2019 Investment Summary
Conference Call

February 28, 2020
10:00 a.m. Eastern Time

Join by phone: 800-441-0042
Pass code: 899336# 

Please email your questions to Jennifer Southard: jsouthard@mainecf.org
Introduction

Jennifer Southard, VP, Donor Services

Presenters

• Peter Rothschild, Chief Investment Officer, Maine Community Foundation

• Jim Geary, CFO and Director of Investments, Maine Community Foundation
Conference Call Agenda

- Background Information on MaineCF
- Investment Committee Members
- Investment Consultants
  - Cambridge Associates
  - Monticello Associates
- Investment Overview
- Summary
- Q&A
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: MaineCF promotes effective and strategic giving and offers a range of giving options tailored to fit each donor’s financial means and charitable passion. We provide local expertise, personalized service, community leadership, and asset stewardship.

People: MaineCF has a staff of 39 people and a volunteer network of almost 500 people.
MaineCF’s 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 are valued and able to thrive and age in their workplaces and communities with health, independence, and dignity.

5. **Entrepreneurs and Innovators:** Entrepreneurship and innovation are broadly promoted and practiced in Maine.
Growth of Assets
2000 - 2019

Millions


Net Cash Flows  Cumulative Investment Return

Maine Community Foundation
Major Fund Types
as of 12/31/2019

Donor Advised: 38%
NPO Agency: 18%
Designated: 15%
Field of Interest: 12%
Scholarship: 8%
County: 4%
Trust/Request: 1%
Other: 2%
Discretionary: 2%

Assets by Fund Type
Spending Restrictions
Endowed v. Non-Endowed Funds

- Endowed: 33%
- Additional spending allowed with NPO vote: 23%
- Not Endowed: 44%

Maine Community Foundation
# Total Invested Assets

as of 12/31/2019

<table>
<thead>
<tr>
<th>Pool</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Pool</td>
<td>$538,523,661</td>
<td>93.3%</td>
</tr>
<tr>
<td>Money Market Pool</td>
<td>$11,138,039</td>
<td>1.9%</td>
</tr>
<tr>
<td>TD Bank - single fund</td>
<td>$9,867,293</td>
<td>1.7%</td>
</tr>
<tr>
<td>Walden - single fund</td>
<td>$8,014,791</td>
<td>1.4%</td>
</tr>
<tr>
<td>Walden ESG Pool</td>
<td>$1,482,479</td>
<td>0.3%</td>
</tr>
<tr>
<td>Impact Investing Pools</td>
<td>$2,492,775</td>
<td>0.4%</td>
</tr>
<tr>
<td>Haverford Trust – single fund</td>
<td>$2,093,768</td>
<td>0.4%</td>
</tr>
<tr>
<td>CGA Pool</td>
<td>$1,734,793</td>
<td>0.3%</td>
</tr>
<tr>
<td>Bar Harbor Bank &amp; Trust</td>
<td>$1,082,826</td>
<td>0.2%</td>
</tr>
<tr>
<td>Vanguard L/T Bond Fund - single Fund</td>
<td>$322,804</td>
<td>0.1%</td>
</tr>
<tr>
<td>Sequoia Fund – single fund</td>
<td>$240,209</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>$576,993,438</td>
<td></td>
</tr>
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Investment Committee Members

- **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**, Deighan Associates, Bangor, 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
- **Martha Dumont**, retired Director of Research, Credit Sights, New York, NY. and former Director of Global Fixed Income Research at Lehman Brothers
- **Sarah Chappell Armentrout**, co-founder, Carlisle Academy and former group team leader of corporate communications, Tom’s of Maine
- **Brooke Parish**, Head of U.S. Operations, G Squared Capital, New York City and Castine, Maine
Independent Investment Consulting

• Role of investment consultant
  – MaineCF staff and Investment Committee work closely with an independent investment consultant to monitor investment manager performance and assist in manager selection
  – Investment consultant also provides extensive analytical and comparative reporting to assist staff and the committee with its decision-making

• Previous investment consultant - Cambridge Associates (June 1999 – Feb 2020)
  – Cambridge Associates of Boston was established in the 1970s to conduct a comprehensive study of endowment management practices for Harvard University. Since then, Cambridge Associates has become one of the nation's preeminent investment consultants
  – Changes in Cambridge’s scope of services and fee led Investment Committee to do a comprehensive search for alternatives that would more closely align with current needs

• Current investment consultant - Monticello Associates (4Q 2019 – present)
  – Independent asset management consulting firm providing non-discretionary investment advisory services
  – Founded (and still led) by B. Grady Durham in 1992 with a focus on endowment and foundation clients and high net worth families
  – Headquarters in Denver with additional offices in Cleveland and Boston
  – Grown into one of the country’s leading asset management consulting firms working with many prominent community foundations, museums, hospitals, schools, and families across the U.S.

• MaineCF’s primary contact at Monticello - Andrew Terborgh, Managing Director
# Investment Overview

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<td>30-31</td>
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<td>Changes made in 2019</td>
<td>33</td>
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</table>
Performance - Annualized Returns
as of 12/31/2019

-10% -5% 0% 5% 10% 15% 20% 25%

2019 3 Year 5 Year 7 Year 10 Year 15 Year

Primary Pool Benchmark 60% S&P 500/40% BBG Agg Bond Index 60% MSCI ACWI/40% BBG Agg Bond Index CPI-U
Large Cap U.S. Equities

- Strong performance continues to make significant difference over 1-, 3-, 5-, 10-, and 15-years

- Annualized returns of the S&P 500 index compared to all other public marketable equities around the globe for the period ending December 31, 2019.
Summary of Returns
Large Cap U.S. Equity v. Non-U.S. Equity
as of 12/31/2019

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Large Cap U.S. Equity</th>
<th>Non-U.S. Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year</td>
<td>31.5%</td>
<td>21.5%</td>
</tr>
<tr>
<td>3 Years</td>
<td>15.3%</td>
<td>9.9%</td>
</tr>
<tr>
<td>5 Years</td>
<td>11.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>10 Years</td>
<td>13.6%</td>
<td>5.0%</td>
</tr>
<tr>
<td>15 Years</td>
<td>9.0%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>
Investing in U.S. Markets

• For the past 10 years, MaineCF’s primary portfolio has underperformed a simple index of 60% S&P 500 / 40% Bloomberg Barclays Aggregate Bond (see slide 13)
  – Can an investor beat this simple index?
  – Should we only invest in U.S. Equities?
10 Year Performance
2009 v. 2019

10 Years Ending 12/31/2009
- MCF Actual: 5.8%
- MCF Benchmark: -1.0%
- 60/40 S&P 500/LB (BBG) AGG: 2.5%
- 60/40 MSCI World/LB (BBG) Agg: 2.3%
- S&P 500: 3.2%

10 Years Ending 12/31/2019
- MCF Actual: 13.6%
- MCF Benchmark: 7.7%
- 60/40 S&P 500/LB (BBG) AGG: 7.3%
- 60/40 MSCI World/LB (BBG) Agg: 7.0%
Cumulative Investment Return Dollars
(Hypothetical $100,000 Invested on 1/1/2000)
2000-2019

MCF Actual
S&P 500
60% S&P 500/40% BBG Agg
We Have Seen This Before…

• In 1998 MaineCF’s primary portfolio underperformed a simple index (60% S&P 500 / 40% Bloomberg Barclays Aggregate Bond (formerly Lehman Bond Index))

• Tech bubble burst in 2000
  – Hedges and other defensive strategies already in place protected the portfolio
  – These defensive positions continue to provide valuable protection to the portfolio
# Other Key Market Indices

1-year as of 12/31/2019

<table>
<thead>
<tr>
<th>Index</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>MaineCF Portfolio:</td>
<td>14.3%</td>
</tr>
<tr>
<td>S &amp; P 500 Index:</td>
<td>31.5%</td>
</tr>
<tr>
<td>MSCI EAFE Index: <em>(developed non-U.S. Markets)</em>:</td>
<td>22.0%</td>
</tr>
<tr>
<td>MSCI Emerging Markets:</td>
<td>18.4%</td>
</tr>
<tr>
<td>MSCI All Country World ex U.S.: <em>(non-U.S. developed + emerging markets equities)</em>:</td>
<td>21.5%</td>
</tr>
<tr>
<td>HFR Fund of Funds Index:</td>
<td>7.8%</td>
</tr>
<tr>
<td>Bloomberg Barclays Gov’t Bond Index:</td>
<td>6.8%</td>
</tr>
</tbody>
</table>
Asset Allocation
as of 12/31/2019

<table>
<thead>
<tr>
<th>Category</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>55.0%</td>
<td>53.8%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>5.0%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Marketable Alternatives</td>
<td>20.0%</td>
<td></td>
</tr>
<tr>
<td>U.S. Bonds and Cash</td>
<td></td>
<td>15.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14.7%</td>
</tr>
</tbody>
</table>
Global Equity Allocation
as of 12/31/2019

Actual
- U.S. Equity: 22.1%
- Private Equity/Venture Capital: 9.0%
- Developed Non-U.S. Equity: 14.0%
- Emerging Markets: 8.7%

Target (implied by the MSCI ACWI)
- U.S. Equity: 31.1%
- Private Equity/Venture Capital: 18.8%
- Developed Non-U.S. Equity: 6.4%
- Emerging Markets: 29.8%
Return Objective

• MaineCF’s overall investment objective is to achieve the highest risk-adjusted returns over longer periods of time

• Committed to diversifying investments across a very broad array of asset classes, strategies, geographies, and size
  – Portfolio invested with over 40 investment managers, some managing several different strategies
  – Each investment manager has been carefully vetted, physically visited repeatedly, and reviewed with investment consultants
  – Largest positions, as measured by a single manager, do not exceed 9% of the portfolio

• Mix of investments expected to return a little over 5% net of inflation
  – There will be periods when this return objective is virtually impossible to meet
  – Goal is to achieve this return on average over 10 years or more
Return Objective

- Primary portfolio’s investment strategy is governed first and foremost by patience and discipline
  - Do not believe anyone has the ability to time markets
  - Do not try to “bet” on one asset class in a given year
  - Search for mispriced, undervalued areas of investment
  - Majority of investments are made according to a strong conviction in the inevitable reversion to the mean
Risk

• There are two kinds of risk to manage:
  – Short-term fluctuations in the value of investments (“volatility”)
  – Longer-term risk of permanent loss of capital

• MaineCF must effectively guard against the risk of permanent loss of capital
  – Best insurance against this risk is diversification of investments
  – Capital markets do not tend to act in lockstep

• Choose to make relatively small “bets” (less than 10% of the fund in any one strategy)
  – Limits the potential for an investment that turns “south” to compromise long-term investment return goal
Liquidity and Time Horizon

• Liquidity
  – MaineCF must consistently distribute upwards of $40 million annually
  – Cannot make large commitments to illiquid investments that may produce robust returns but lock up capital for more than a decade

• Time Horizon
  – Important component of MaineCF’s investment program is how long we expect to have to achieve the return objective
  – Returns on investments fluctuate significantly, especially over short periods of time
Investment Performance
MaineCF v. Cambridge Assoc. universe of approx. 230 endowments
as of 12/31/2019
Investment Performance
MaineCF v. approx. 125 Community Foundations (1)
as of 12/31/2019

(1) Based on survey data provided by the Council on Foundations
Risk as Measured by Volatility
for the past 10 years as of 12/31/2019

Volatility of Total Portfolio

Volatility of Marketable Alternatives

[Graphs showing 10 Year Return and Std Deviation for both Total Portfolio and Marketable Alternatives, with bars for MaineCF and Benchmark.]
Risk as Measured by Volatility
for the past 10 years as of 12/31/2019

Volatility of Global Marketable Equity

Volatility of U.S. Government Bonds

<table>
<thead>
<tr>
<th>10 Year Return</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.5%</td>
<td>8.8%</td>
</tr>
<tr>
<td>12.8%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10 Year Return</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>2.3%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th></th>
<th>5 Years</th>
<th>10 Years</th>
<th>15 Years</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant Spending</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Average Admin Fee</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.9%</td>
<td>1.7%</td>
<td>2.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Required Return</td>
<td>6.9%</td>
<td>6.7%</td>
<td>7.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>MaineCF Actual</td>
<td>6.3%</td>
<td>7.6%</td>
<td>7.1%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>
Changes Made in 2019

- Reduced large cap U.S. equity allocation by $11 million (approx. 2% of total assets)
- Reduced non-U.S. equity allocation by $4 million
- Added $8 million to two new managers, both with focus on China
- Added $5 million to manager focused on distressed opportunities, primarily in Europe
- Added $11 million to cash/fixed income from the sale of equities
- Added $14 million in new commitments with existing venture capital, private equity and distressed managers
  - Capital will be drawn down over the next 3-4 years
  - Funded from maturing investments from similar managers
Questions & Answers

• If you would like to ask a specific question during this call, please email Jennifer Southard at jsouthard@mainecf.org.

• After the call, questions can be addressed to Jim Geary at 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
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  – email Jennifer at jsouthard@mainecf.org
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    245 Main Street
    Ellsworth, Maine 04605