

REPORT OF THE INVESTMENT COMMITTEE

RALPH SEGALL, COMMITTEE CHAIR

2013 REVIEW

The Foundation portfolio earned 14.1% in calendar 2013, well ahead of our primary investment objective of earning a 5% real return (that is, adjusted for inflation) each year. Similarly, the strong 2013 returns helped allowed our annualized three-year rolling rate of return to reach 8.53%, again comfortably ahead of our spending target. Of course, the financial markets have been in a strong uptrend since hitting bottom in 2009. The Blended Benchmark of market indices — developed by the Foundation's investment committee for analyzing portfolio performance — rose 19% in 2013 and 11.5% for the rolling three years. The U.S. stock market in particular had a very strong year. In our Blended Benchmark, we use the Wilshire 5000 Index as our proxy for the U.S. equity market as it is the broadest measure available. The Wilshire was up 33.1% last year. Our portfolio's relative underperformance, while not especially relished by the Investment Committee, is recognized for what it is: the trade-off that occurs for pursuing strategies that will mitigate the consequences if (when!) markets decline. We are willing to trade giving up full participation when the party is in full swing, if we can avoid the hangover the next morning. The work we have done indeed suggests that our "downside capture" (the degree by which the portfolio declines in falling markets) has historically been much less than our "upside capture" (the degree by which the portfolio increases in rising markets). It is one of the principal reasons the Foundation's portfolio has outperformed the Blended Benchmark over the long run. As we have said before, we view the investment process as a marathon, not a sprint, and the goal is to consistently produce the required return year after year. We are pleased to say this was the case in 2013.

2014 OUTLOOK

As of early May 2014, the financial markets appear to be pausing following the surge of 2013. Much of last year's advance seems to have been the product of two conclusions reached by investors. First, given the low levels at which interest rates are being held by monetary authorities globally, the stock market may be the only game in town. One well-respected market analyst used the acronym TINA to explain it: There is No Alternative. The second reason was the belief low rates would finally achieve their goal of getting economies back into full gear. As 2014 has begun to play out, there is the realization that global economies have not moved into a faster growth pace, and the markets have simply marked time pending more clarity on this question. For our part, we have not materially changed either asset allocation in the portfolio nor have we drastically altered the composition of our holdings. We have, as we typically do, tweaked at the edges here and there, but the Committee views the portfolio as being quite durable for a variety of market environments.