



# 2016 Investment Summary

## Conference Call

March 1, 2017  
10:00 a.m. Eastern Time

Call-in number: 1-888-737-5834  
Pass code: 330482#

Please email your questions to Jennifer Southard:  
[jsouthard@mainecf.org](mailto:jsouthard@mainecf.org)

# Conference Call Agenda

- Introduction of Presenters
- Background Information on MaineCF
- Investment Committee Members and Advisors
- Cambridge Associates
- Investment Overview
- Summary

# Presenters

- Steve Rowe, President, Maine Community Foundation
- Peter Rothschild, Chief Investment Officer, Maine Community Foundation
- Jim Geary, CFO and Director of Investments, Maine Community Foundation

# About MaineCF

*Mission:* MaineCF's mission is to work with donors and other partners to improve the quality of life for all Maine people.

*How we achieve our mission:* Using knowledge and networks, MaineCF helps to identify and solve community quality of life problems using tools such as grantmaking and mission investments, convening, and policy advocacy.

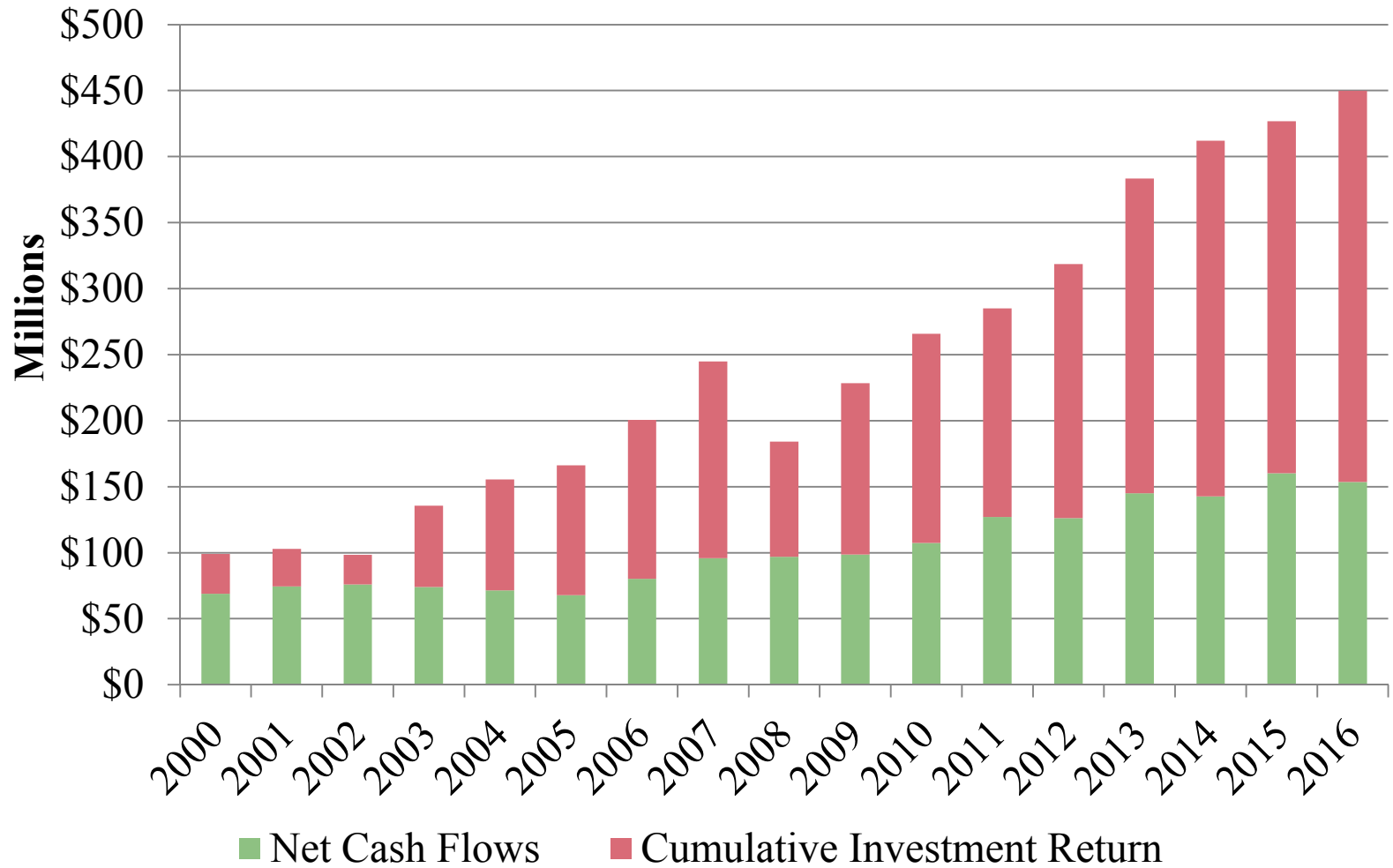
*People:* MaineCF has a staff of 35 people and a volunteer network of almost 500 people.



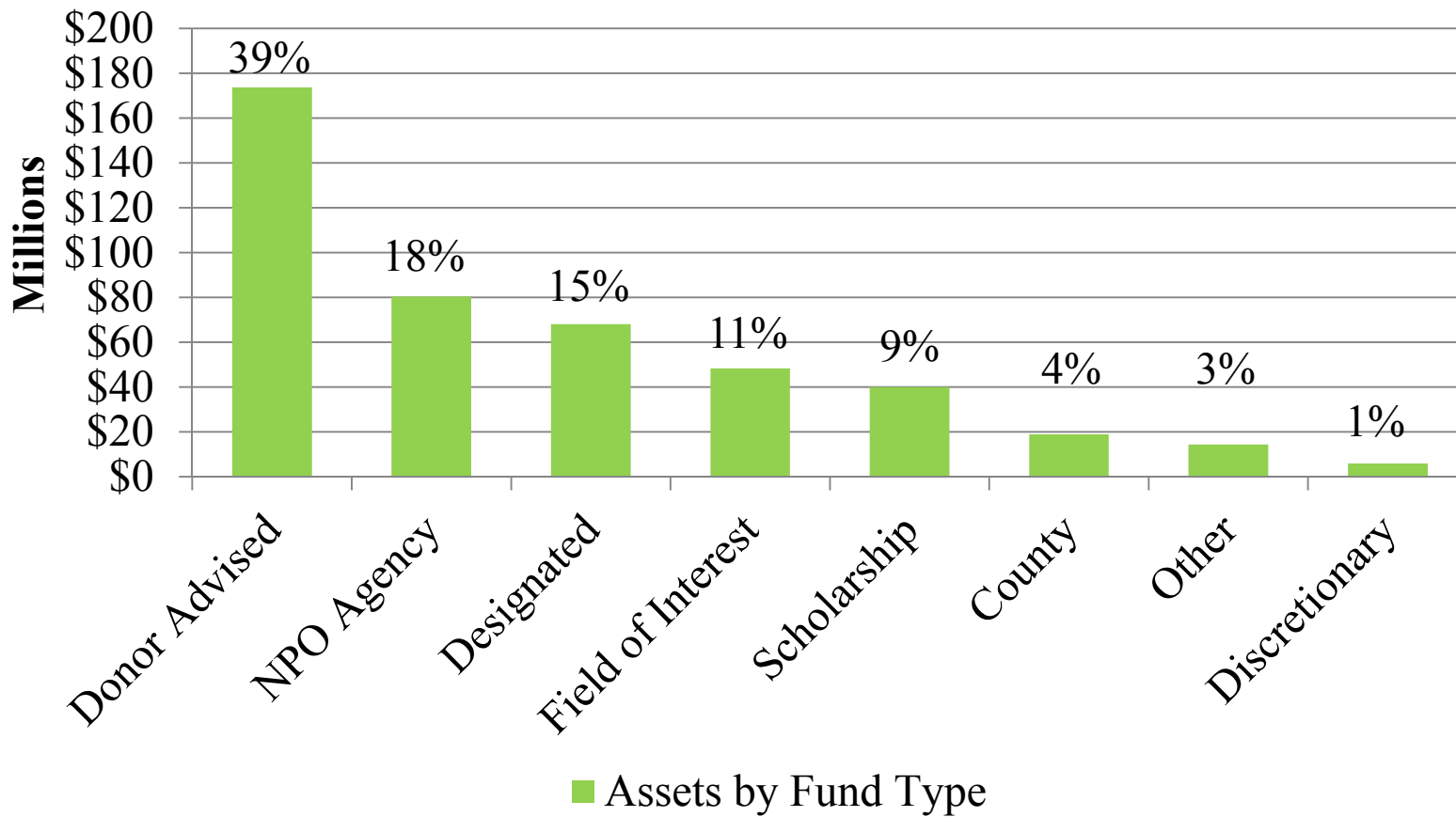
# MaineCF's New Strategic Goals

- 1. Strong Start for Children:** All Maine children receive a healthy start and arrive at kindergarten developmentally prepared to succeed in school and life.
- 2. Access to Education:** All Maine people, including adult learners and other nontraditional students, are able to complete a degree or certificate program to maximize their potential.
- 3. Racial Equity:** All people of color in Maine have access to opportunities and life outcomes that are not limited in any way by race or ethnicity.
- 4. Thriving Older Adults:** All older adults in Maine, especially those who are vulnerable, are valued and able to thrive and age in their communities with health, independence, and dignity
- 5. Entrepreneurs and Innovators:** Entrepreneurial innovation is broadly promoted and practiced in Maine, particularly in natural resource-based activities.

## Growth of Assets From 2000-2016

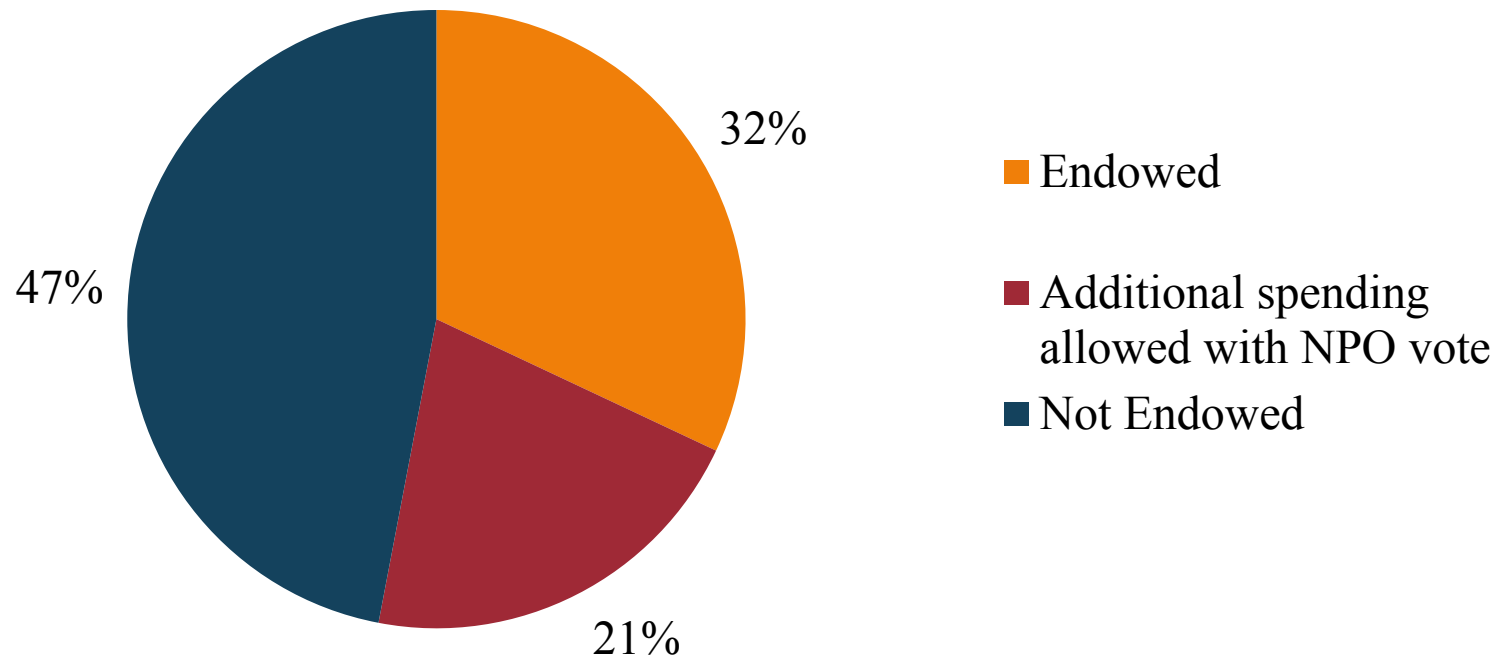


# Major Fund Types



# Endowed v Non-Endowed

## Spending Restrictions





# Investment Committee Members and Advisors

- **Elizabeth R. Hilpman**, Chair, Partner, Barlow Partners, New York City, and Woolwich, Maine
- **Forrest Berkley**, retired Partner, Grantham, Mayo, VanOtterloo & Co., LLC, Concord, Massachusetts, and Northeast Harbor, Maine
- **Jean Deighan**, President, Deighan Associates, Bangor, Maine
- **Martha Dumont**, retired Managing Director, CreditSights; former Director of Fixed Income Research, Lehman Brothers; Windham, Maine
- **Maggie Keohan**, Vice President, Goldman Sachs, Boston, Massachusetts, and Freeport, Maine
- **John B. Sullivan**, President, Portland Global Advisors, Portland, Maine
- **Les Coleman**, retired Executive Vice President and General Counsel of Halliburton Company
- **Mark Howard**, CFA, Managing Director and Head of U.S. Credit, BNP Paribas
- **Advisors:**
  - **John Train**, founded Train, Smith Investment Counsel and is chairman of Montrose Advisors, both of New York. His bestselling books on investing include *The Money Masters*, *The New Money Master*, *The Craft Of Investing*, *The Midas Touch*, and *Preserving Capital and Making It Grow*
  - **Betsy Cohen**, Chief Executive Officer, The Bancorp Bank. Betsy has more than 30 years of experience in banking, real estate, and financial law, and real estate lending, investing, and developing



# Cambridge Associates

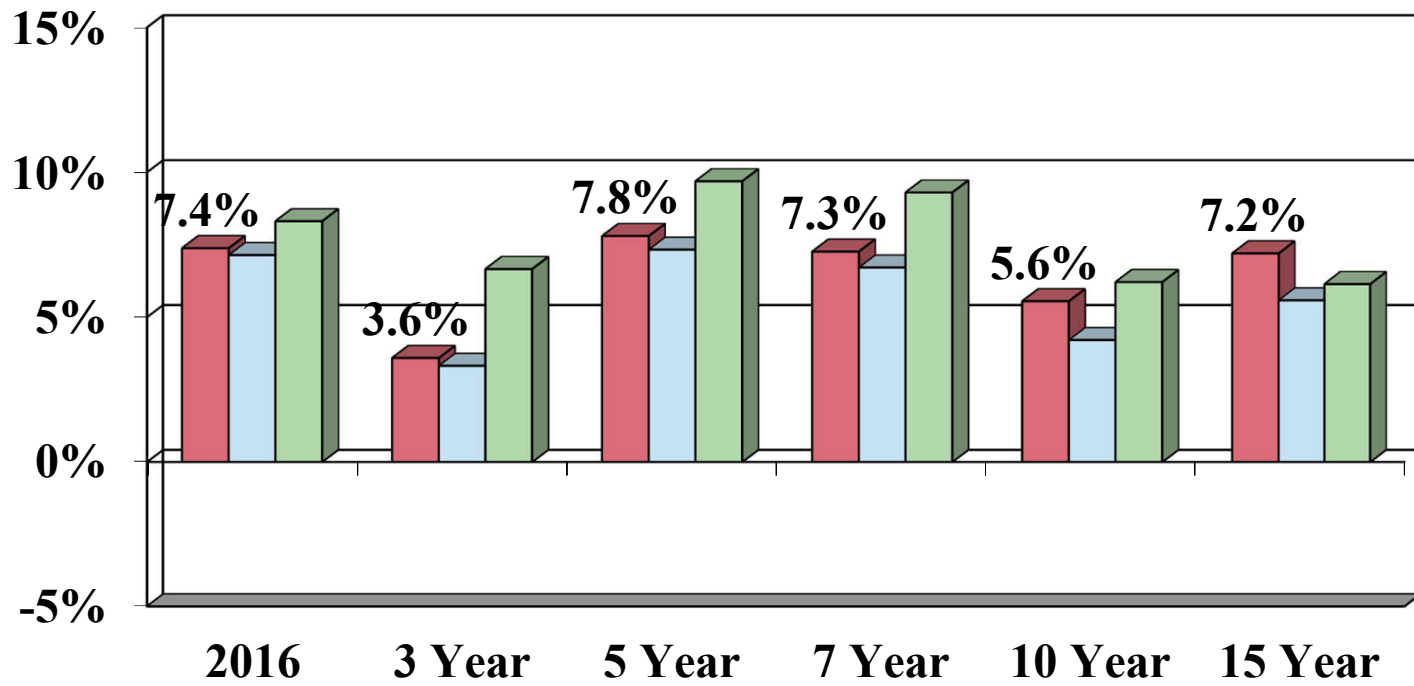
- Cambridge Associates works closely with the Investment Committee to assist in the manager selection and monitoring procedures. Cambridge Associates was established in the 1970s to conduct a comprehensive study of endowment management practices for Harvard University. Since then, the firm has become one of the nation's preeminent investment consultants, servicing more than 900 clients, the majority of which are nonprofit institutions.
- MaineCF's primary contact at Cambridge Associates is Larry Chang, who joined the firm in 2002 and is a senior consultant. Prior to joining Cambridge Associates, Mr. Chang was a manager and engineer with General Electric. He is a graduate of the University of Michigan and received his MBA from the Yale School of Management.

# Investment Overview

Topic	Pages
Performance	12-17
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How We Think About Risk, Goals, Expectations	20-22
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Risk as measured by volatility	25-26
Keeping up with inflation	27
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# 15 Year Summary of Annualized Returns

## As of December 31, 2016

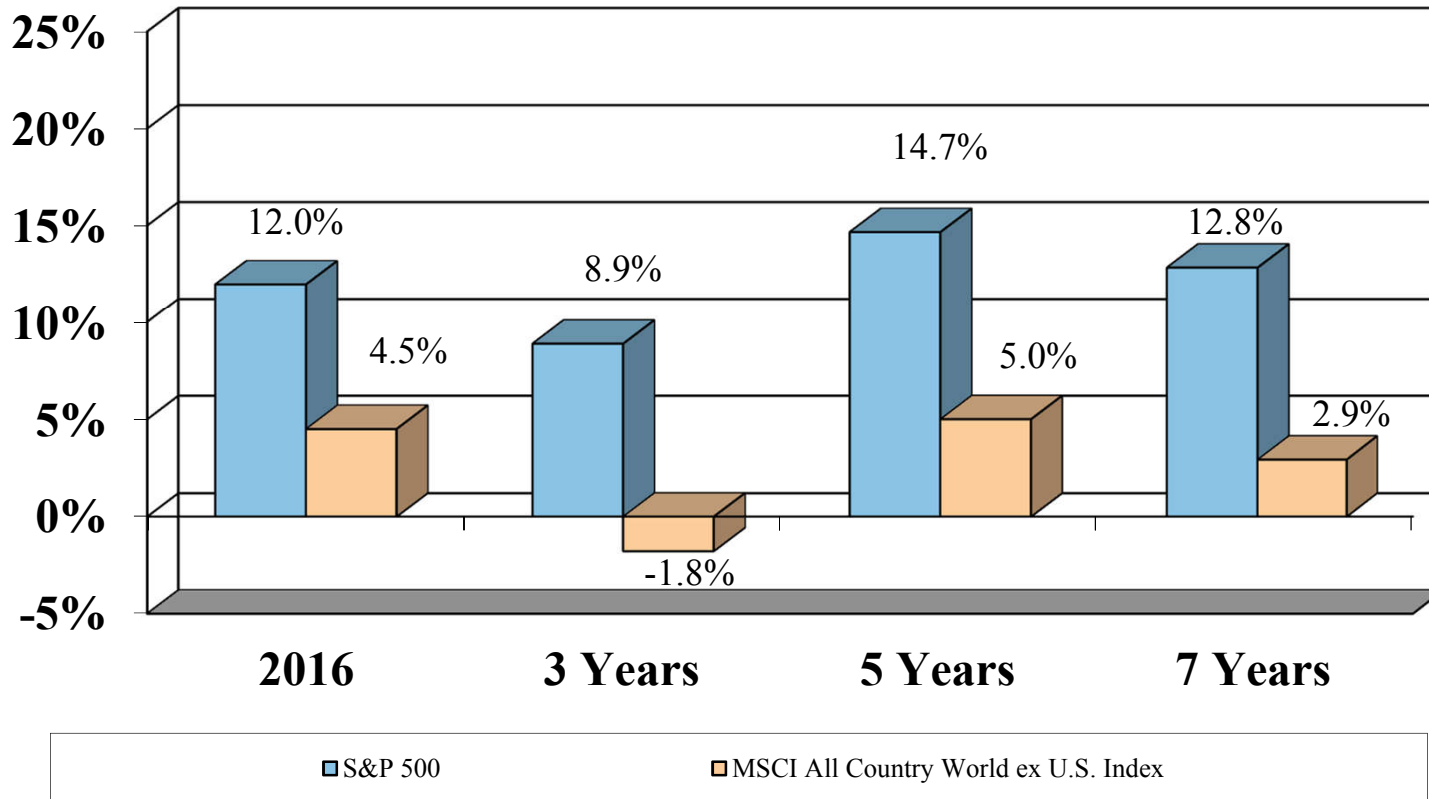


# What a Difference Large Cap U.S. Equities Make (same story in 2016, 2015, 2014....)

A look at annualized returns of the S&P 500  
compared to all other equities around the globe  
for the period ending December 31, 2016

# Summary of Returns

## Large Cap U.S. Equity v Non-U.S. Equity as of December 31, 2016

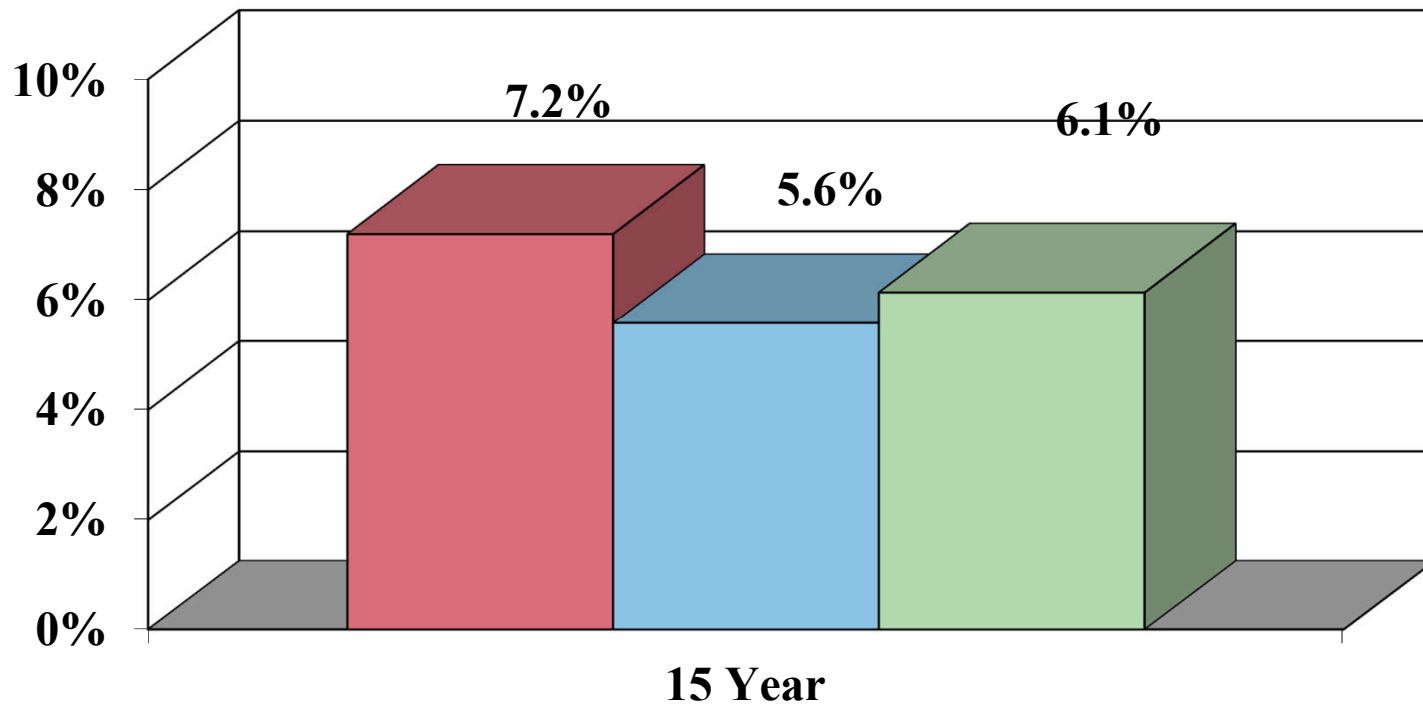


# Why Not Invest Only In U.S. Markets?

- As shown on slide 13, MCF has underperformed a simple index of 60% S&P 500 and 40% Barclays Aggregate Bond Index for the past 10 years
- Can an investor beat this simple index?
- Should we only invest in U.S. Equities?

# 15 Year Summary of Annualized Returns

As of December 31, 2016





# Over the Past 15 Years a Diversified Portfolio Produces a Better Return

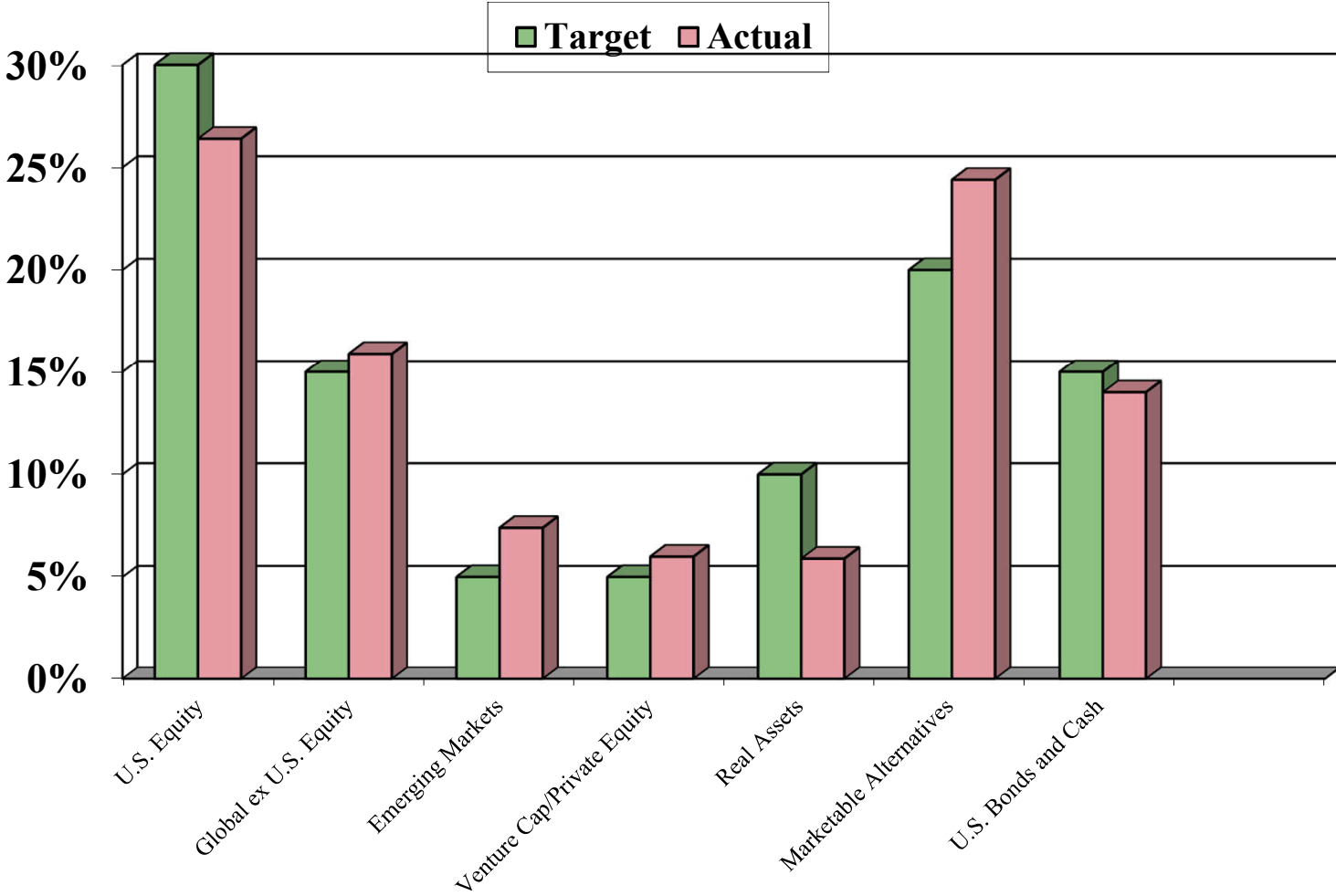
- MCF has Outperformed a simple index of 60% S&P 500 and 40% Barclays Aggregate Bond Index for the past 15 years
  - **By 1.1% per year on average for 15 years**
- Even though the S&P 500 outperformed the rest of the world's equity markets by about 10% per year for the past 7 years, diversification across asset classes and geography remains the better answer for a long-term investor

# Other Key Market Indices for 2016

MaineCF Portfolio:	7.4%
S & P 500 Index:	12.0%
MSCI EAFE Index (developed non-U.S. Markets):	1.0%
MSCI Emerging Markets:	11.6%
MSCI All Country World ex US (non-U.S. developed + emerging markets equities):	4.5%
HFR Fund of Funds Index:	0.5%
Barclays Gov't Bond Index:	1.1%
S&P 500 Energy Index	27.4%

# Asset Allocation

## as of December 31, 2016 Target v. Actual



# Finding the Best Opportunities for Discovering and Sustaining Long-Term, Risk Adjusted Returns

- MCF's investment strategy is fundamentally contrarian: we seek under-reported, out of favor, recently under-performing areas of investment (at least when compared to widely followed indices)
- We believe buying securities at bargain prices offers the greatest prospect for future growth as well as offering a “margin of safety” against potential losses
- We believe the *people* in whose hands we place our money can outperform a simple index
  - Not necessarily every manager, every year will out perform an index. But in aggregate, over time, we believe active management is a better choice
- Sometimes this means taking money away from the “winners” and giving it to the “losers”

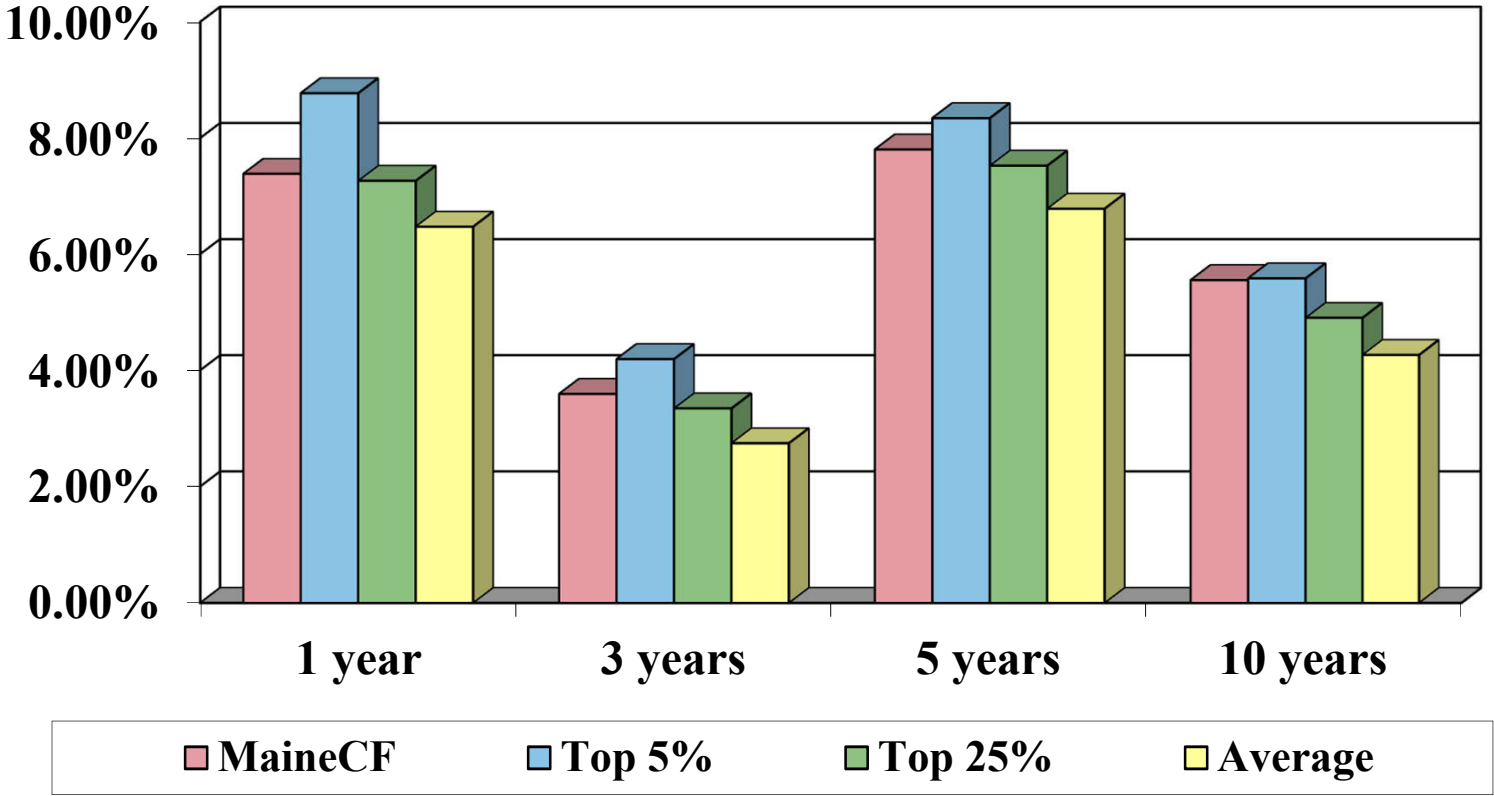
# Finding the Best Opportunities for Discovering and Sustaining Long-Term, Risk Adjusted Returns

- When evaluating existing managers or considering new ones, we need to look beyond short-term performance and be able to maintain our convictions that led to hiring a manager
- Such discipline has led us to maintain and even increase allocations to “alternative assets” (AKA hedge funds)
- While many institutional investors determined recently that hedge funds offered subpar performance at exorbitant cost and withdrew from all, MCF added modestly to its exposure
- As compared with the Hedge Fund Research Institute (HFRI) Fund of Funds Composite Index, MCF’s stable of managers outperformed the index by an 5.1% *annually* over the last 5 years

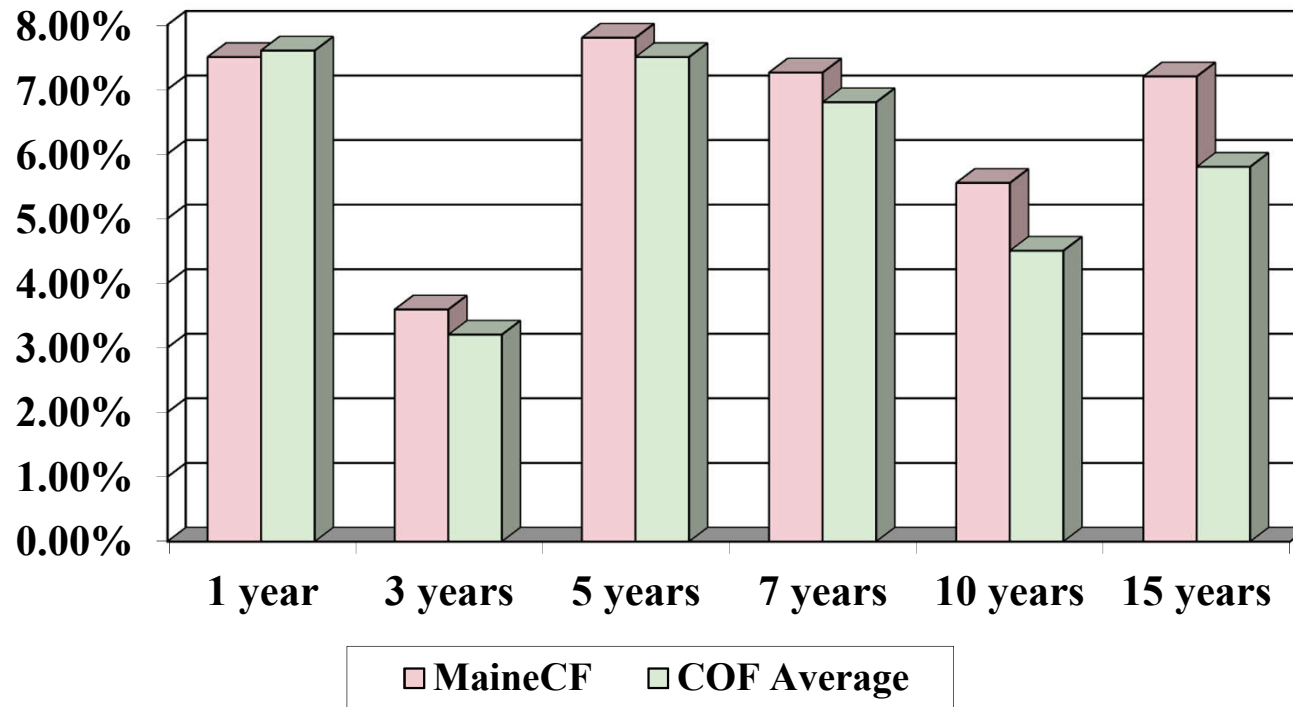
# Finding the Best Opportunities for Discovering and Sustaining Long-Term, Risk Adjusted Returns

- Over the past 10 years our hedge fund investments have returned 6.4% per year compared to the S&P 500 of 6.9% and the MSCI All Country World Index of 3.6%
- Our hedge fund return has been approximately 2.5 times less volatile than these two equity indices
- The investment committee along with the investment staff is committed to achieving strong results while reducing the risk of permanent loss of capital through
  - Thoughtful active management
  - Value investing
  - Being contrarian
  - Being patient

# MaineCF v. Cambridge Assoc. Universe of Approximately 200 Endowments and Foundations as of December 31, 2016



# MaineCF Investment Performance v. Approximately 70 Community Foundations <sup>(1)</sup> as of December 31, 2016

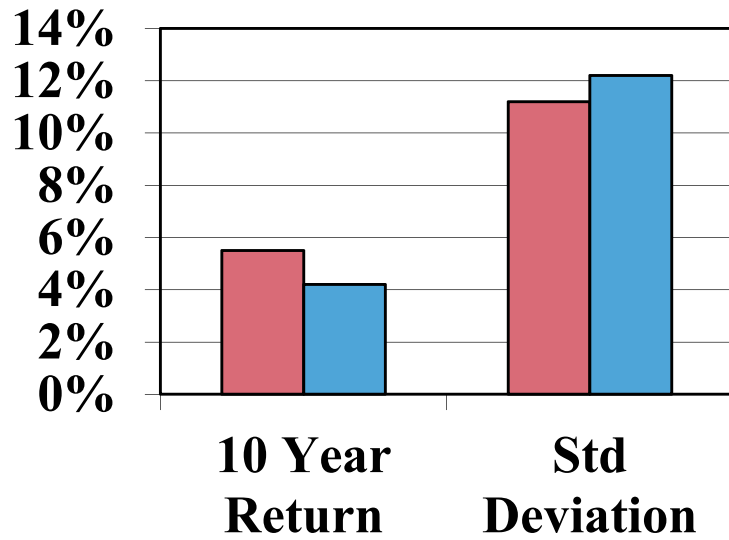


*(1) Based on survey data provided by the Council on Foundations*



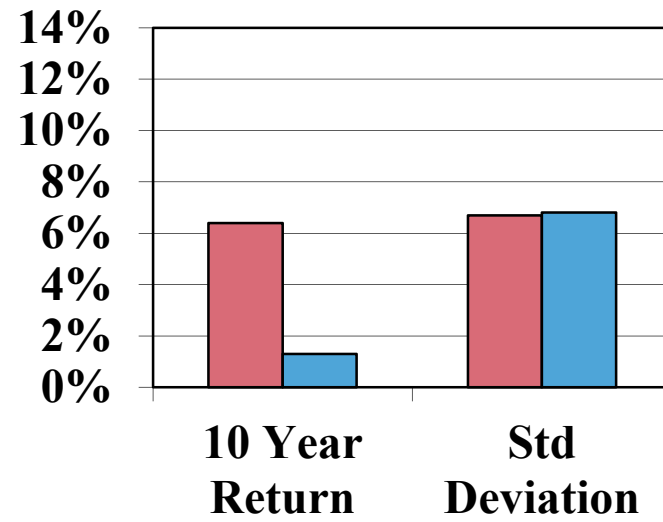
# Risk as Measured by Volatility for the Past 10 Years as of December 31, 2016

**Volatility of Total  
Portfolio**



■ MaineCF ■ Benchmark

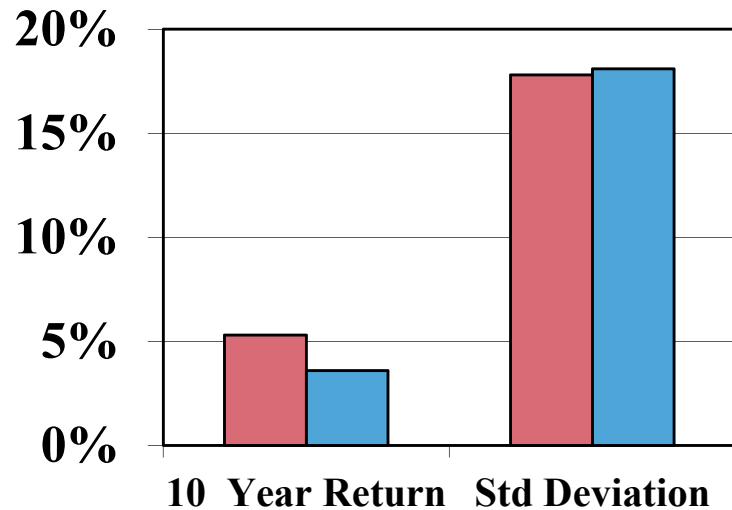
**Volatility of Marketable  
Alternatives**



■ MaineCF ■ Benchmark

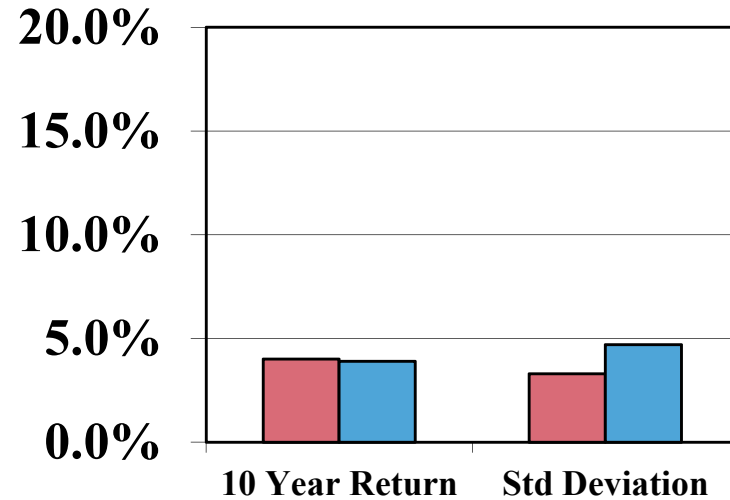
# Risk as Measured by Volatility for the Past 10 Years as of December 31, 2016

**Volatility of Global Marketable  
Equity**



■ MaineCF ■ Benchmark

**Volatility of U.S. Government  
Bonds**



■ MaineCF ■ Benchmark

# Keeping Up with Inflation

- The first statement in our investment policy is:
  - The long-term investment objective of the Maine Community Foundation is to preserve and enhance the **real** value of the assets (after inflation) of the foundation over time, in order to provide a sufficient rate of return for fulfilling the philanthropic purposes of the foundation.
- In order to keep up with inflation we must earn enough to cover:

	5 Years	7 Years	10 Years	15 Years
Grant Spending	4%	4%	4%	4%
Average Admin Fee	1%	1%	1%	1%
Inflation	1.4%	1.6%	1.8%	2.1%
Required Return	6.4%	6.6%	6.8%	7.1%
MCF Actual	7.8%	7.3%	5.6%	7.2%

## Changes Made in 2016

- We reduced our passive allocation to the S&P 500 by \$13 million (about 3% of total assets) and added that amount to developed non-U.S. Equities with three existing managers
- We terminated a U.S. small cap equity manager with about \$7.5 million and invested that amount with two other existing U.S. small cap managers
- We added \$5 million to a long/short distressed global credit manager
- We added \$5 million with two existing distressed credit/equity managers
- We added a new private equity manager and they called about \$700,000 in capital in 2016
- We increased our fixed income/cash allocation by \$3 million
- Total net inflows into the portfolio were about \$11 million

# Change to the Benchmark

- Effective 1/1/2017 we have made the following change to our benchmark

	Old		New	
	Index	%	Index	%
U.S. Equity (marketable + non-marketable)	S&P Total Market Index	35%		
Global ex U.S. Equity	MSCI All Country World ex U.S. Index	20%		
Global Equity			MSCI All Country World Index	55%
Marketable Alternatives	HFR Fund of Funds Index	20%	HFR Fund of Funds Index	20%
Real Assets	Real Asset Blend*	10%	Real Asset Blend*	10%
U.S. Bonds/Cash	BC Gov't Bond Index	15%	BC Gov't Bond Index	15%
		100%		100%

\*50% DJ REIT Index, 25% Goldman Sachs Commodity Index, and 25% MSCI World Natural Resources Index

## Change to Benchmark, continued

- Historically we have had a U.S. Equity “bias” in our portfolio. Meaning, we have been overweight to U.S. Equities relative to their overall weight in the global equity market
- The result of the old index meant we were overweight to U.S. Equities by definition of our policy portfolio
- Going forward, we can still be overweight U.S. Equities. However, instead of the overweight being driven by the definition of our policy portfolio, it will be driven by our belief that U.S. Equities are a more attractive investment when compared to non-U.S. Equities

## Response to Questions Received by Email

- If you would like to ask a specific question during this call, please email Jennifer Southard at [jsouthard@mainecf.org](mailto:jsouthard@mainecf.org).
- After the call, questions can be addressed to Jim Geary at [jgeary@mainecf.org](mailto:jgeary@mainecf.org)

## To Provide Feedback

- If you would like to provide feedback about today's presentation, please contact Jennifer Southard, Vice President, Donor Services & Gift Planning
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