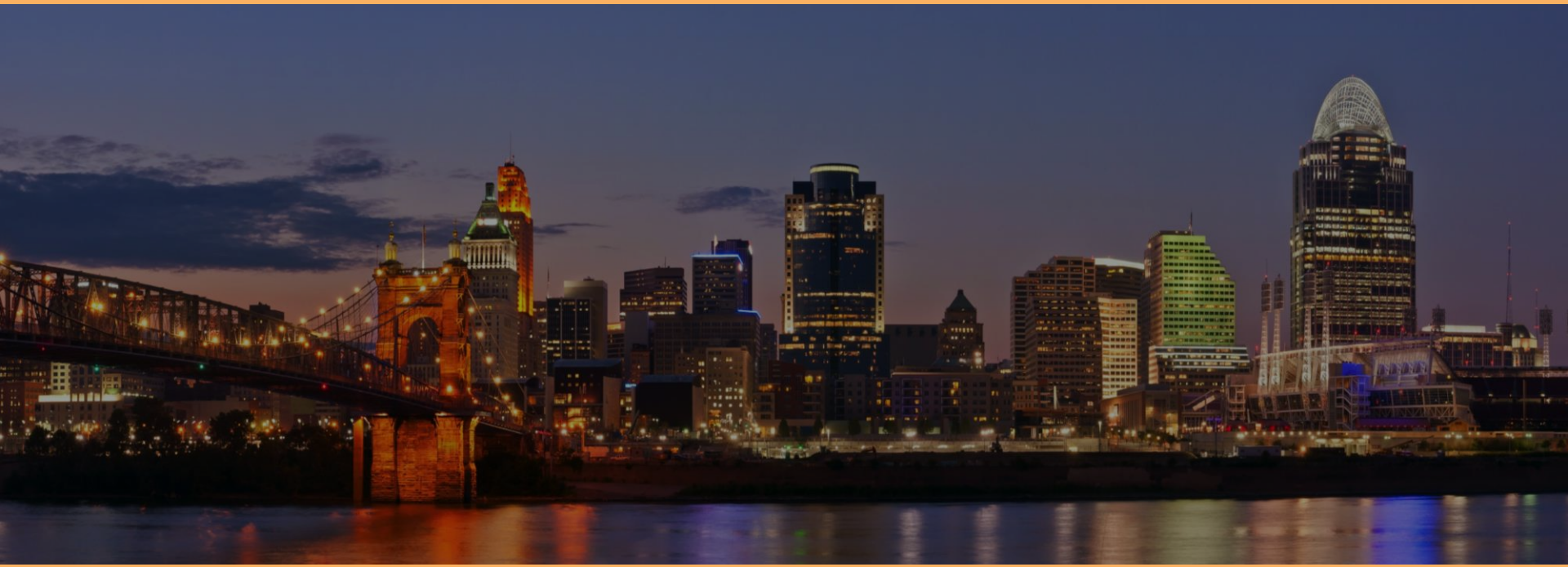


Endowment Accounting Conference 2017



TRENDS WITHIN FOUNDATIONS

AGENDA

I. Governance

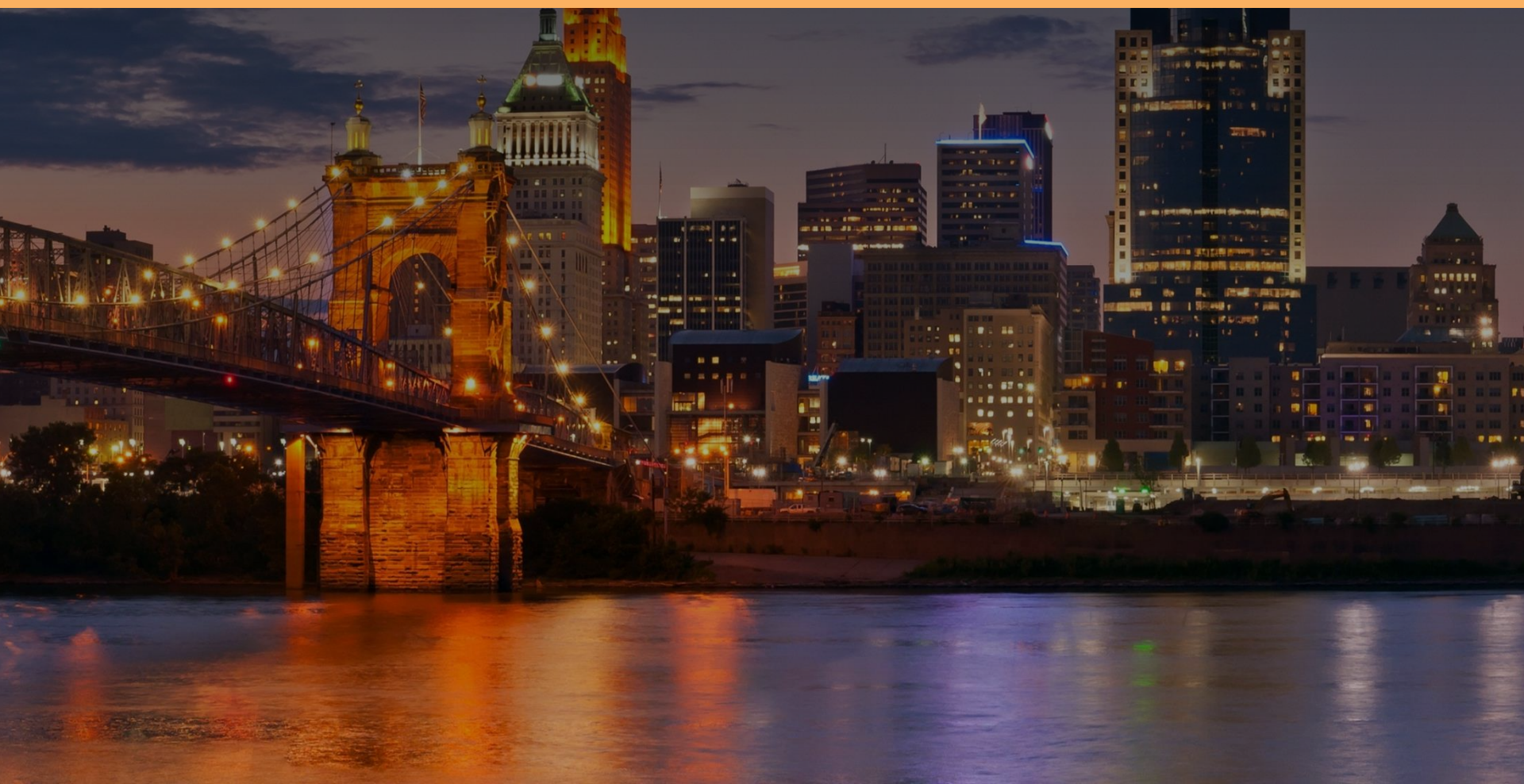
II. Spending Policy

III. Asset Allocation

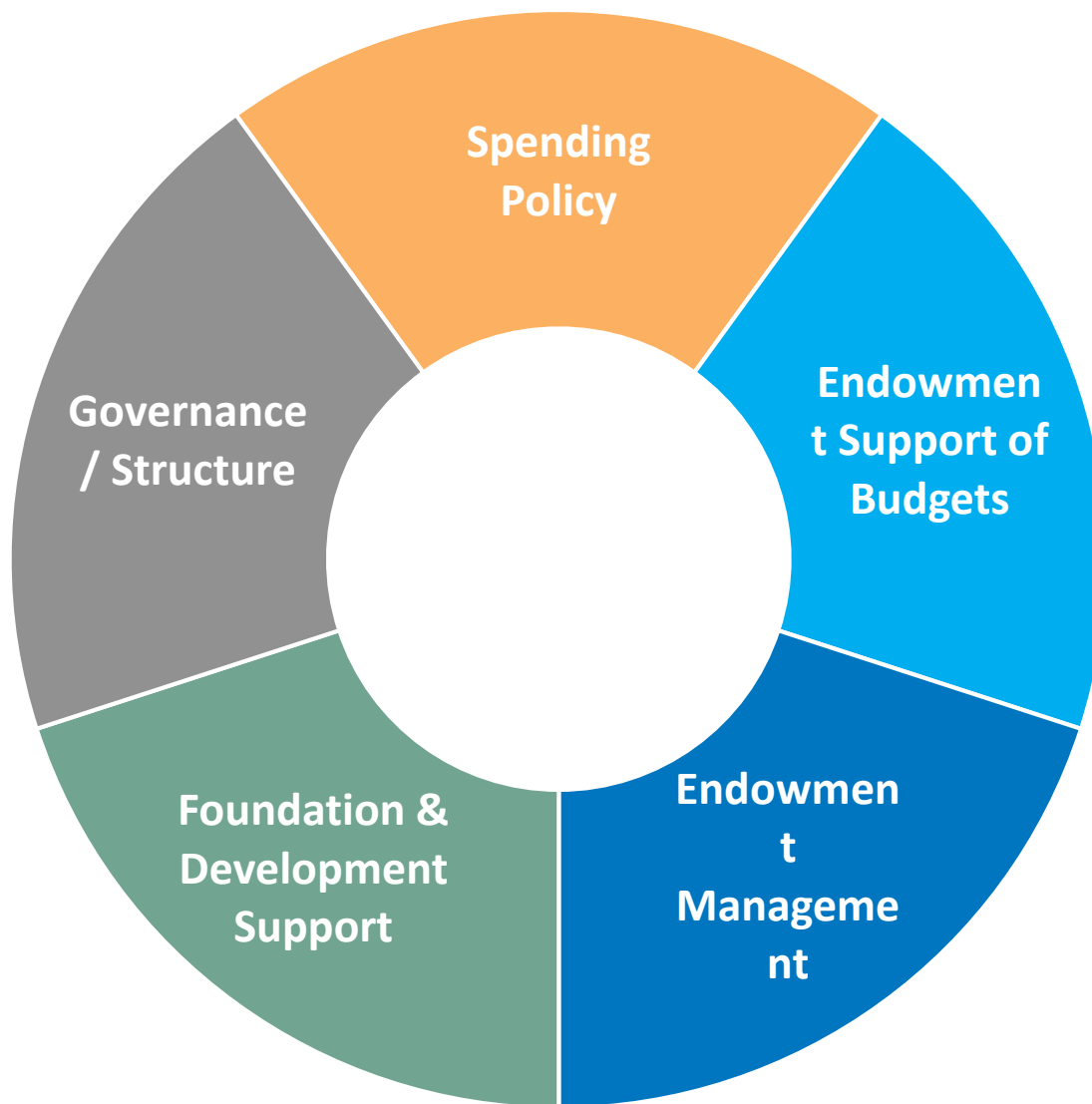
IV. Other

V. Conclusion

Governance



ENTERPRISE MANAGEMENT



3-TIER STRUCTURE WINNING OUT

56% of higher education uses a 3-tier model

	2-TIER	3-TIER	
GOVERNING FIDUCIARIES		Board/Investment Committee	<i>Large Impact Duties</i> ↓
MANAGING FIDUCIARIES	Board/Investment Committee, Staff, and Consultant	CIO <i>or</i> OCIO “build” 18% “buy” 38%	
OPERATING FIDUCIARIES	Investment Managers Custodian	Investment Managers Custodian	<i>Small Impact Duties</i>

Source : 2016 NACUBO-Commonfund Study of Endowments

RESOURCES

2016 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

	> \$1 BILLION	\$501M - \$1B	\$101M - \$500M	\$51M - \$100M	\$25M - \$50M	< \$25 MILLION
PROFESSIONAL STAFFING						
AVG NUMBER OF FTEs	11.0	2.6	0.9	0.4	0.4	0.2
MEDIAN NUMBER OF FTEs	6.0	2.4	0.5	0.3	0.3	0.1

COMPENSATION COSTS FOR INTERNAL PROFESSIONAL INVESTMENT STAFF (IN THOUSANDS \$)

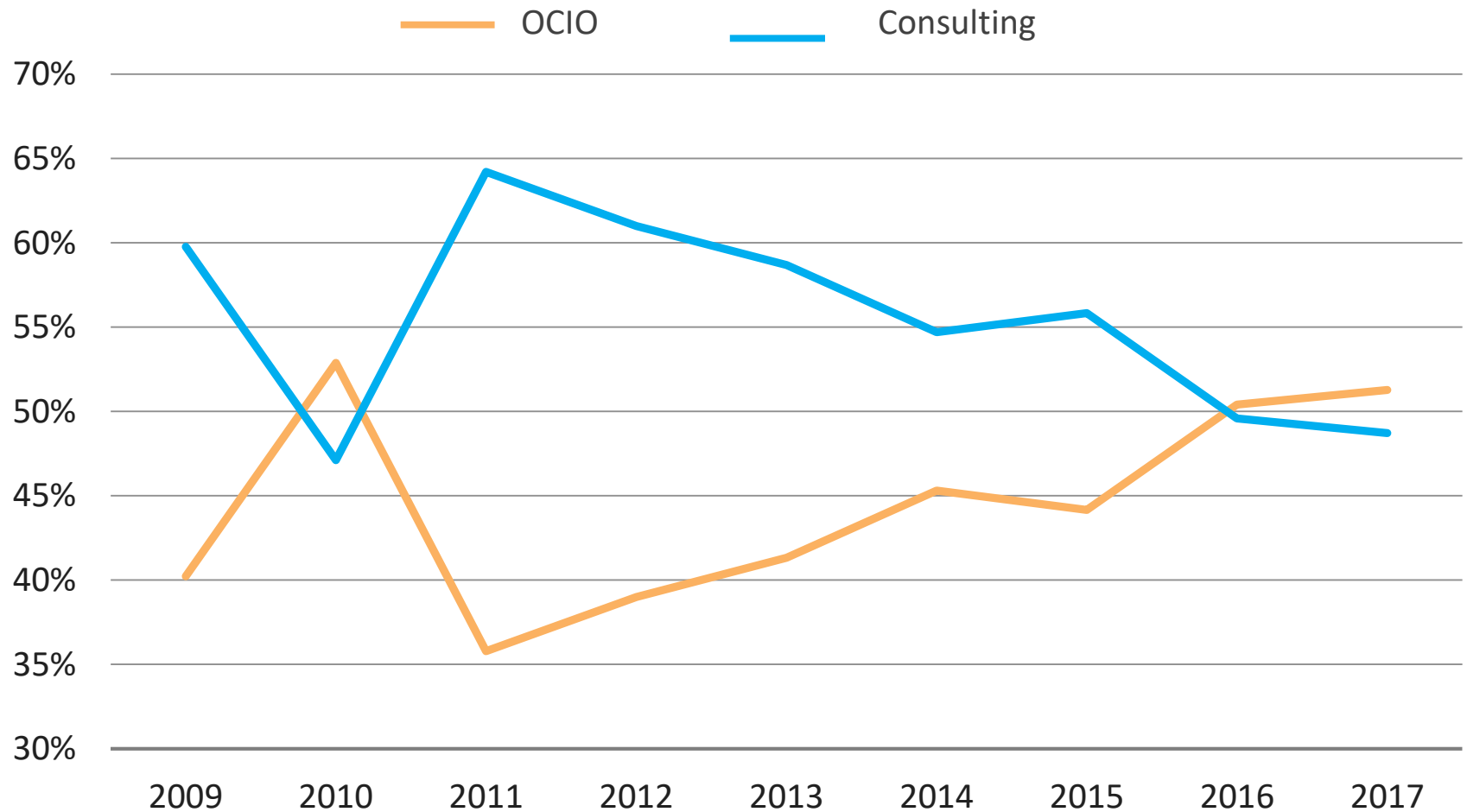
AVG COMPENSATION	2646	500	137	65	51	19
MEDIAN COMPENSATION	1827	375	101	51	30	19

FTE: Full-Time Equivalent.

RFP TRENDS

FEG RFP VOLUME

% of Total RFPs, Consulting vs. OCIO
2011-2016



Source: FEG RFP data January 1, 2009-August 7, 2017.

UNDERSTANDING THE DIFFERENCES

- ◆ Advisor recommends and monitors; investment committee/staff approves and implements
- Advisor executes and monitors; investment committee/staff notified

RESPONSIBILITY	CONSULTING	OCIO
Spending Policy Analysis	◆	◆
IPS Development	◆	◆
Asset Allocation	◆	◆
Portfolio Strategy	◆	●
Manager Selection	◆	●
Security Selection	◆	●
Daily Supervision	◆	●
Trading	◆	●
Rebalancing	◆	●
Risk Management	●	●
Performance Analysis	●	●
Reporting	●	●

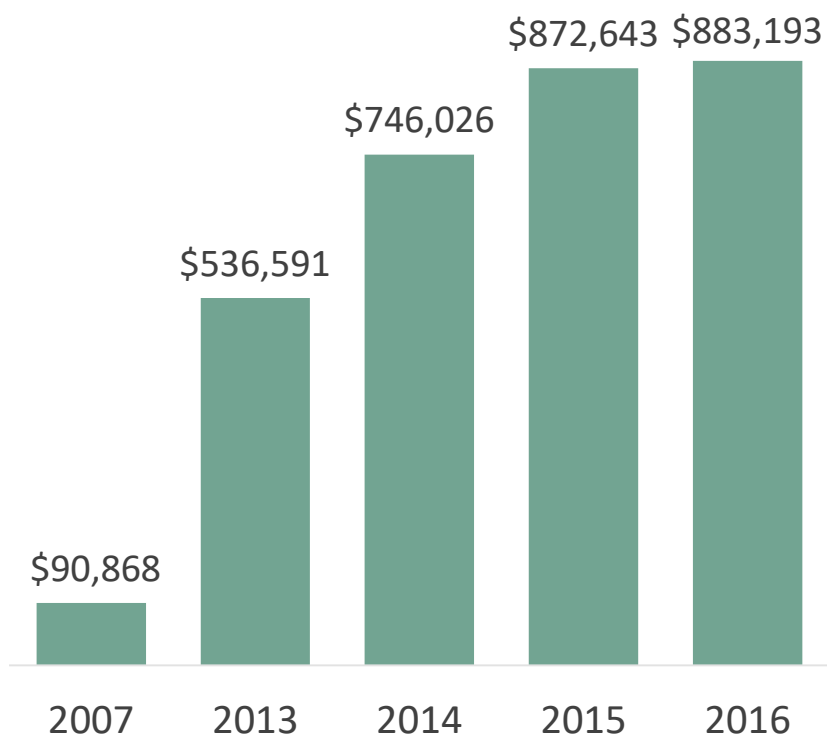
Illustrative of FEG's service models.

INDUSTRY GROWTH

DISCRETIONARY OCIO GROWTH

2007-2016

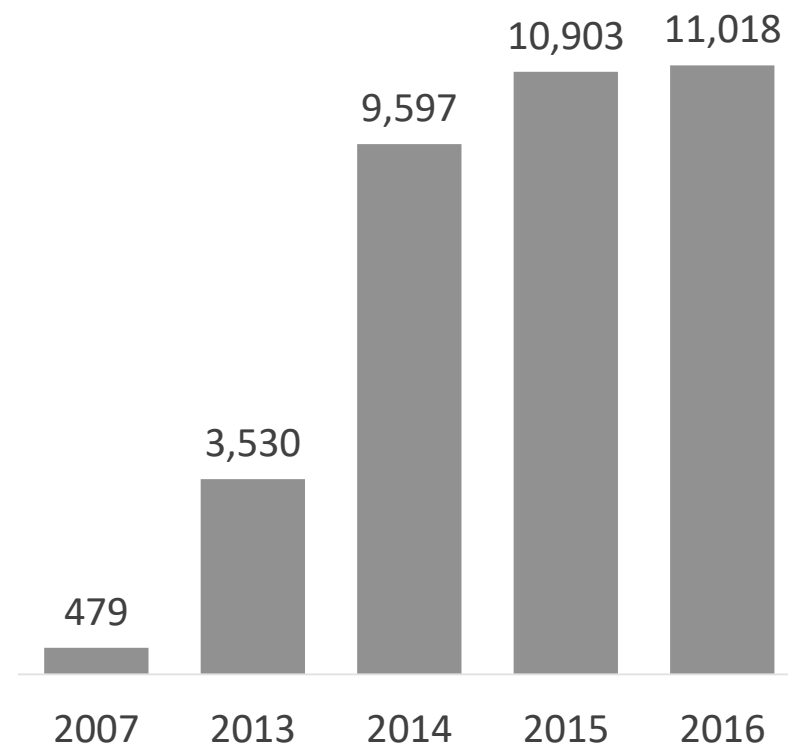
Assets in \$ Millions



10-YR. CAGR* = 26%

3-YR. CAGR* = 6%

Number of Clients

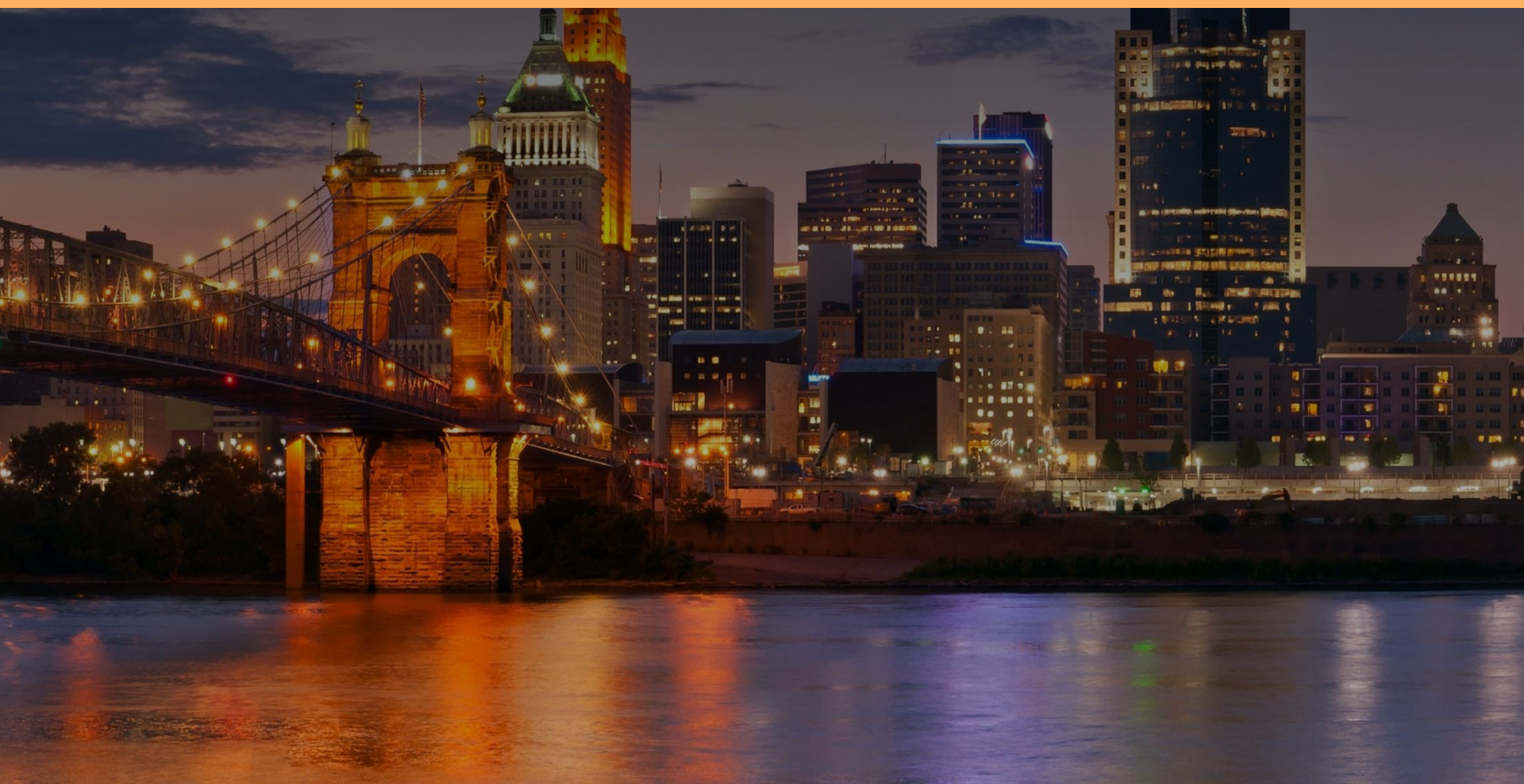


10-YR. CAGR* = 37%

3-YR. CAGR* = 5%

. Data Source: 2017 Outsource-Chief Investment Officer Buyer's Guide.*Compound annual growth rate.

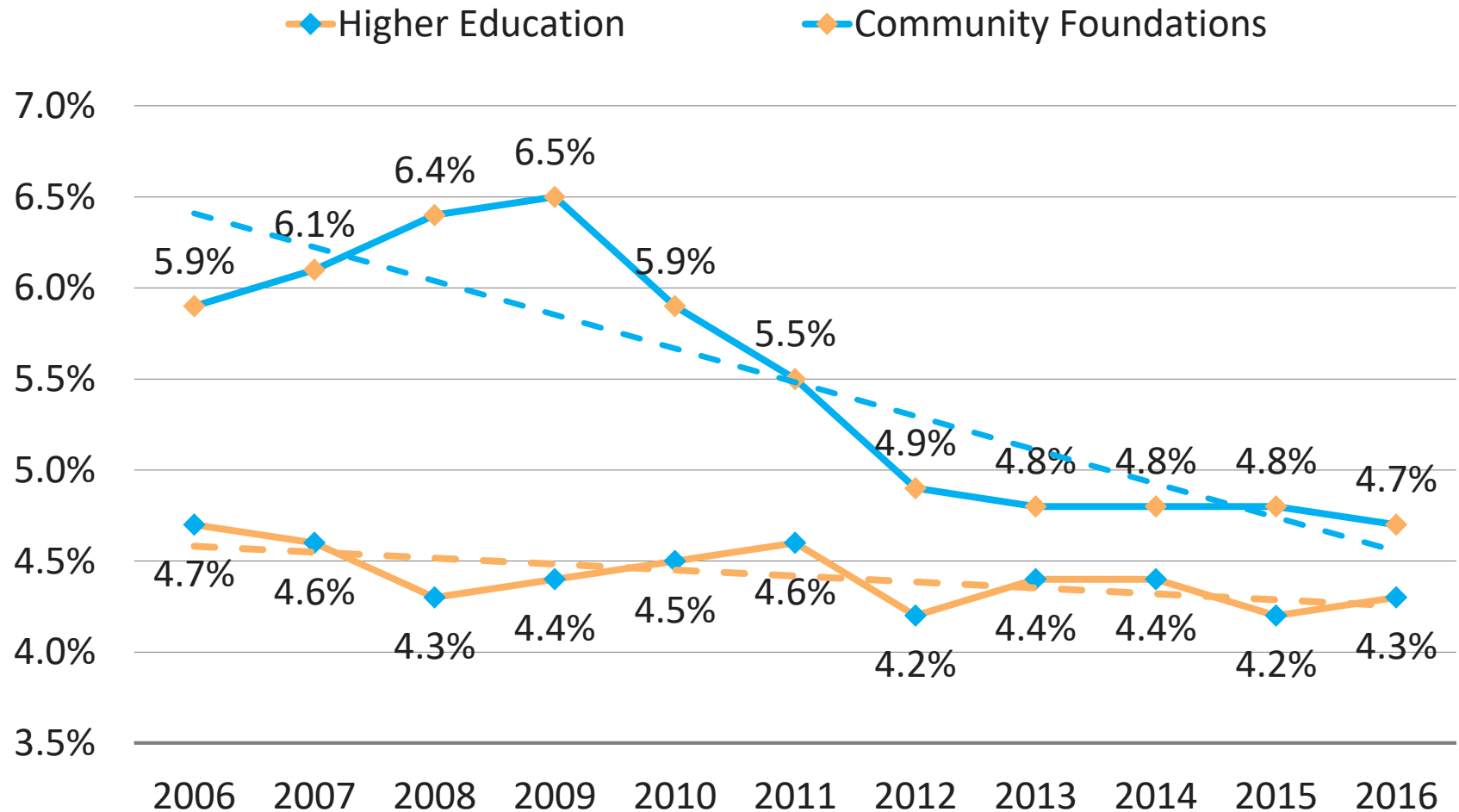
Spending Policy



LOWERING SPENDING RATE

AVERAGE ANNUAL EFFECTIVE SPENDING RATE

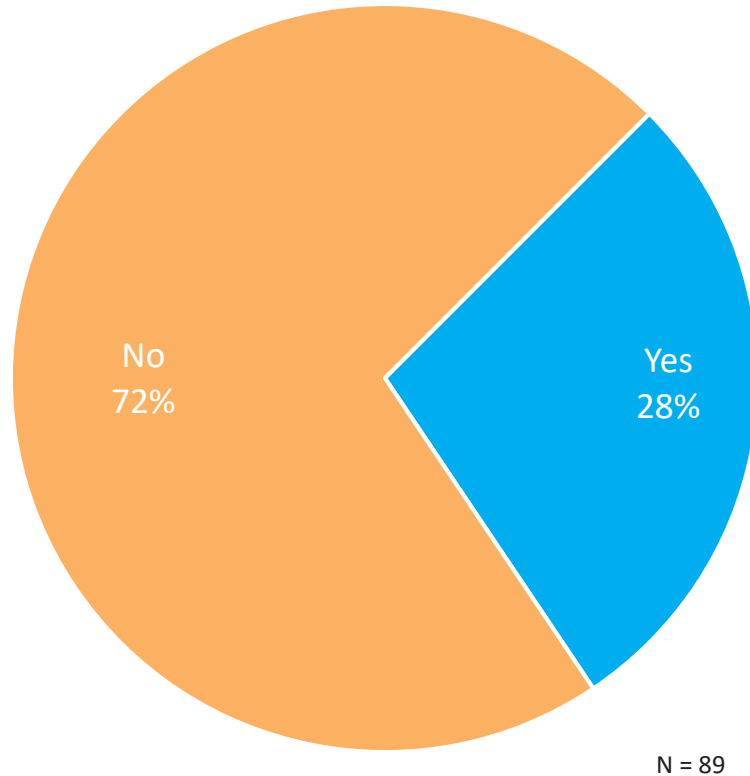
2006-2016



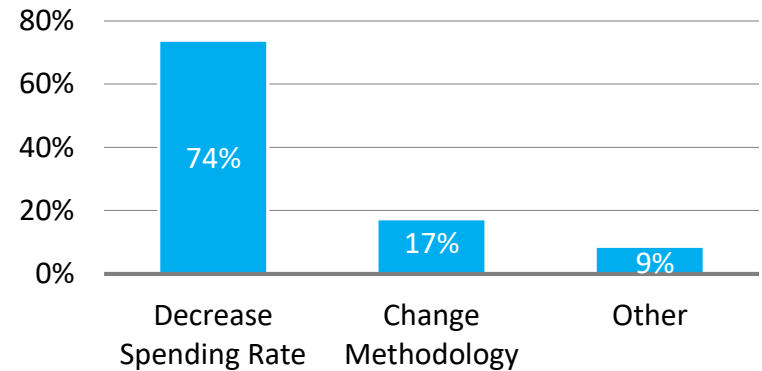
Data Source: NACUBO-Commonfund Study of Endowments 2016; 2016 Council on Foundations – Commonfund Study of Investment of Endowments for Private and Community Foundations

FORESEEN SPENDING POLICY CHANGE

For Community Foundations



FORESEEN SPENDING POLICY CHANGE¹

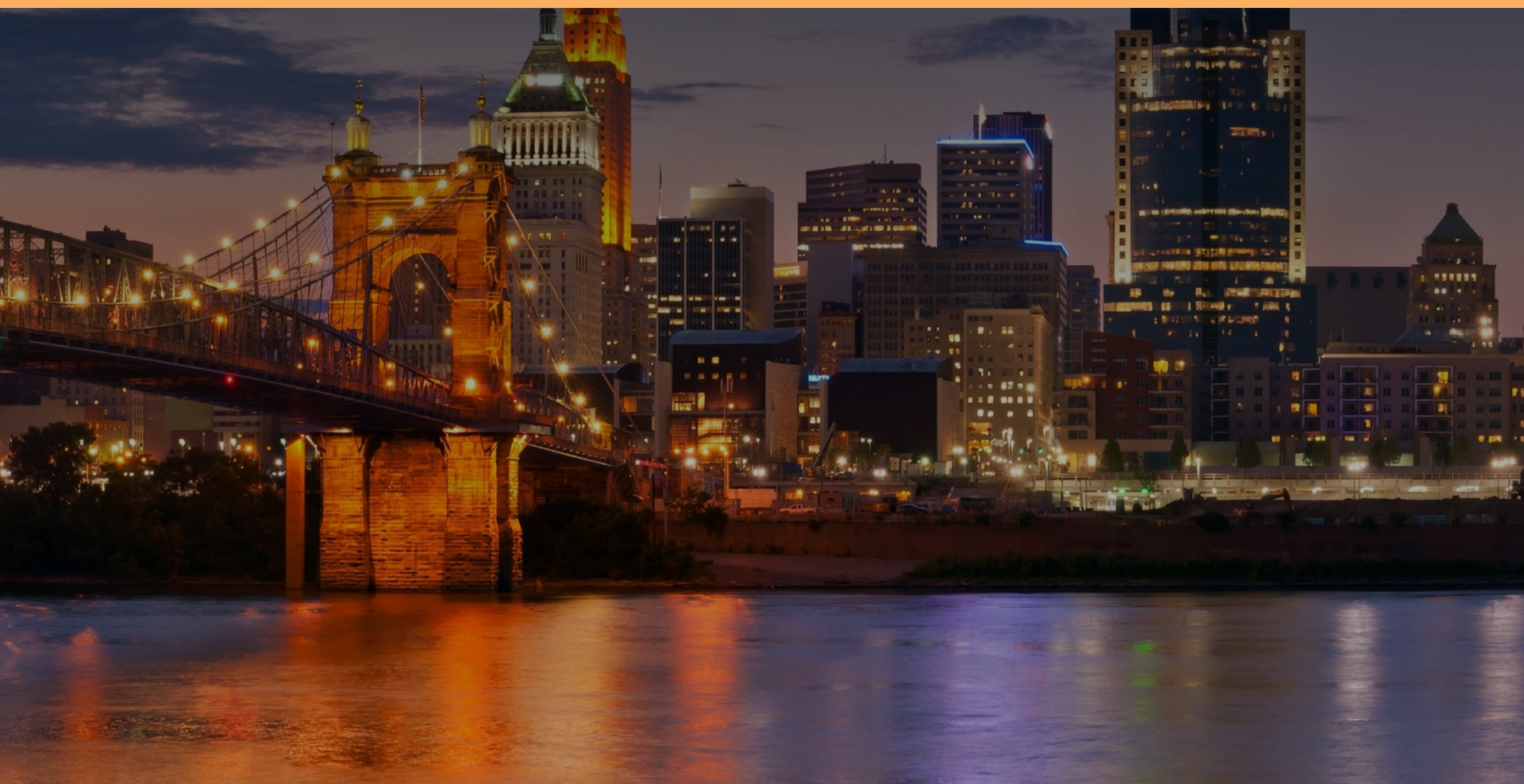


N = 23

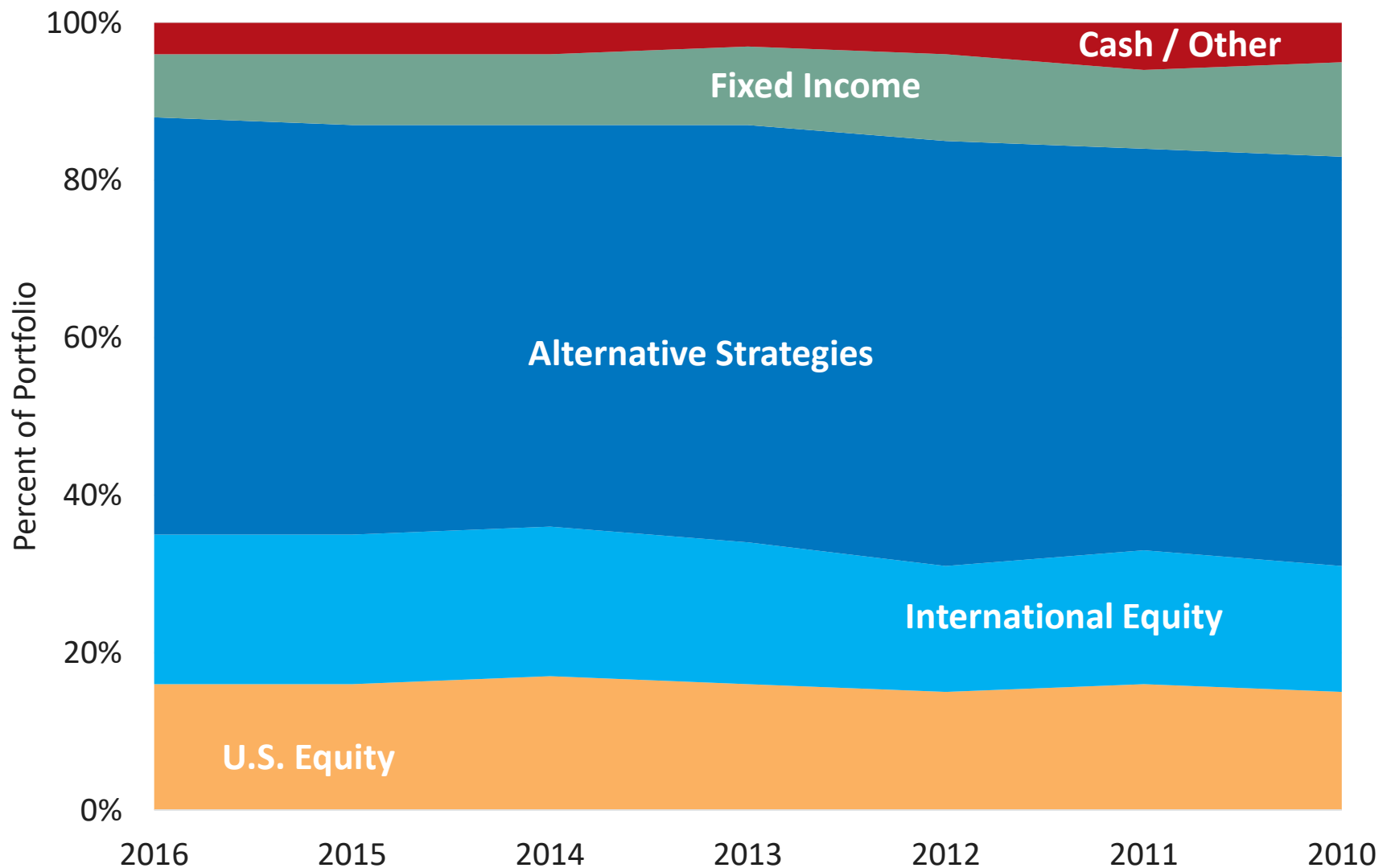
¹Answers were grouped.

Data Source: FEG 2017 Community Foundation Survey

Asset Allocation



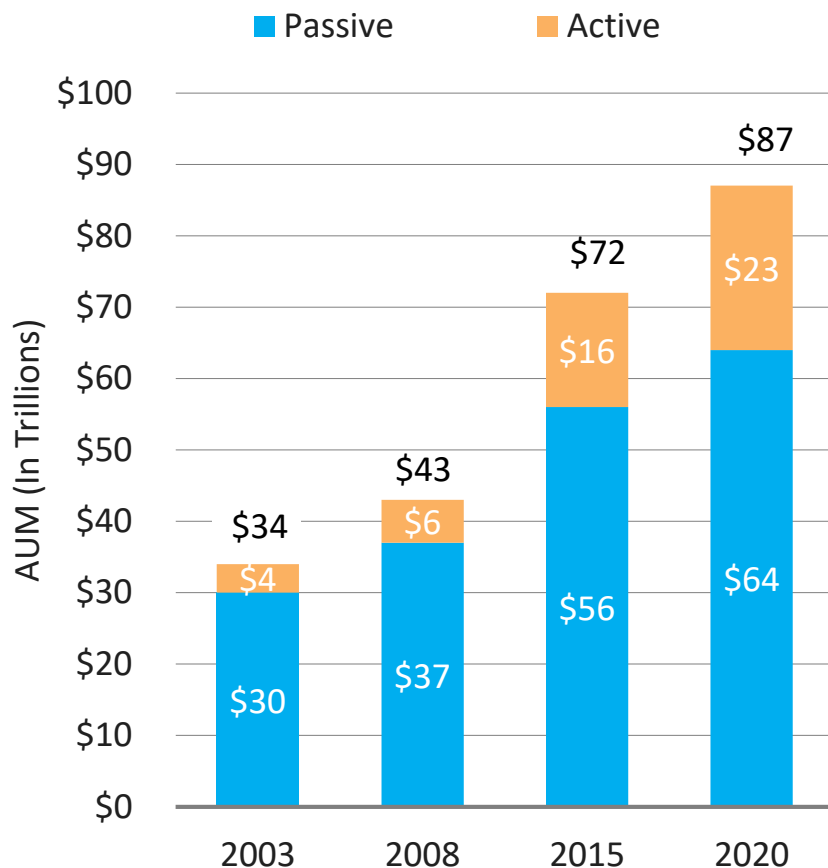
NCSE ASSET ALLOCATION COMPARISON BY YEAR



Dollar-weighted average

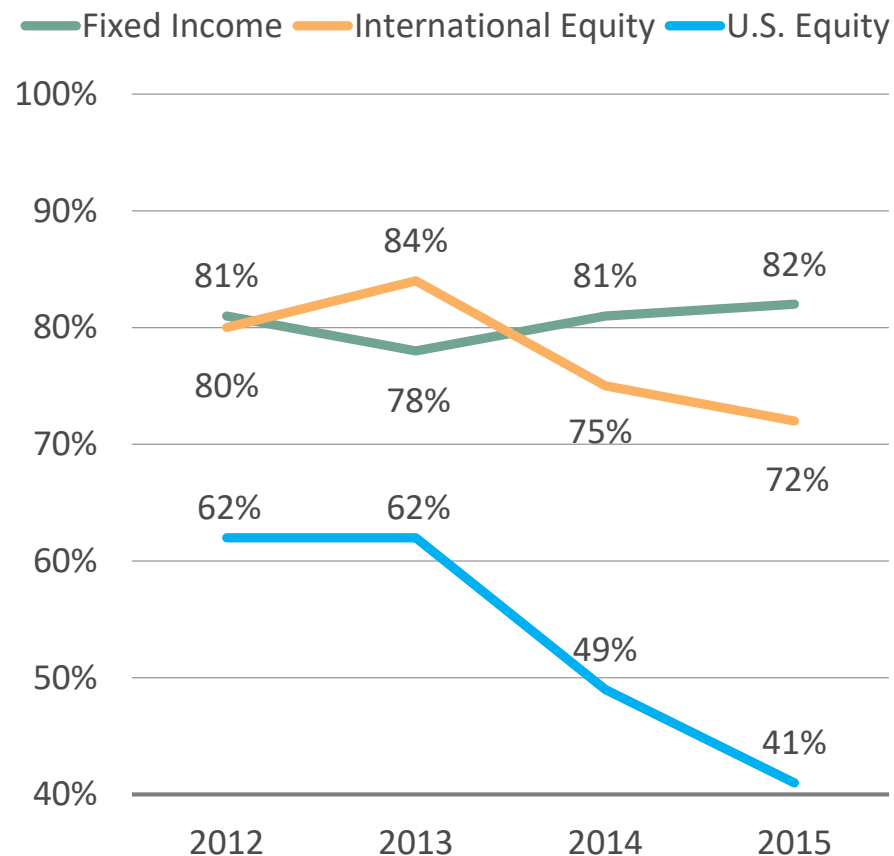
USE OF PASSIVE MANAGEMENT

GLOBAL AUM – ACTIVE vs. PASSIVE



Data source: Greenwich Associates 2016, Global Asset Management 2016

U.S. INSTITUTIONS' ACTIVE ALLOCATIONS



Note: Percentages are weighted in U.S. dollars and projected to the Greenwich Associates universe of U.S. institutional investors. Projections based only on the assets of institutions disclosing their specific asset allocation. Results are for corporate DB and DC plans and union DB plans, public fund DB and DC plans, healthcare operating assets, endowment and foundation investment pools, and insurance general account assets.
Data sources: Greenwich Associates 2012–2015, U.S. Institutional Investors Studies

THE FUTURE OF ACTIVE MANAGEMENT

MODELS FOR FUTURE SUCCESS IN ACTIVE MANAGEMENT

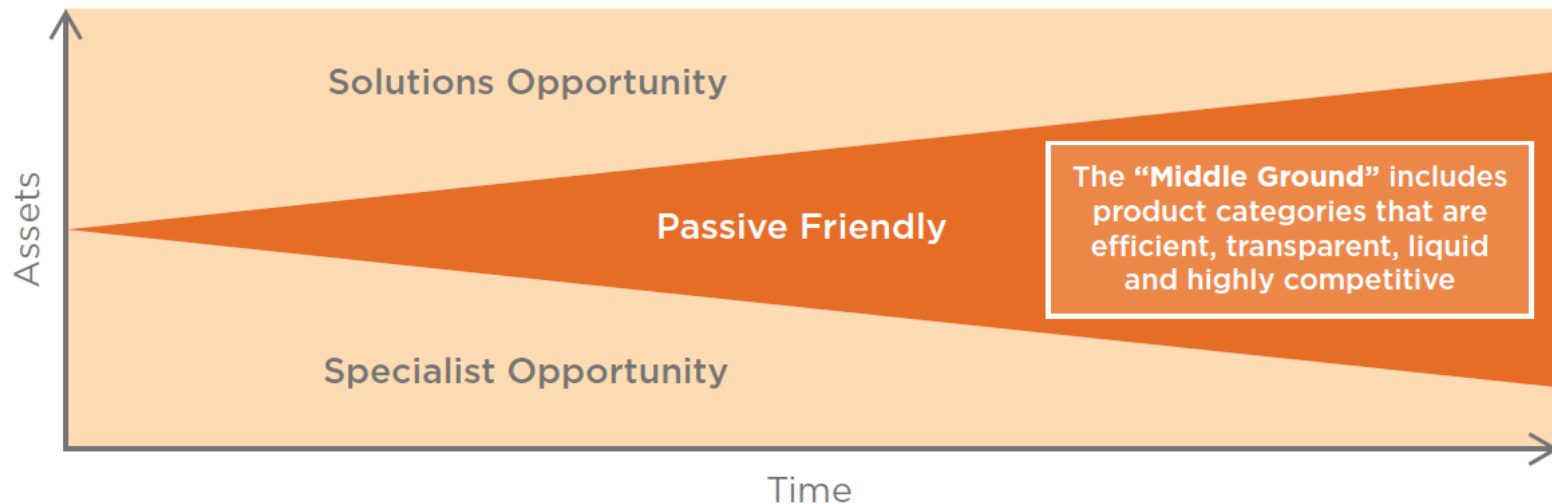
Specialists

Partner with clients in areas with high levels of complexity and in which they have unique insight or information asymmetry



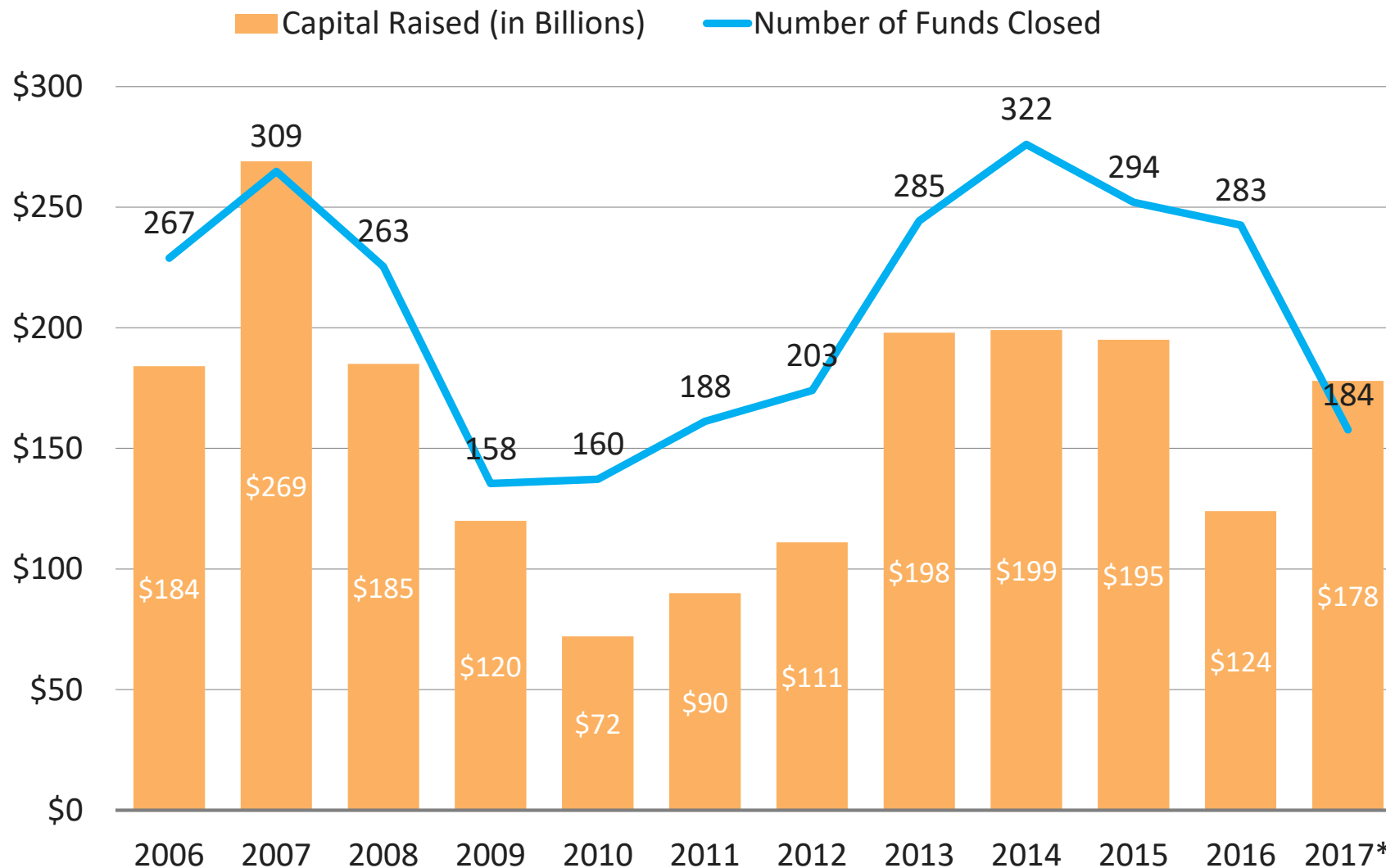
Solutions Providers

Provide solutions to clients' complex challenges that add value in a cost-efficient manner



PRIVATE EQUITY

Hot fundraising environment continues as more investors increase their allocation



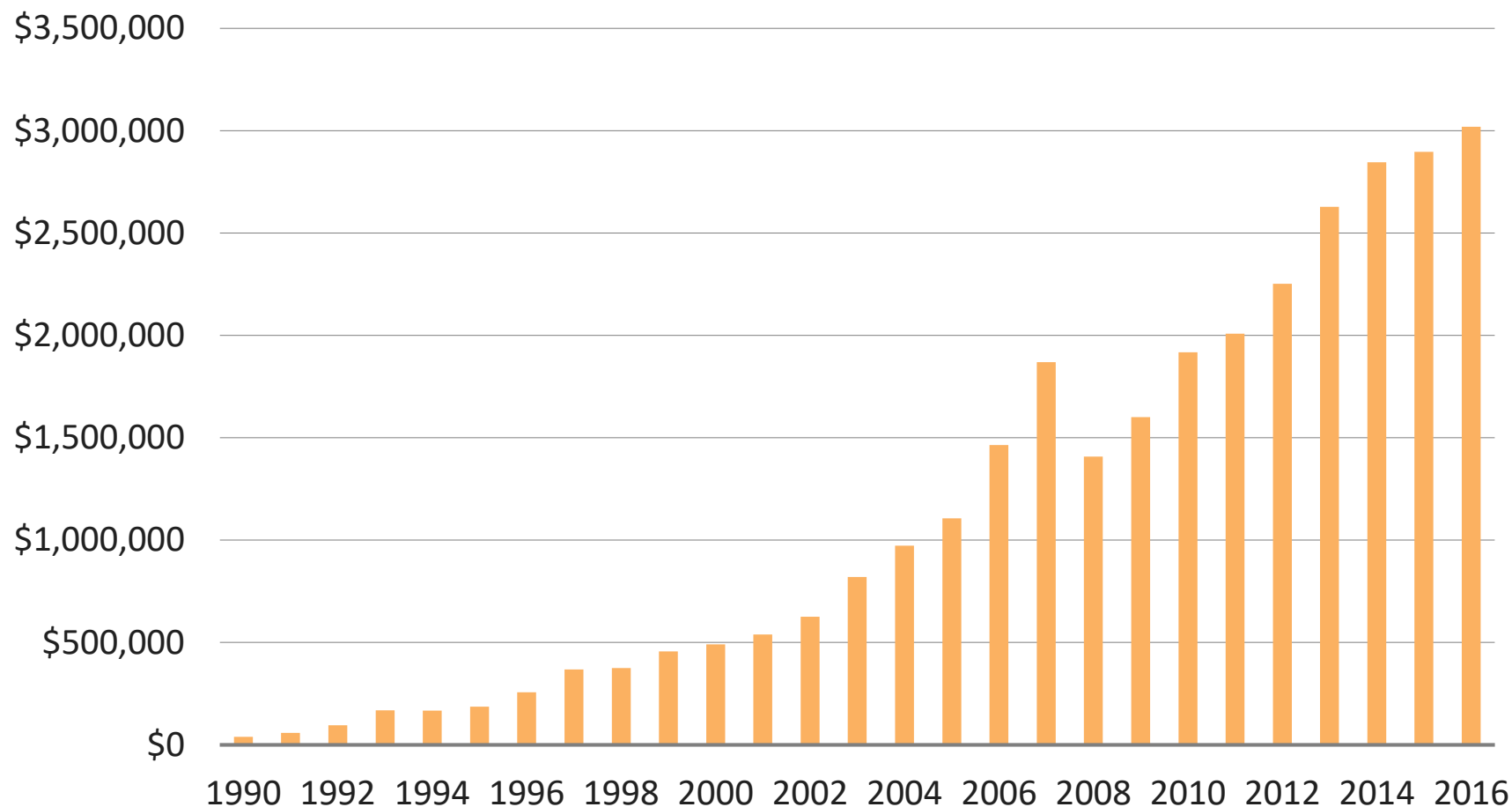
Source: PitchBook. *As of 9/30/2017

HEDGE FUNDS

The hedge fund industry ended 2016 at peak assets; over 8,000 total estimated funds

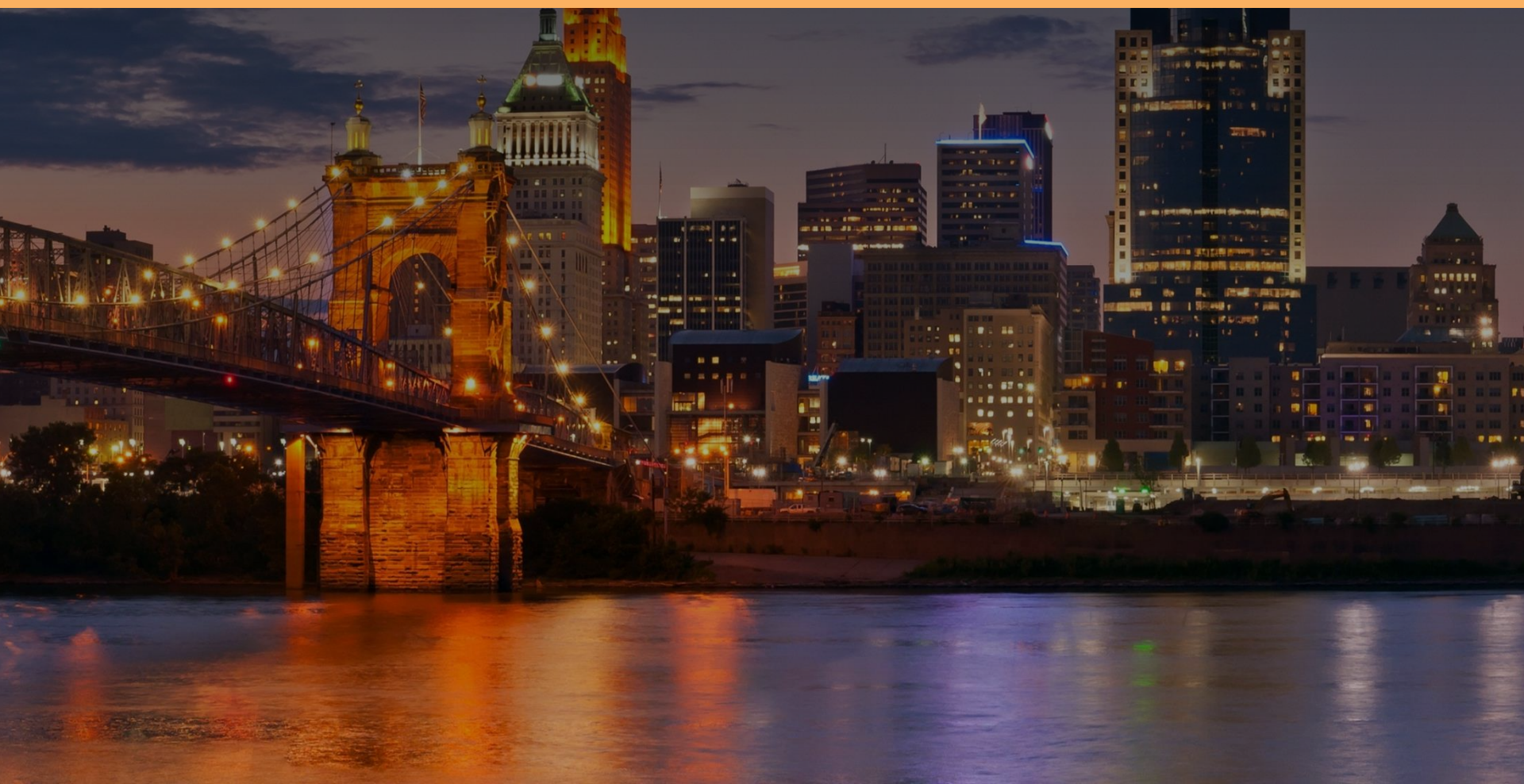
HEDGE FUND INDUSTRY ASSETS

(In millions)



Source: 4Q 2016 Hedge Fund Research (HFR) Global HF Industry Report

Other

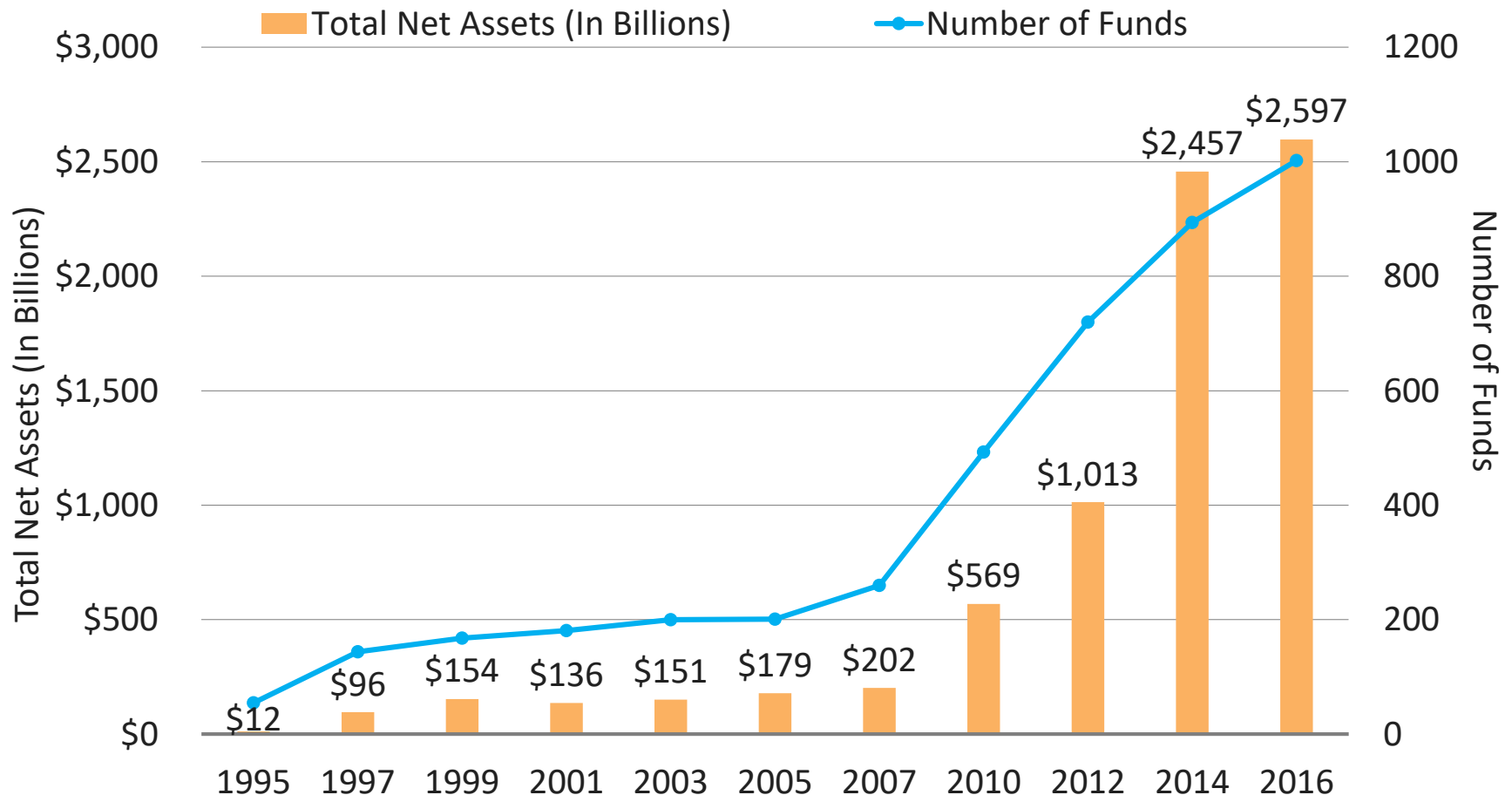


OPPORTUNITY AND AWARENESS FOR RESPONSIVE INVESTING

A quarter of respondents have seen an increase in interest for Responsive Investing (RI) from donors.

GROWTH OF ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE (ESG)

Funds and Dollars Invested from 1995–2016



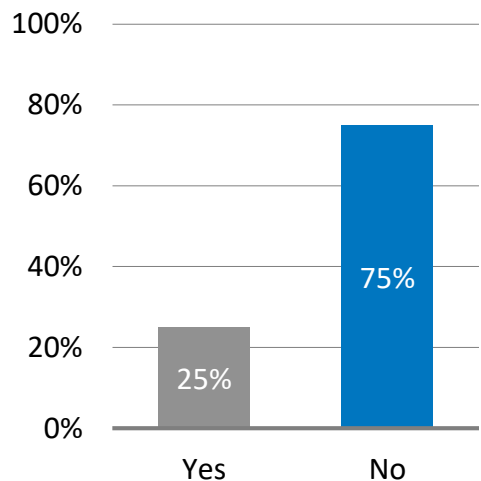
Source: U.S. SIF. "2016 Report on US Sustainable, Responsible and Impact Investing Trends." (Note: includes mutual funds, variable annuity funds, closed-end funds, exchange-traded funds, alternative investment funds and other pooled products.)

RESPONSIVE INVESTING – ESG / SRI INVESTMENTS

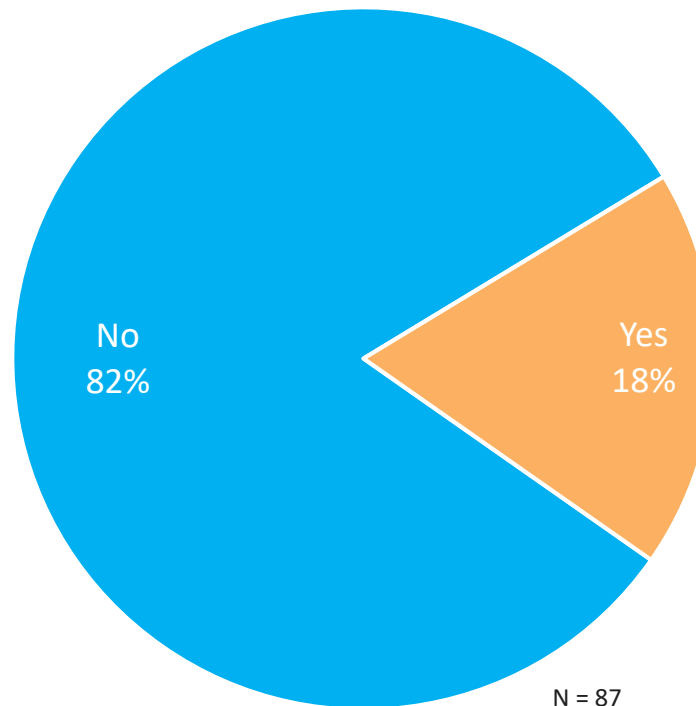
A large majority of respondents do not have any ESG / SRI¹ Investments. Further, 75% of those that do not have RI investments are not considering adding any.

IS A PERCENTAGE OF YOUR PORTFOLIO DEDICATED TO ESG / SRI?

CONSIDERED ESG / SRI¹

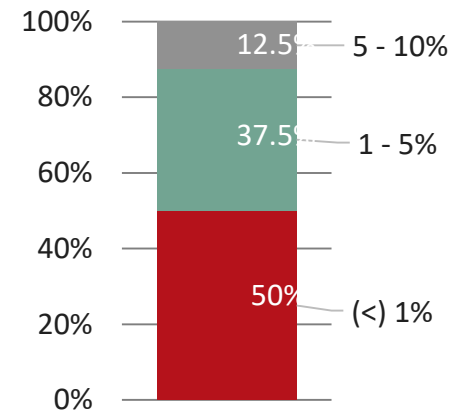


N = 52



N = 87

WHAT % OF THE PORTFOLIO IS DEDICATED TO ESG/SRI



N = 16

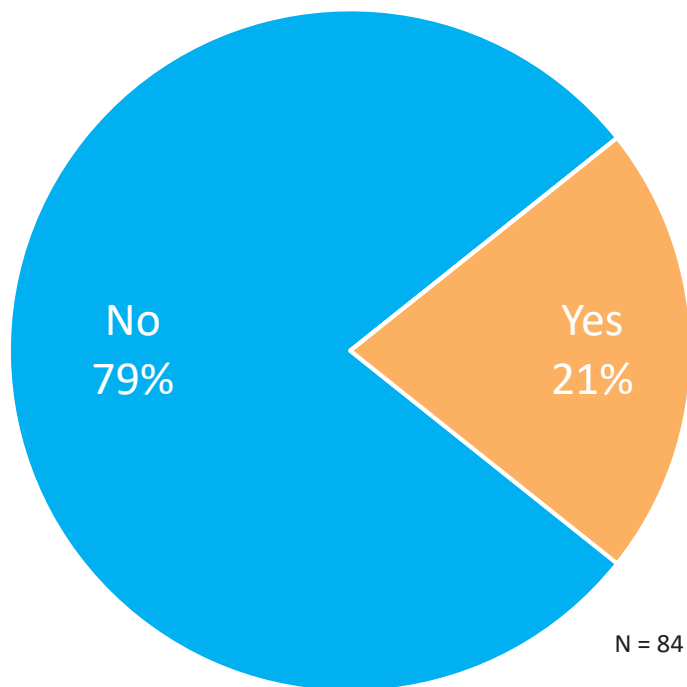
¹ Environmental, Social, and Corporate Governance (ESG) / Sustainable, Responsible, and Impact Investing (SRI)

Data Source: FEG 2017 Community Foundation Survey

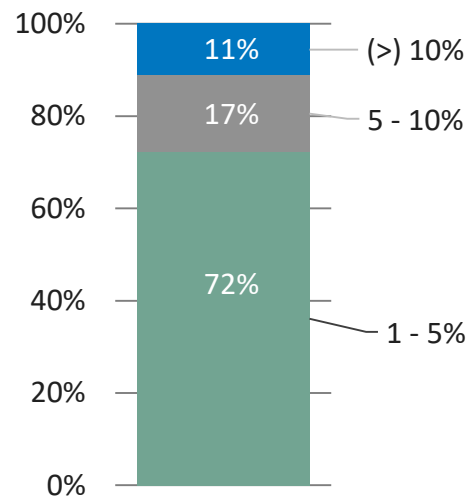
PRI NEARING THE TIPPING POINT?

With nearly 60% of respondents considering a PRI/MRI¹ approach, the number of respondents with a percentage of their portfolio dedicated to PRI/MRI could greatly increase in the coming years.

IS A PERCENTAGE OF YOUR PORTFOLIO DEDICATED TO PRI / MRI?



WHAT % OF THE PORTFOLIO IS DEDICATED TO PRI/MRI



PRIMARY FOCUS OF PRI / MRI INVESTMENTS

- Local / General Economic Development
- Community Revitalization
- Housing

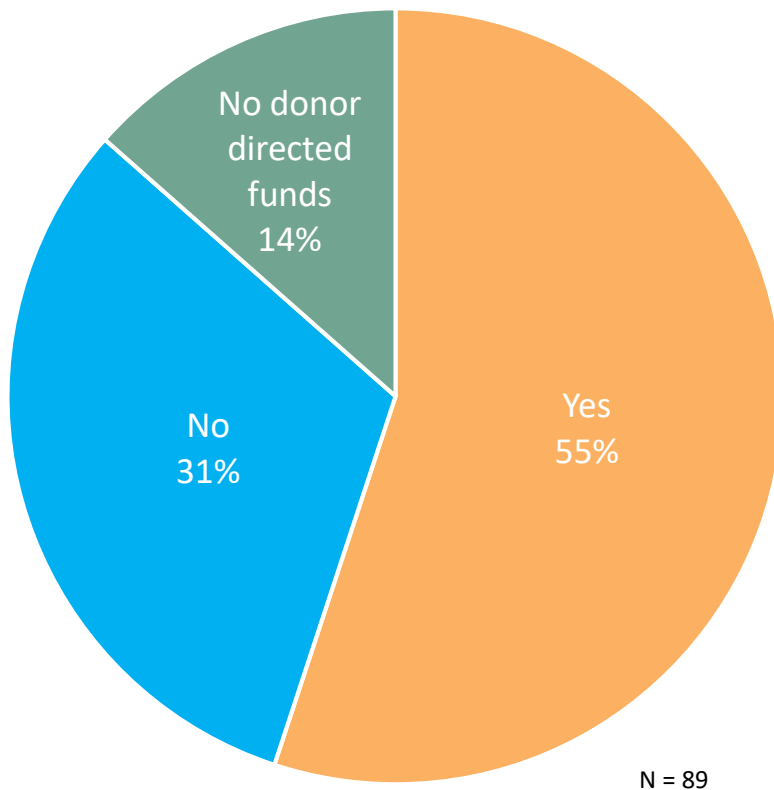
¹ Program Related Investment (PRI) / Mission Related Investment (MRI)

Data Source: FEG 2017 Community Foundation Survey

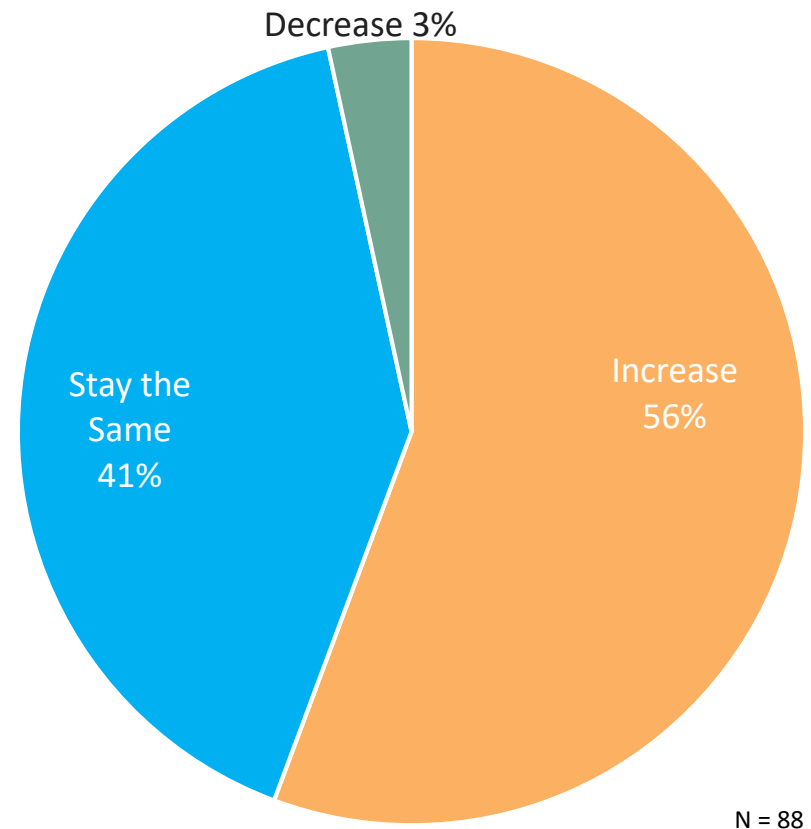
DONOR DIRECTED ACCOUNTS EXPECTED TO GROW

Donor directed accounts can be an additional fundraising avenue and help to increase the assets for community foundations; however, the amount of oversight also will increase.

ALLOW DONOR DIRECTED ACCOUNTS MANAGED BY OUTSIDE ADVISOR

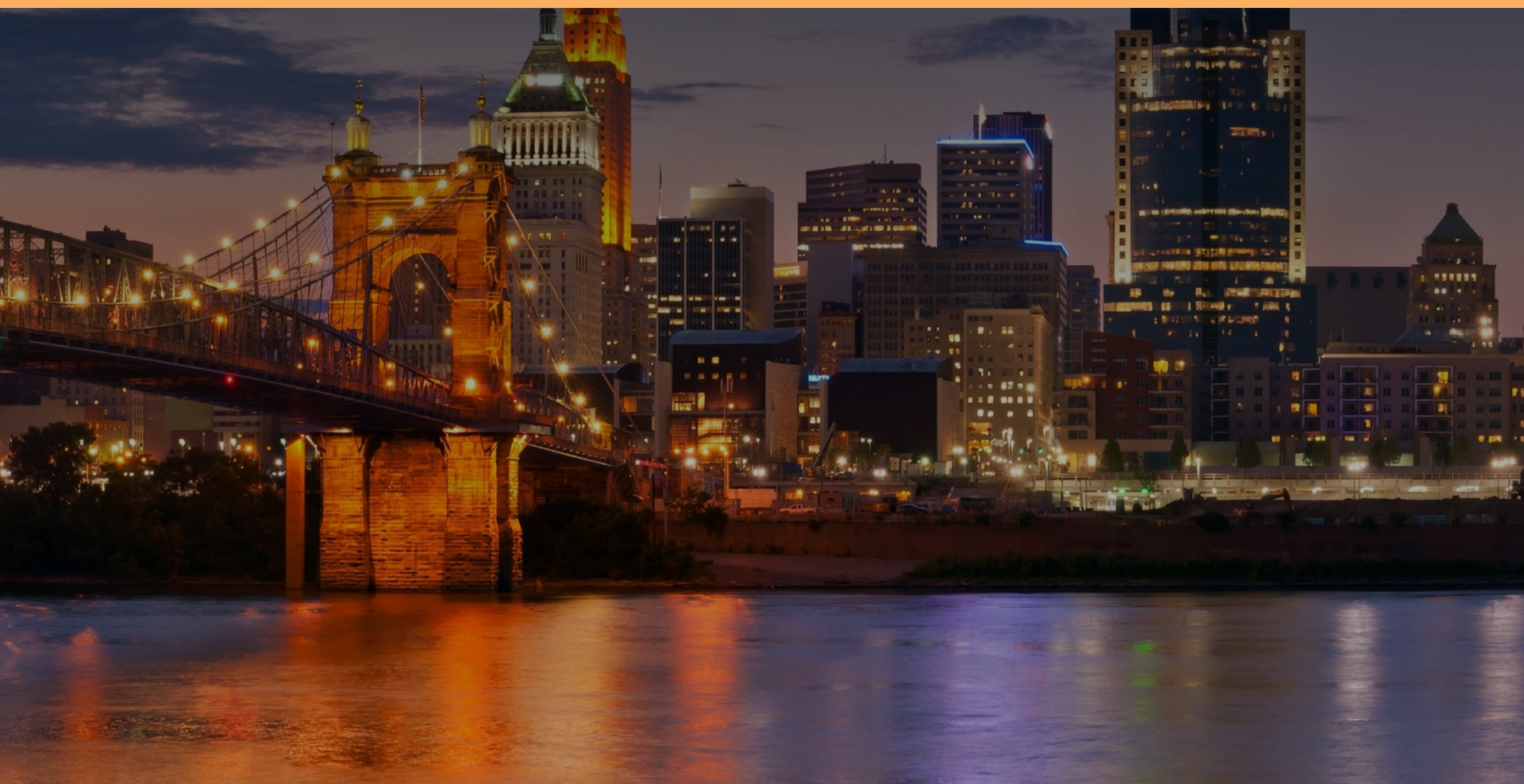


ANTICIPATED DONOR DIRECTED ACCOUNTS AMOUNT IN FUTURE

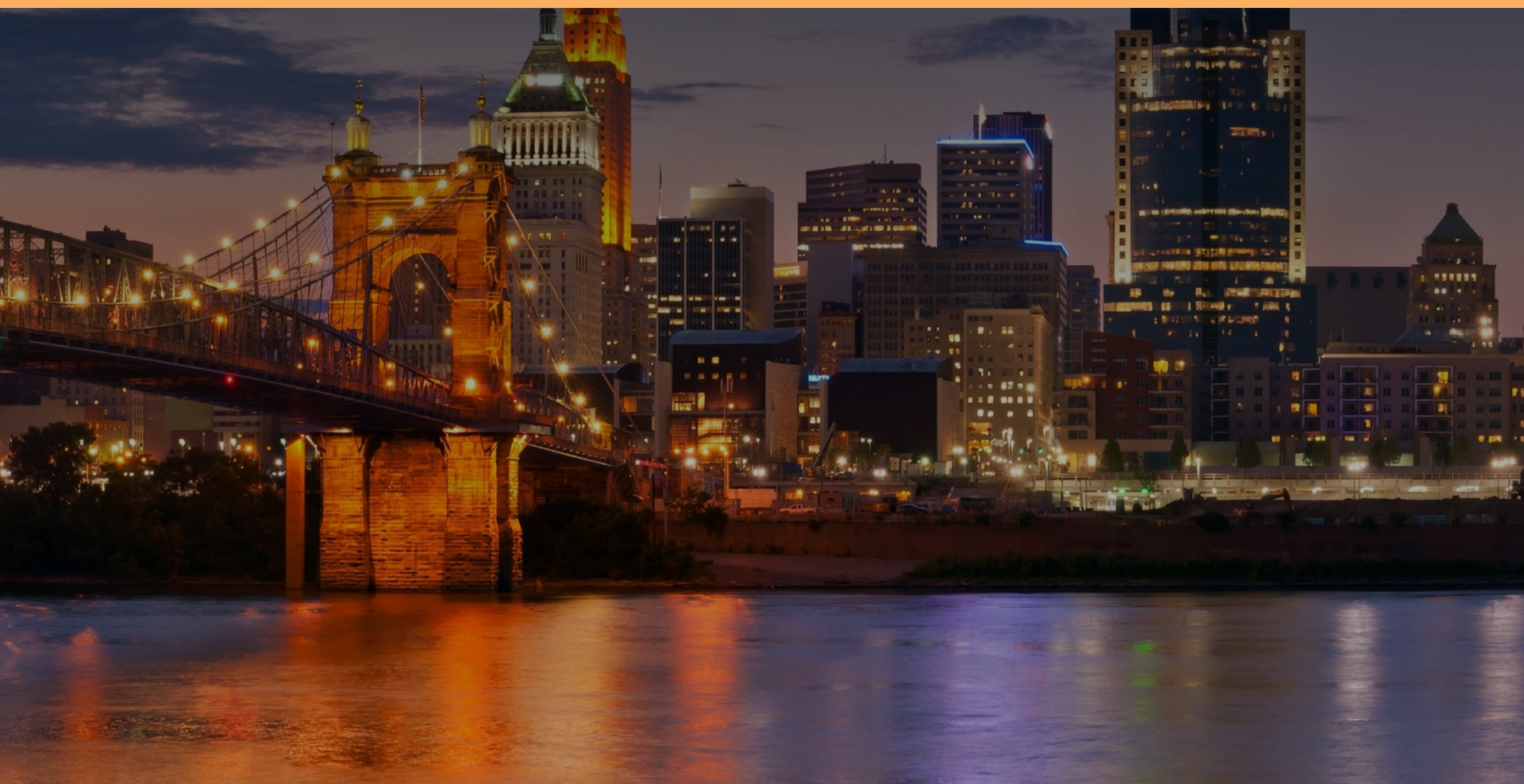


Data Source: FEG 2017 Community Foundation Survey

Questions?



Appendix



DISCLOSURES

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The data for FEG 2017 Community Foundation Survey includes a survey of 90 U.S. Community Foundations as of April 7, 2017. The data from this survey was divided into five categories based on assets of the community foundation with assets ranging from less than \$25 million to greater than \$250 million. The information in this study is based on the responses provided by the participants and is meant for illustration and educational purposes only. Data for the FEG 2016 survey includes a survey of 77 U.S. Community Foundations as of March 3, 2016. The data from this survey was divided into five categories based on assets of the Community Foundation with assets ranging from less than \$25 million to over \$250 million. The information in this study is based on the responses provided by the participants and is meant for illustration and educational purposes only.

NACUBO data was obtained from the 2016 NACUBO-Commonfund Study of Endowments (NCSE). The study includes a survey of 805 U.S. colleges and universities. The study divided the data into six categories according to size of endowment, ranging from institutions with endowment assets under \$25 million to those with assets in excess of \$1 billion. Data is for the 2016 fiscal year (July 1, 2015 - June 30, 2016). The National Association of College and University Business Officers (NACUBO) is a membership organization representing more than 25,000 colleges, universities and higher education service providers across the country and around the world. The Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. 2007 and 2008 data was obtained from the 2008 NACUBO Endowment Study. NCSE returns are presented net of all management fees and expenses.