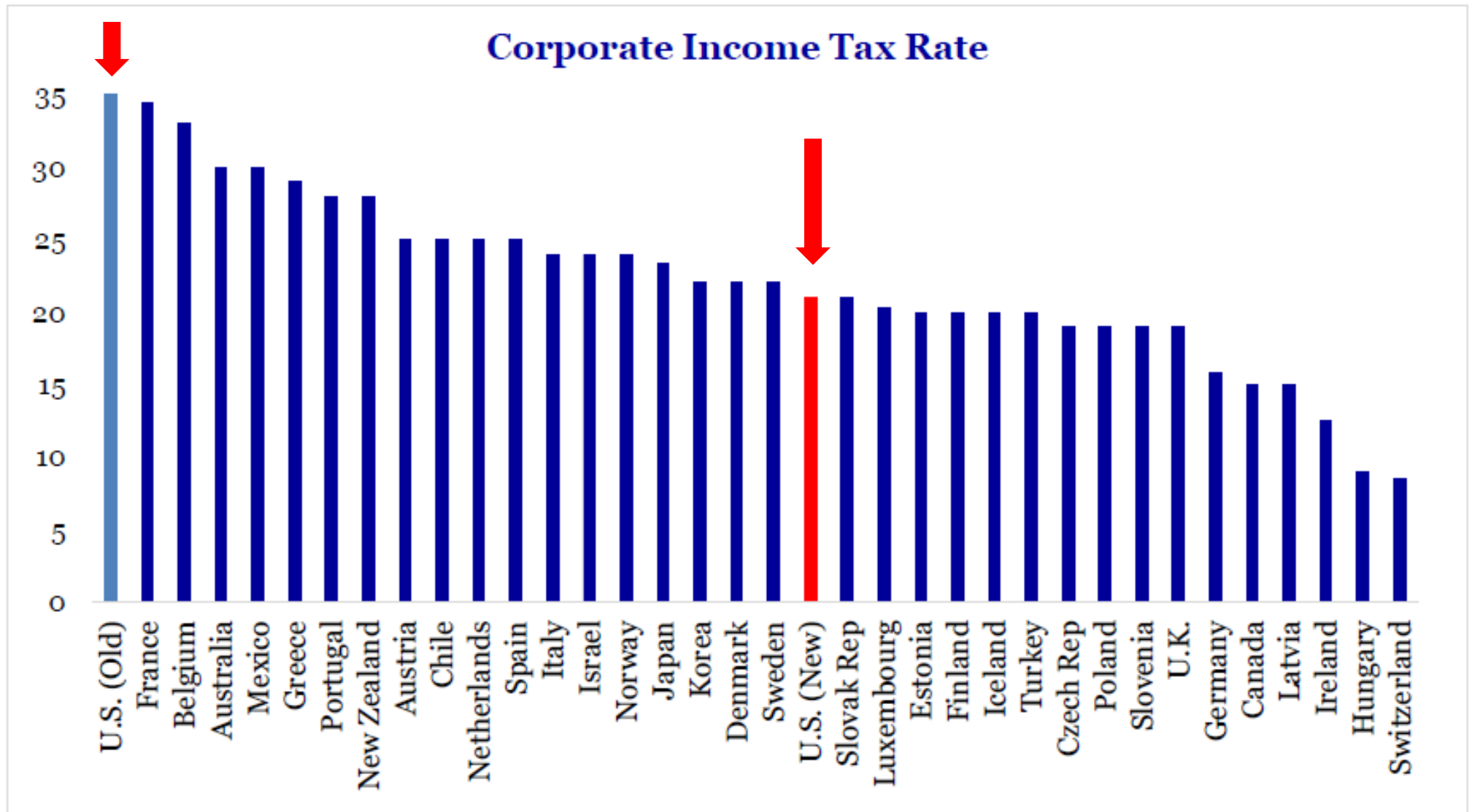
Liquid Real Assets

Van Eck

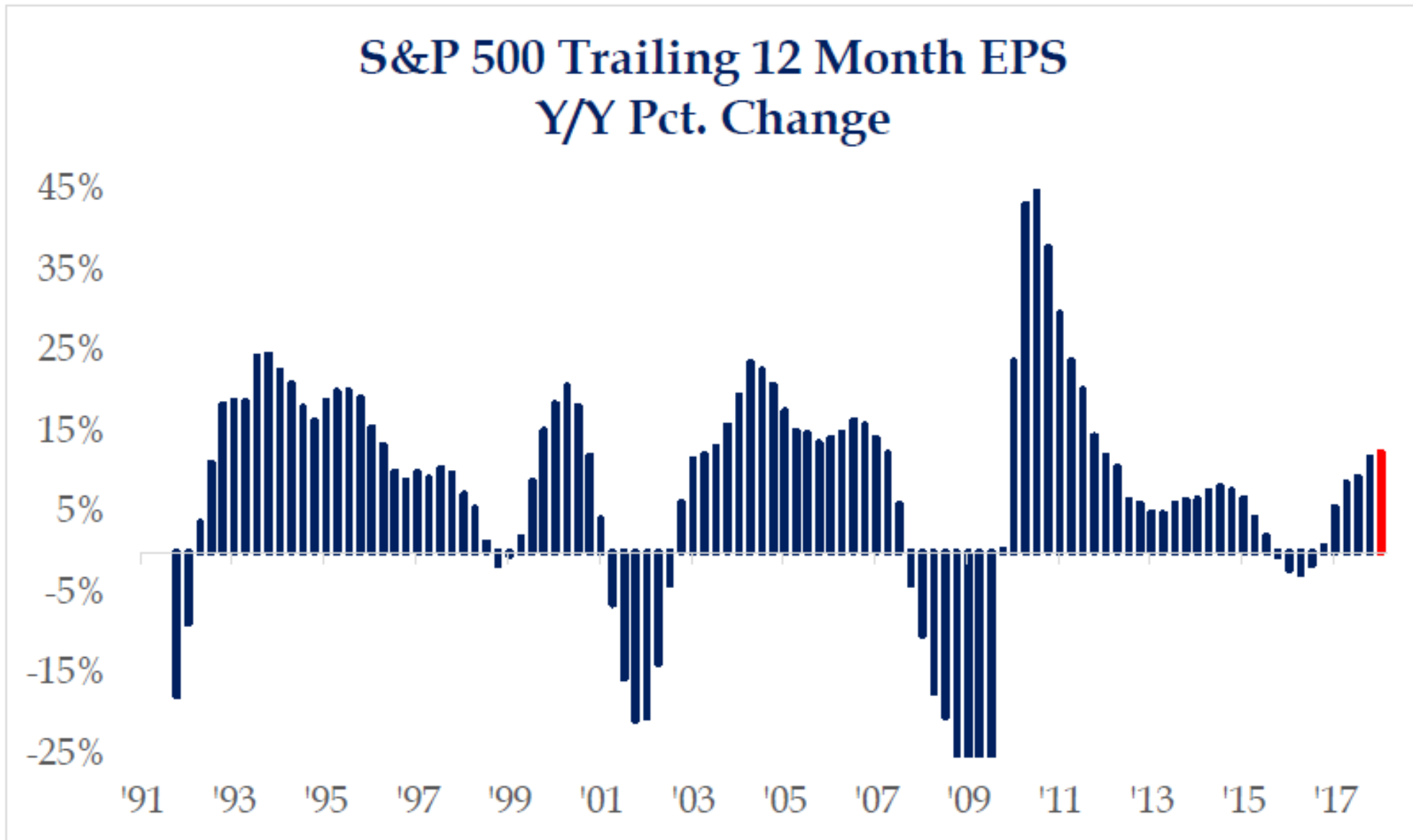
Managers Adhere to USCCB Investment Guidelines

- Socially Responsible Investment Guidelines from the United States Conference of Catholic Bishops are widely understood and many managers offer fund vehicles that adhere or are willing to customize separate accounts
- Colonial has decades of experience building USCCB compliant portfolios for Catholic clients and we have sourced a robust universe of opportunities

New US Corporate Tax Rate Is More Competitive

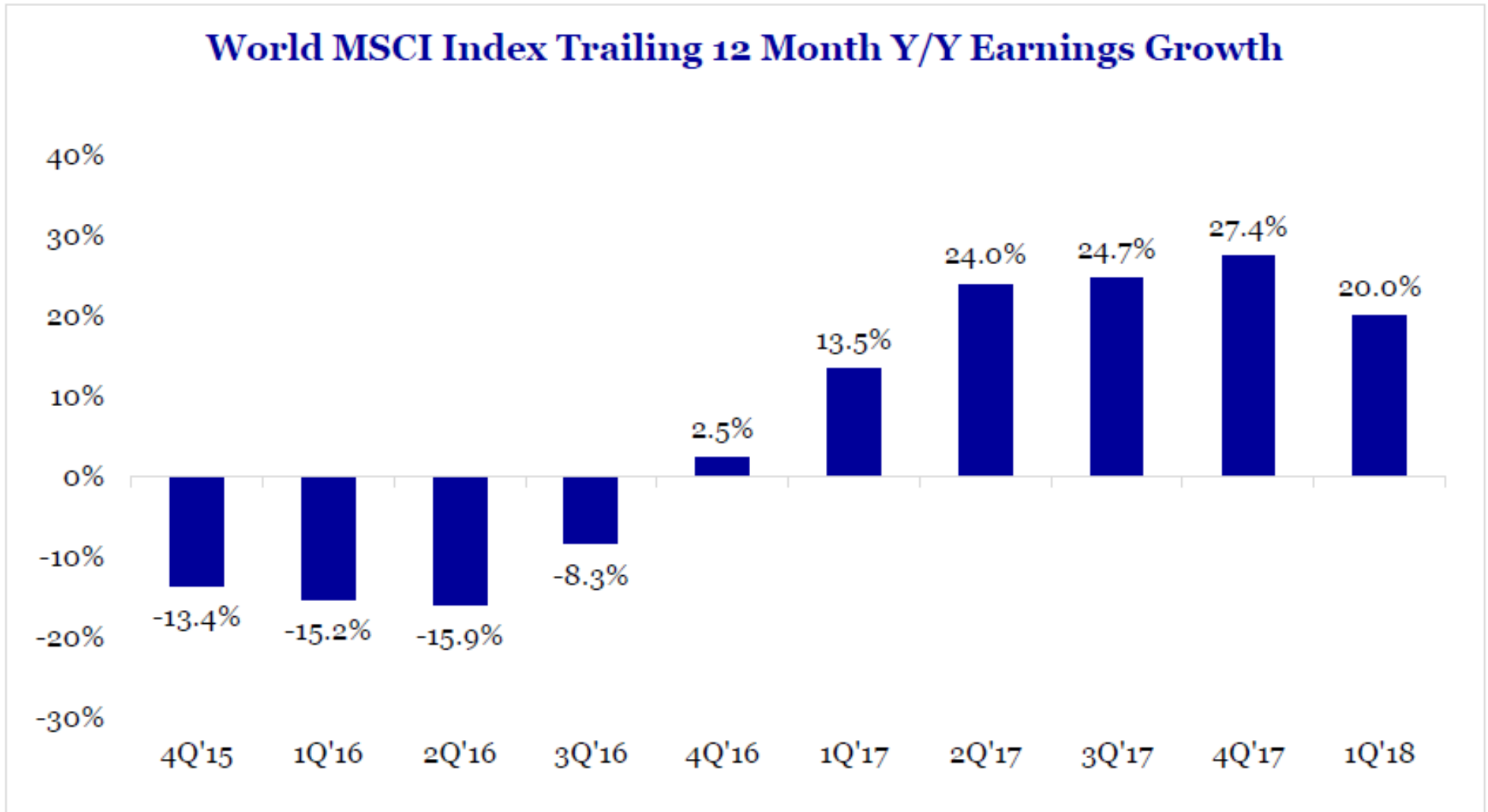


Lower Taxes Contributing to Earnings Recovery in US



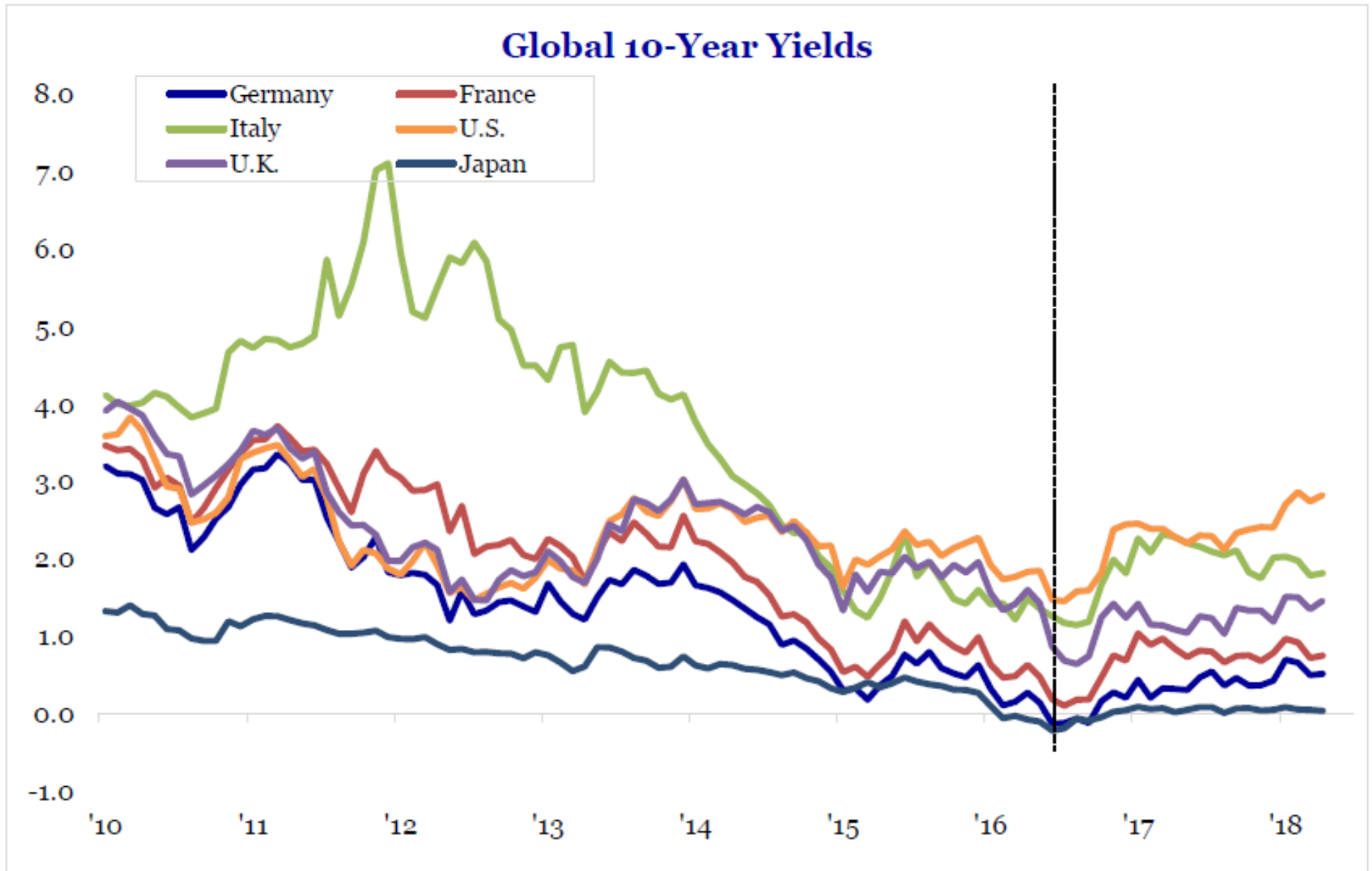
Source: Strategas Research

Earnings Recovery is Global

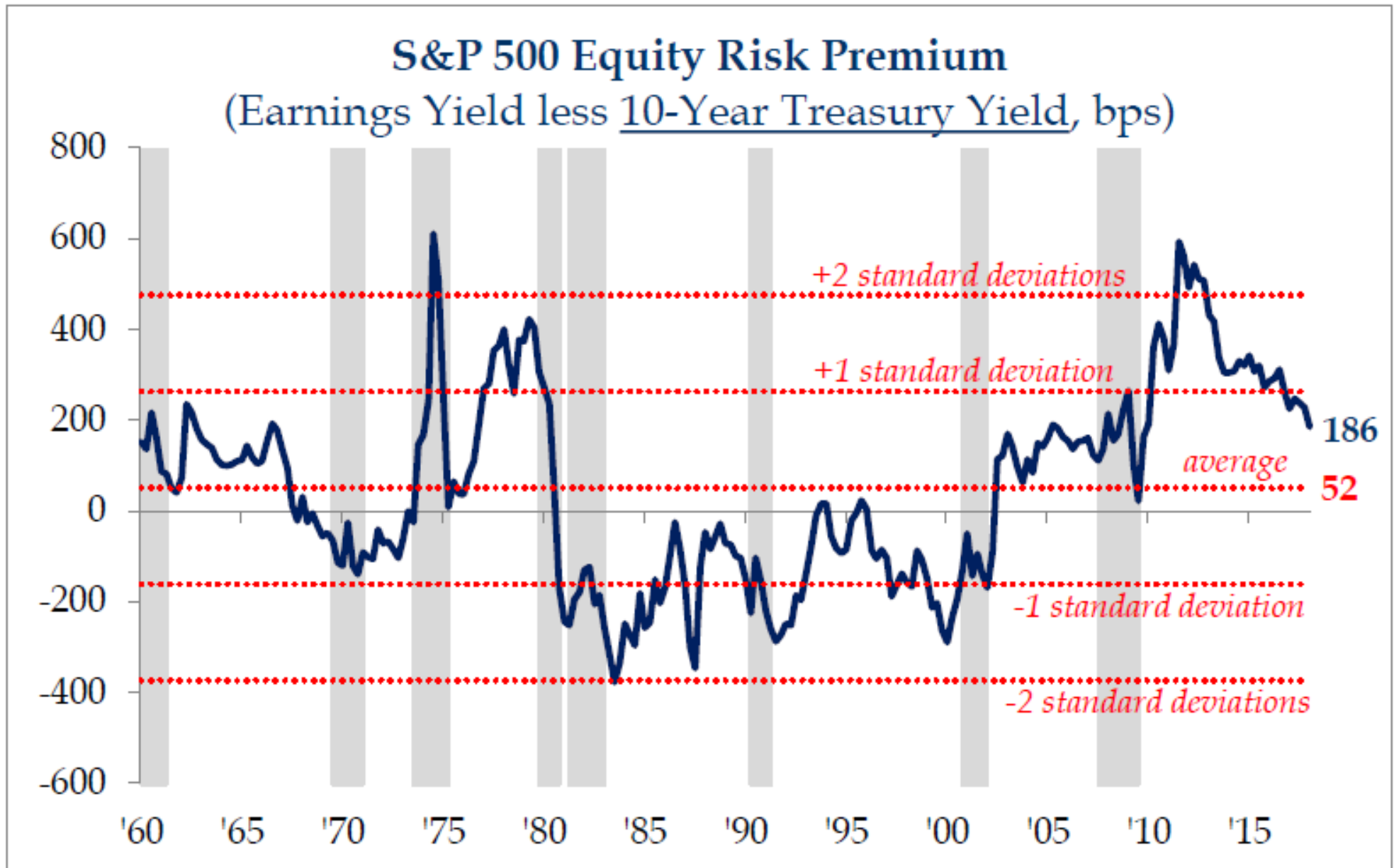


Interest Rates Are Rising

Global 10-Year Yields



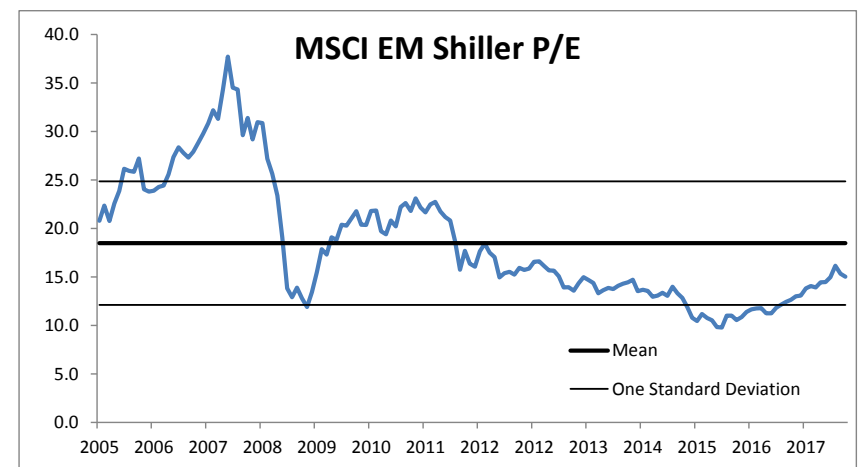
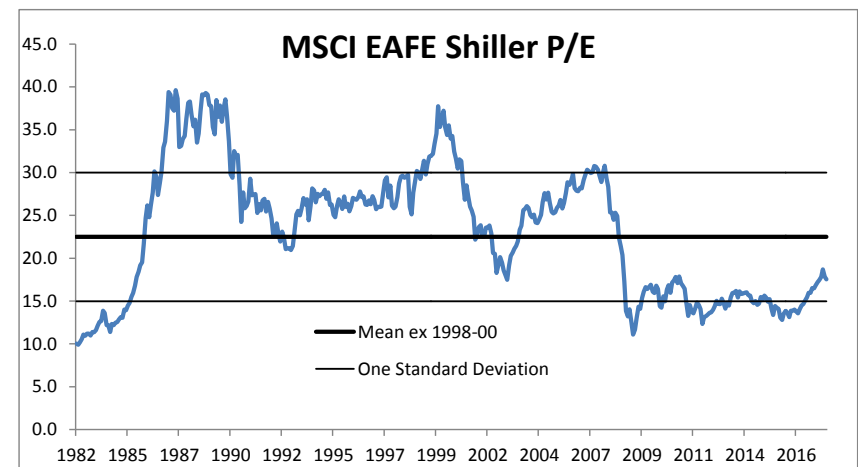
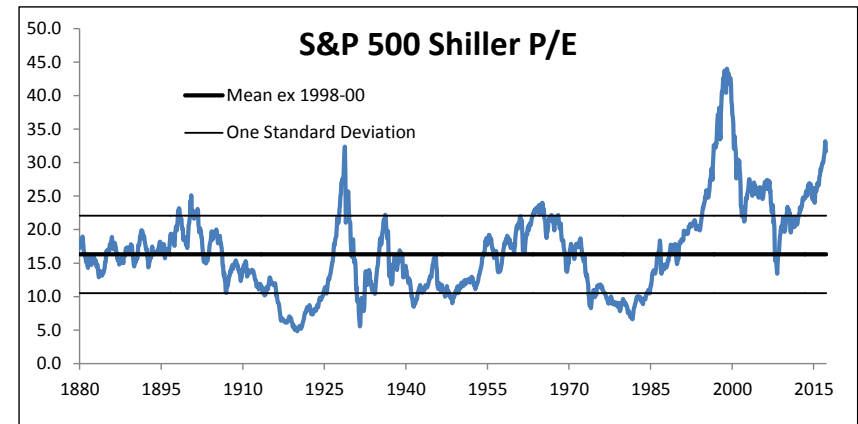
Despite Rate Increase, Stocks Still Attractive Relative to Bonds



Source: Strategas Research

Regional Valuations Favor Non-US Markets

- Shiller P/E ratios are quite high in the US
- Multiples appear to be more reasonable in developed markets outside the US
- Emerging markets are also relatively inexpensive compared to history

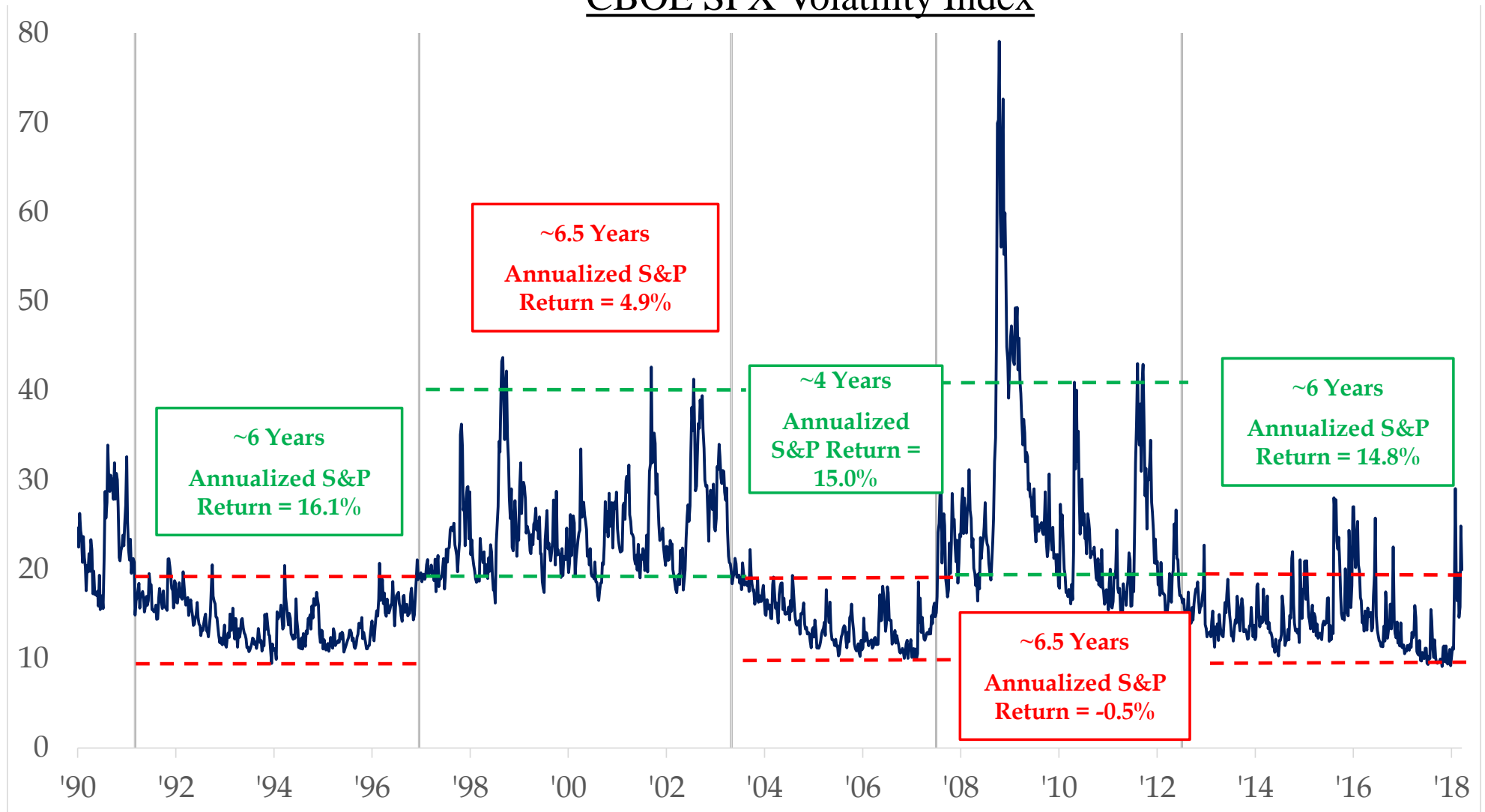


■ Source: Shiller PE data. Shiller PE is a measure of market price that uses normalized earnings (higher level is more expensive)

■ Mean is the average for the period and standard deviation is a measure of dispersion (68% of the returns are between one standard deviation above and below the mean)

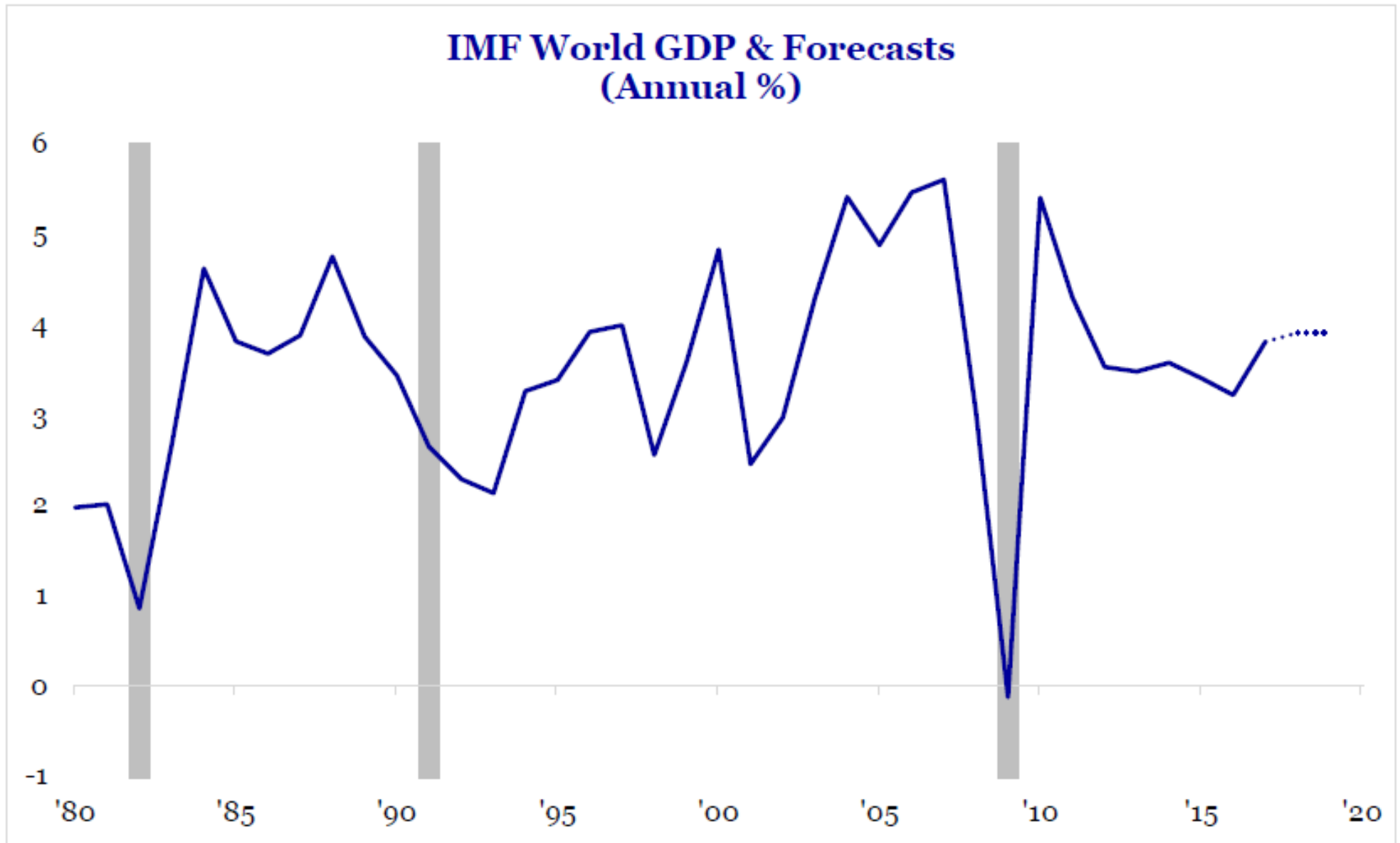
Volatility Spike in Q1 But Still Not Excessive

CBOE SPX Volatility Index

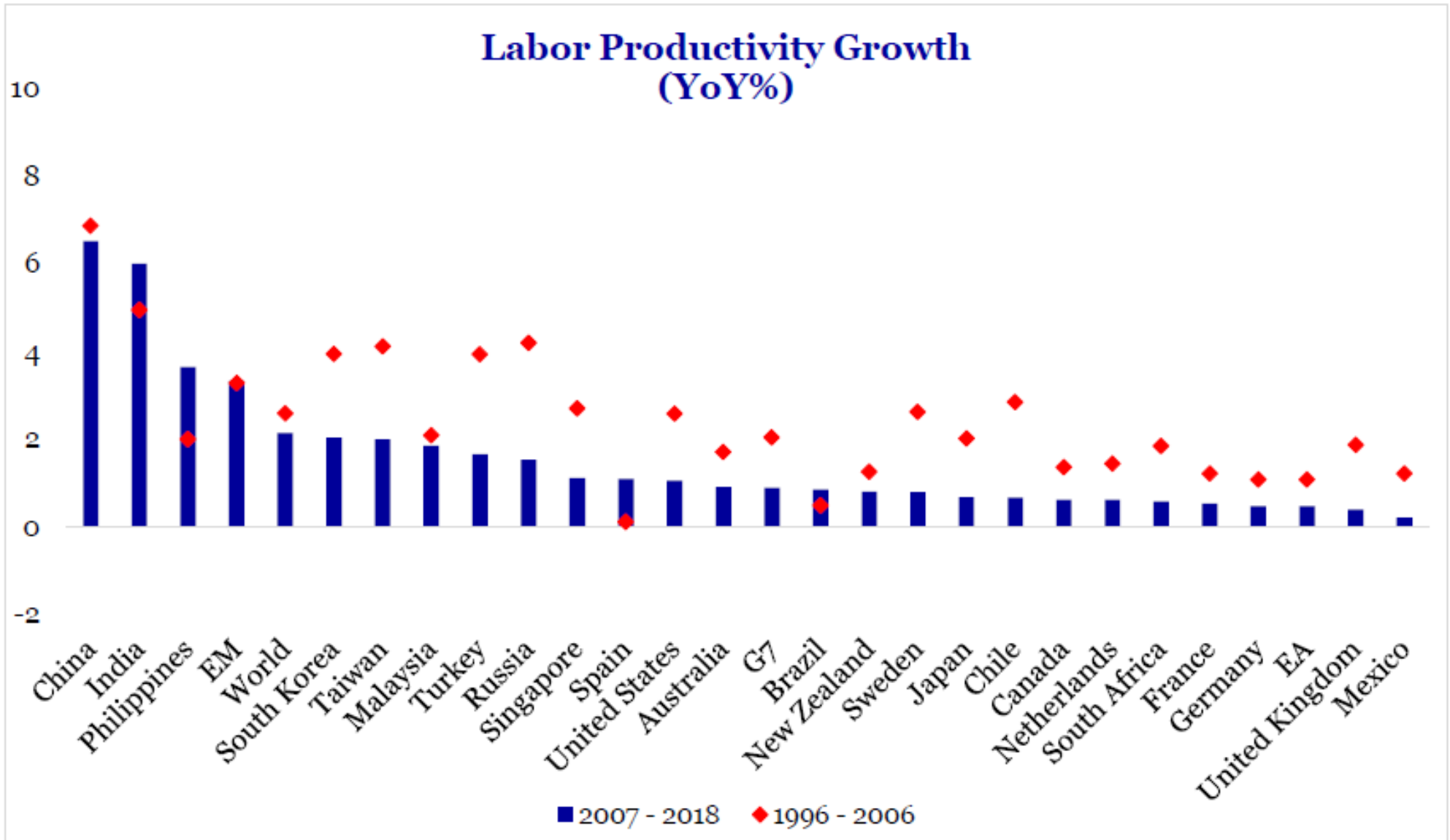


Source: Strategas Research

Global Economy Continues to Improve



Productivity Lag Could Be Worrisome



Looking Ahead

- ❖ Focus → Keep Long-Term Time Horizon in Mind
- ❖ Maintain Consistent Risk Exposure
- ❖ Capitalize on Market Volatility - New Leadership Will Create Risk and Opportunities
- ❖ Consistently Utilize Rebalancing Strategies

Benefits with The Catholic Community Foundation of Santa Clara

- Diversified and thoughtful asset allocation
- Manager access: institutional quality strategies
- Multiple pools to align with donor priorities
- Stewardship of assets
 - Experienced staff handling all compliance, audit and reporting needs
 - Conflict-free advisor experienced in Foundation & Endowment space
 - Experienced, high-quality Investment Committee which reports to the Board
 - Follow Catholic Values USCCB Guidelines in manager selection