

REPORT OF THE INVESTMENT COUNCIL

RALPH SEGALL, CHAIR

2016 REVIEW

The Foundation portfolio earned 7.7% in calendar 2016, a bit of a pleasant surprise to the Council, especially in light of the market's many twists and turns in 2016. The Foundation currently uses a 5% spending rate on the three rolling year average balances to calculate spending from our funds. While ECF's three year investment return was only 3.7%, both the five year return of 7.4%, as well as the ten year return of 5.4%, compare favorably to the 5% rate of spending.

ECF's portfolio returns also compare well to our peer community foundations, yet they continue to lag our Blended Benchmark Index* at the 3 5 and 10 year marks. The blended benchmark was 7.7% in 2016 and 5.4% for the last three years, 8.8% for the last 5, and 6.4% for the last ten.

*the Blended Benchmark Index is a constructed index based on a melding of indices used in the Foundation's Investment and Spending Policy Guideline

2017 OUTLOOK

While the Council continues to review and assess its policies, processes, and personnel in order to determine what, if anything, requires adjustment, our current concern focuses on this question: *what is a reasonable rate of return a diversified portfolio of financial assets can expect to return in the next 5 to 10 years?*

We enter 2017 with the stock market flirting with all-time highs and interest rates at once-in-a-century lows. Many studies suggest that the markets are not priced to provide traditional levels of expected returns, given these valuation levels and the current state of the global economy. This is one of those instances in which long term investors - such as ECF - can and should sit patiently with a broadly diversified and liquid portfolio, awaiting the opportunities that will inevitably present themselves. Insofar as reasonable targets for spending in the near-term are concerned, our current inclination is to retain 5% spending from our funds, but it should be noted that this topic remains on the Council's Agenda for further discussion.

P.S. An observant reader will note that this is the report of the "Investment Council" rather than the "Investment Committee." A new name and slightly modified membership roster are the results of a modest revision to ECF bylaws in 2017. While the name is a bit different, the players are essentially the same.