



# 2017 Investment Summary

## Conference Call

March 7, 2018  
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](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

- 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:* 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.

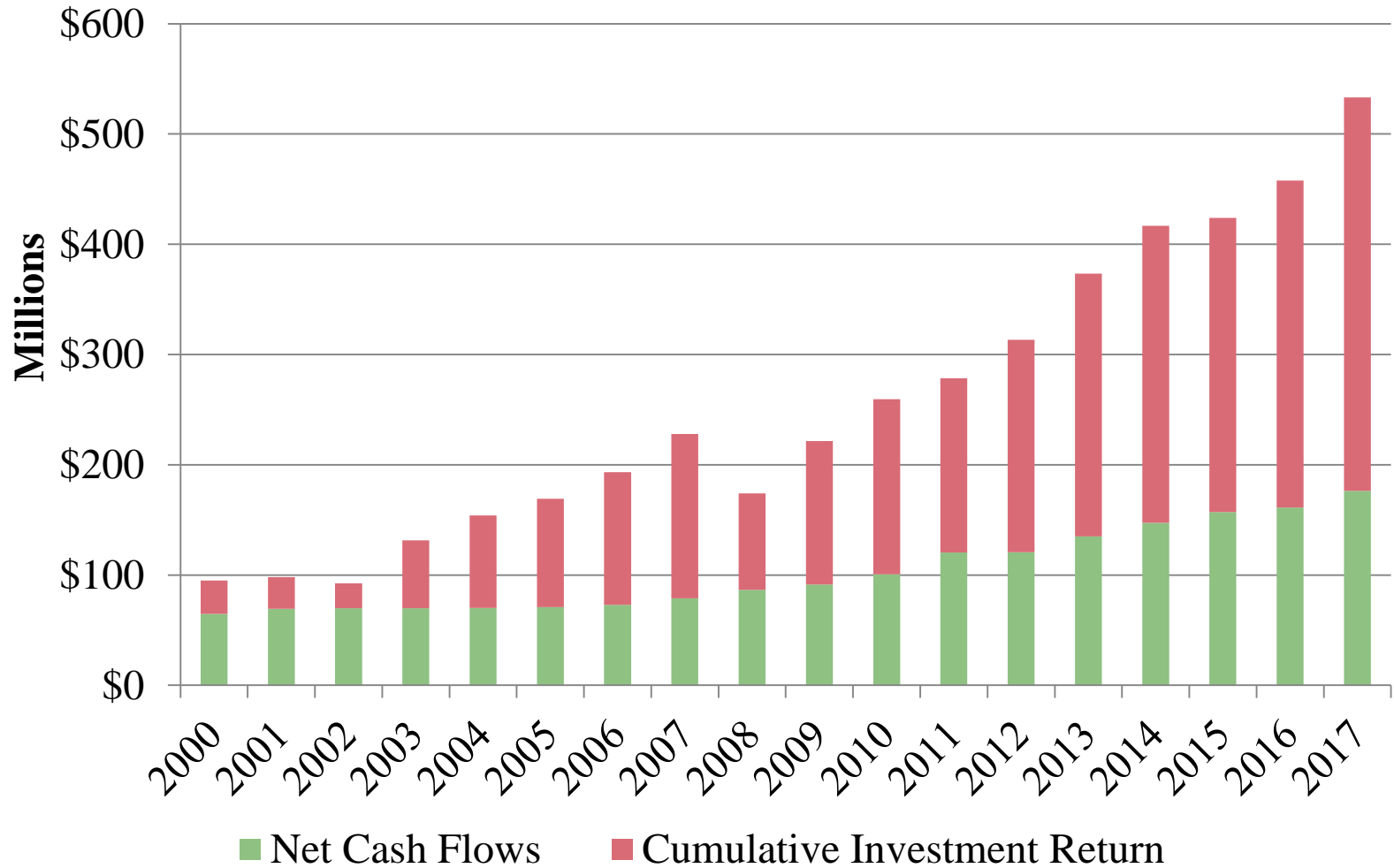
*People:* MaineCF has a staff of 35 people and a volunteer network of almost 500 people.



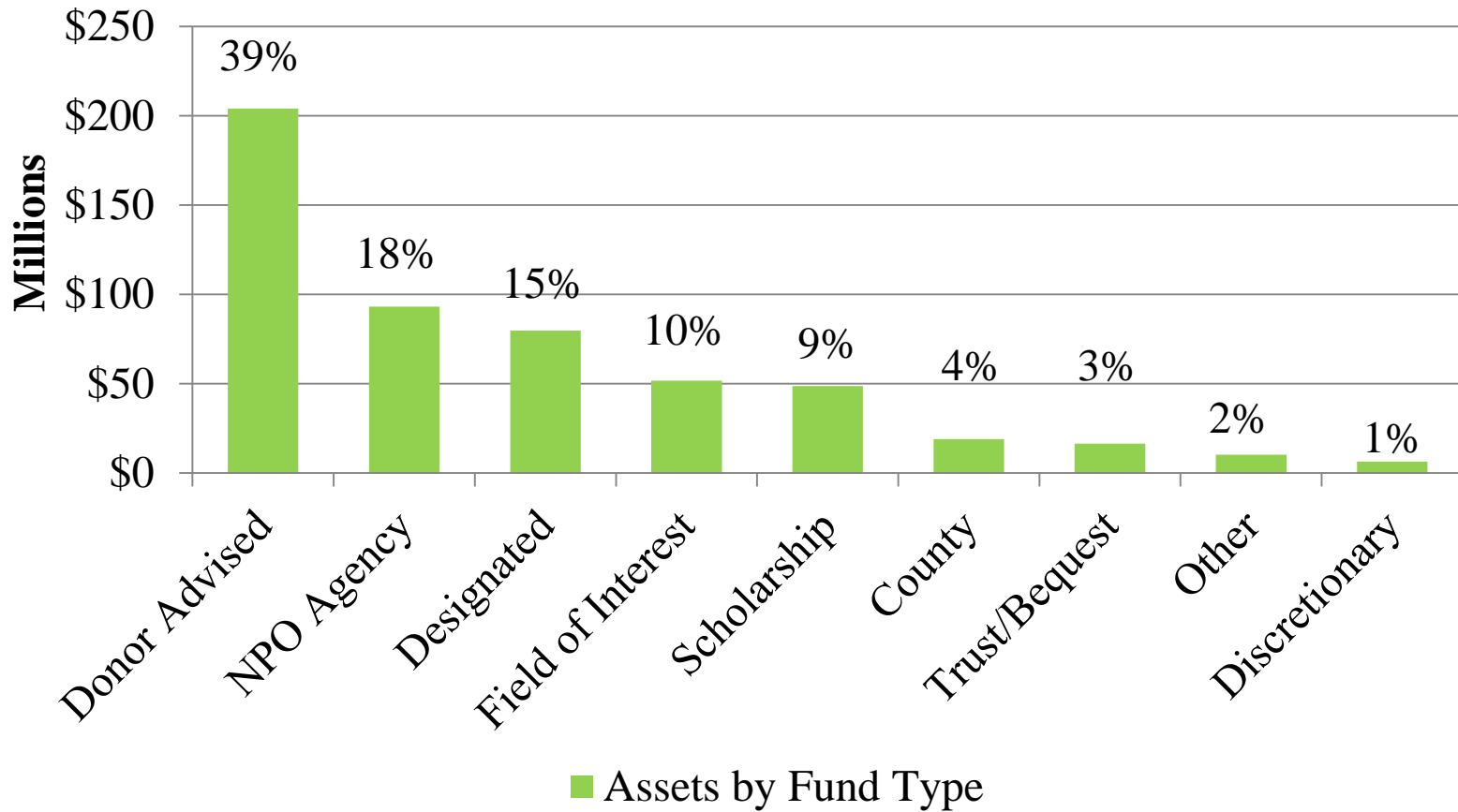
# MaineCF's Strategic Goals

- 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:** Entrepreneurial innovation is broadly promoted and practiced in Maine, particularly in natural resource-based activities.

# Growth of Assets From 2000-2017

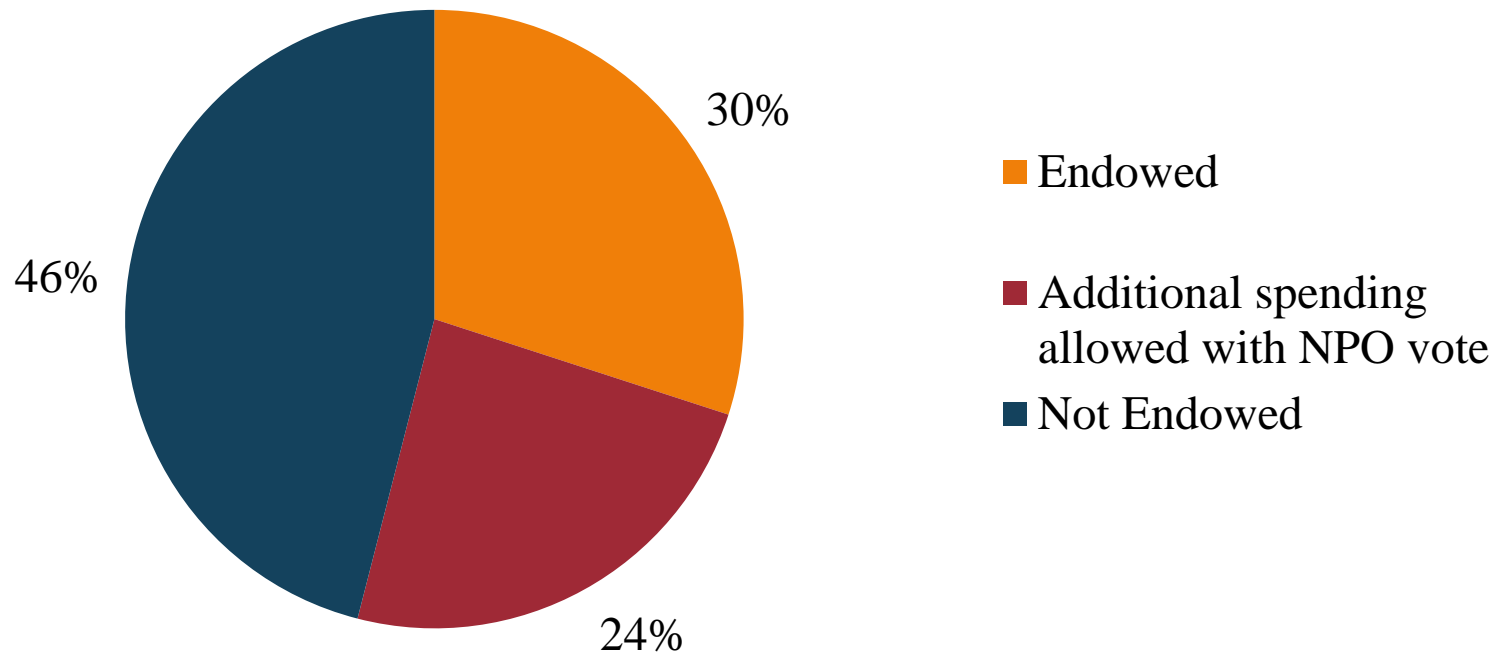


# Major Fund Types



# 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
- **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 Direct 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

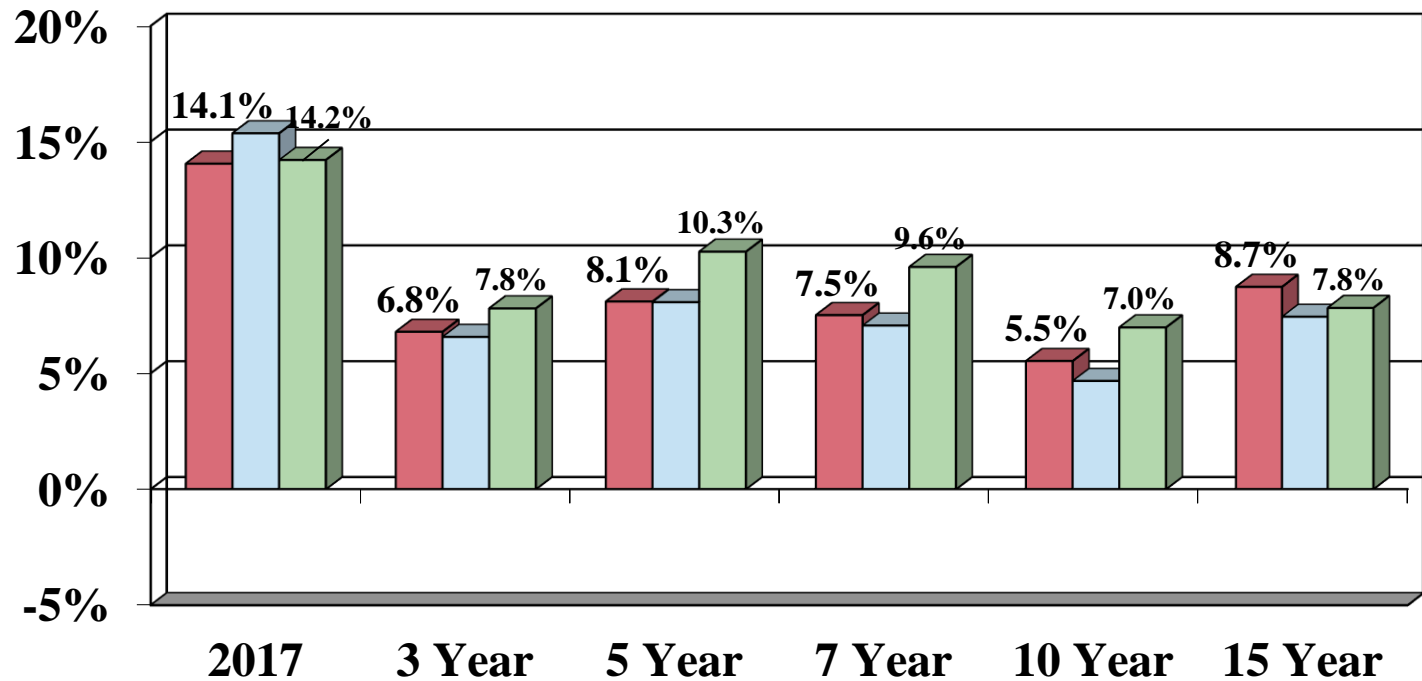
- Cambridge Associates works closely with the Investment Committee to assist in the manager selection and monitoring procedures. Cambridge Associates was established in the 1970s to conduct a comprehensive study of endowment management practices for Harvard University. Since then, the firm has become 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

<b>Topic</b>	<b>Pages</b>
Performance	12-20
Asset Allocation/Common Indices	21-23
How We Think About Risk, Goals, Expectations	24-26
Relative performance to peers	27-28
Risk as measured by volatility	29-30
Keeping up with inflation	31
Changes made in 2017	32-35

# 15 Year Summary of Annualized Returns

## As of December 31, 2017



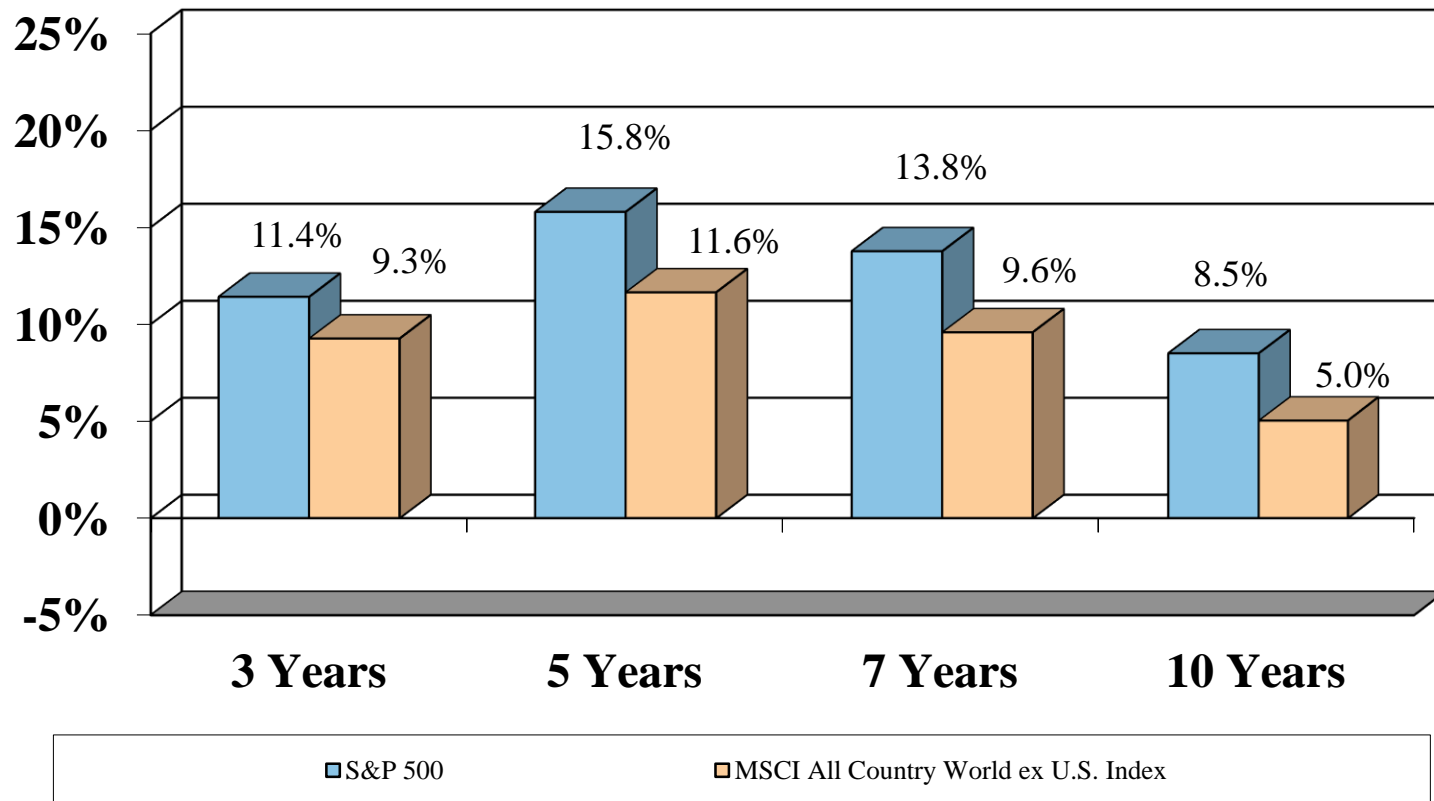
# What a Difference Large Cap U.S. Equities Make...Still

(Strong performance of large-cap U.S. equities for 3, 5, 7, and 10 years)

A look at annualized returns of the S&P 500  
compared to all other equities around the globe  
for the period ending December 31, 2017

# Summary of Returns

## Large Cap U.S. Equity v Non-U.S. Equity as of December 31, 2017

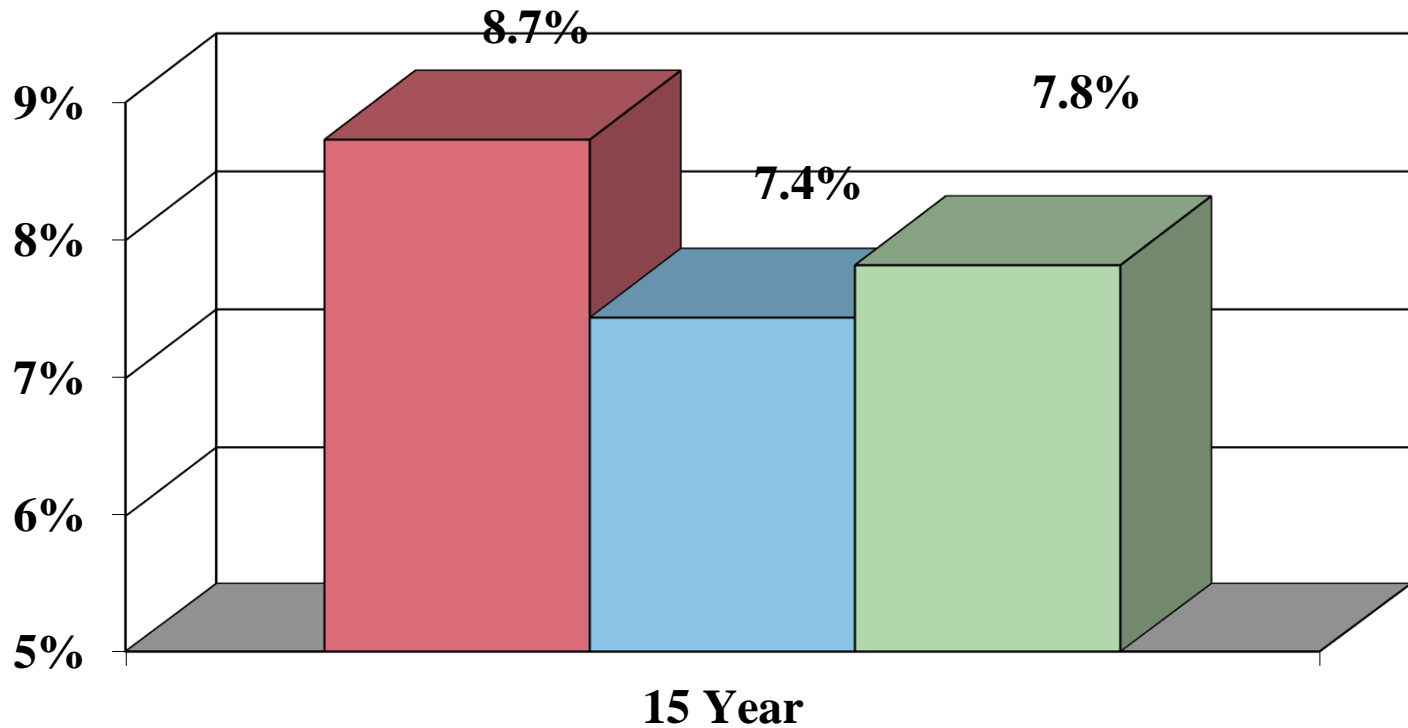


# Why Not Invest Only In U.S. Markets?

- As shown on slide 12, MCF has underperformed a simple index of 60% S&P 500 and 40% Bloomberg 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, 2017





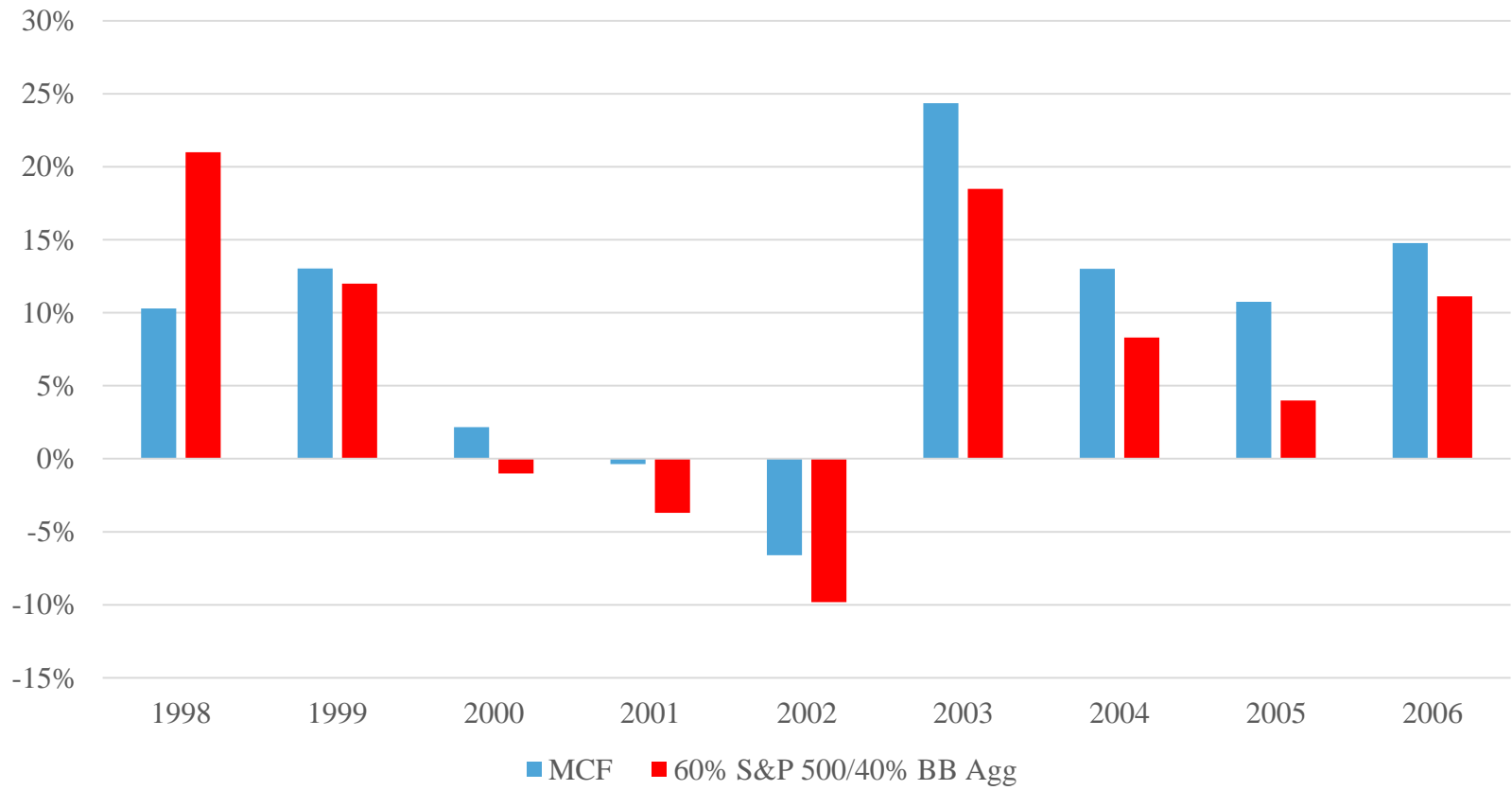
# Over the Past 15 Years a Diversified Portfolio Produces a Better Return

- MCF has Outperformed a simple index of 60% S&P 500 and 40% Barclays Aggregate Bond Index for the past 15 years
  - **By 0.9% per year on average for 15 years**
- Even though the S&P 500 outperformed the rest of the world's equity markets by about 4.5% per year for the past 10 years, diversification across asset classes and geography remains the better answer for a long-term investor

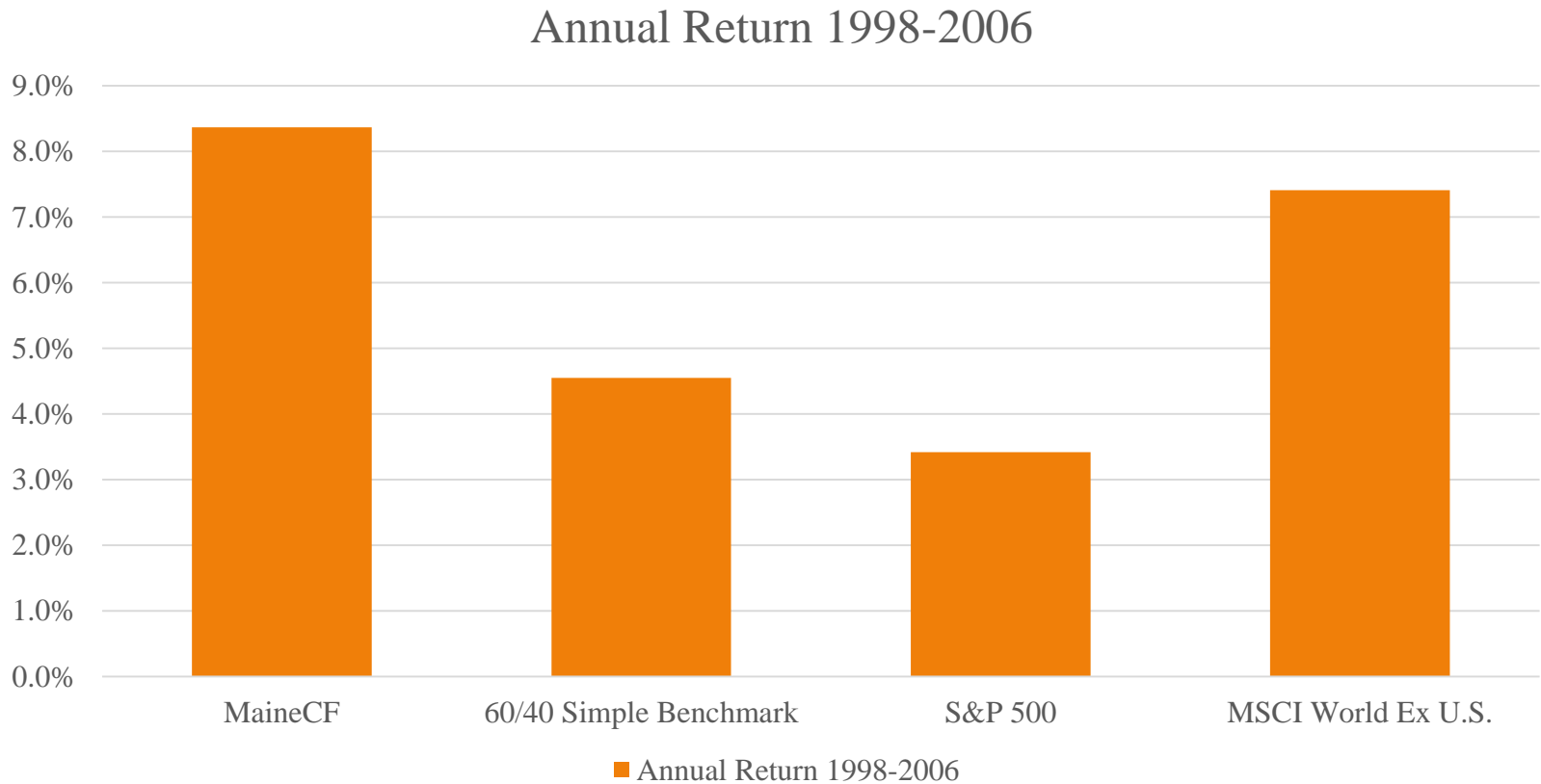
# We Have Seen This Before

- In 1998 MCF underperformed a simple index of 60% S&P 500 / 40% Bloomberg Barclays Aggregate Bond Index (Formerly the Lehman Bond Index)
- When the tech bubble burst in 2000, we had hedges and other defensive strategies in place to protect the portfolio
- Those defensive positions paid dividends after the tech bubble burst

# MCF vs Simple Index 1998-2006



# MCF vs Simple Index 1998-2006

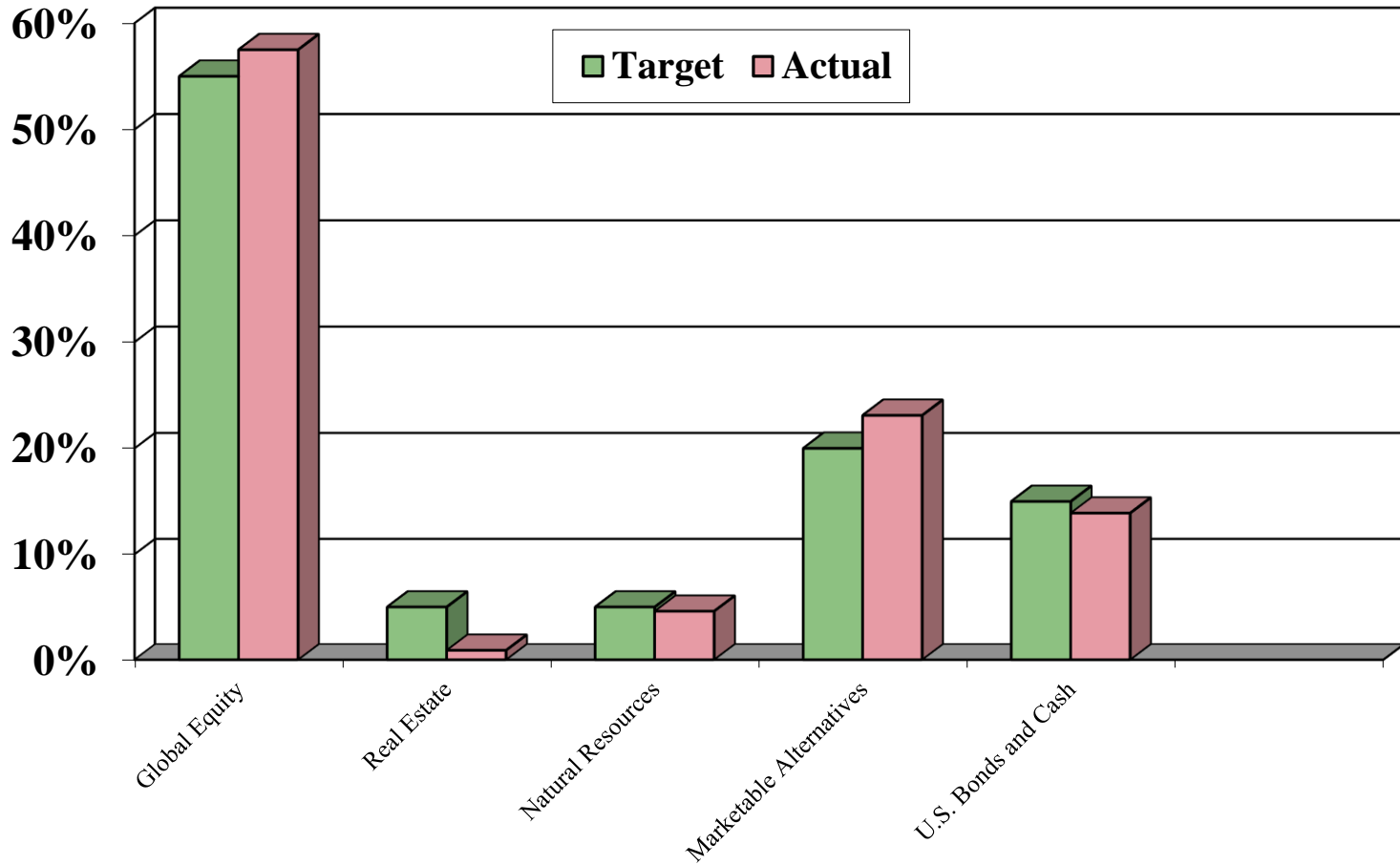


# Other Key Market Indices for 2017

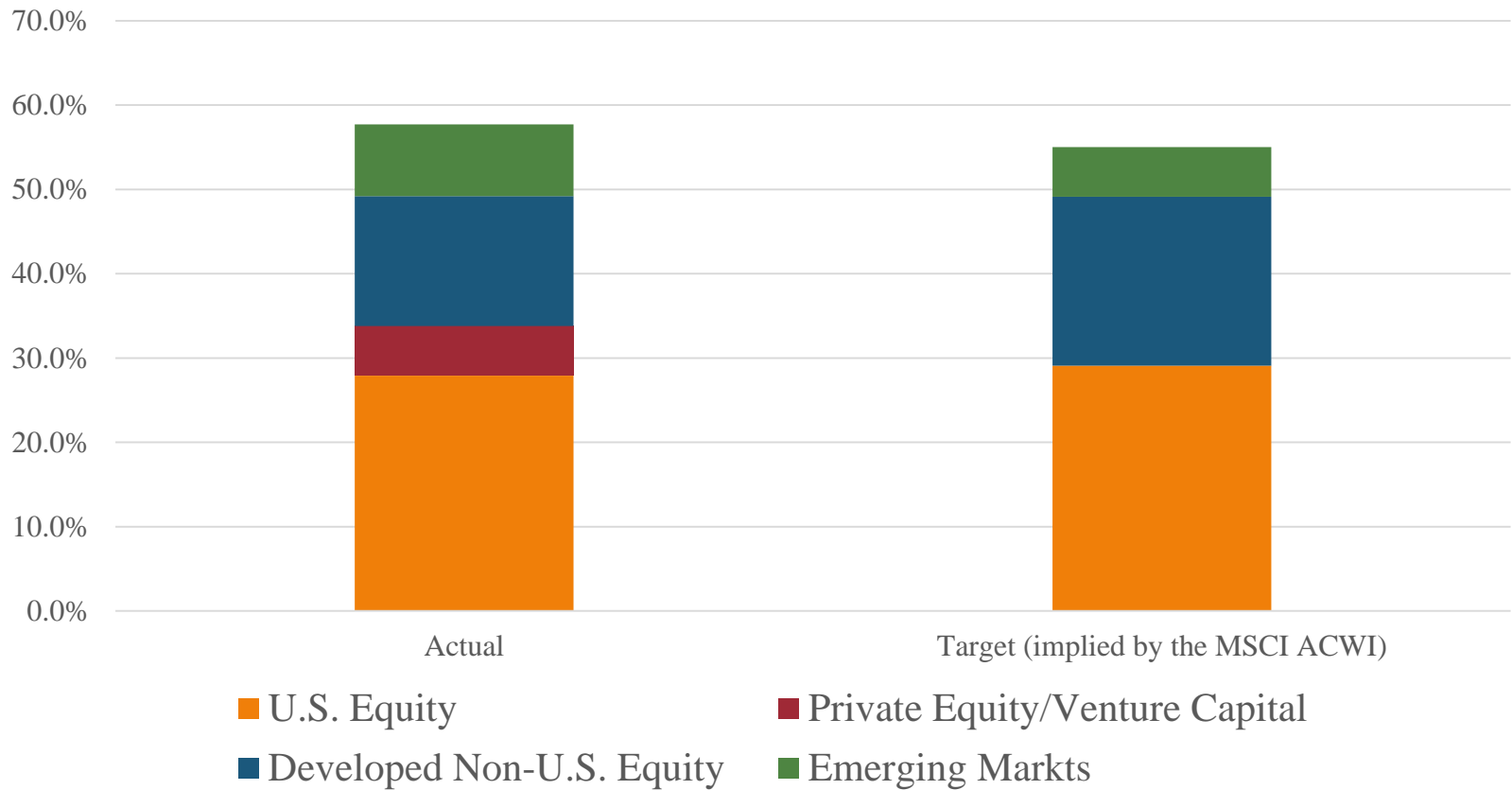
MaineCF Portfolio:	14.1%
S & P 500 Index:	21.8%
MSCI EAFE Index (developed non-U.S. Markets):	25.0%
MSCI Emerging Markets:	37.3%
MSCI All Country World ex US (non-U.S. developed + emerging markets equities):	27.2%
HFR Fund of Funds Index:	7.7%
Barclays Gov't Bond Index:	2.3%

# Asset Allocation

as of December 31, 2017 Target v. Actual



# Global Equity Allocation



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

- For the year, long-only equity managers both in the US and throughout the majority of the rest of world outperformed all other strategies. In such an environment, highly diversified funds (such as MCF) faced heavy competition from “simple” passive index funds and those concentrated in the few ultra-high performing technology growth stocks: Facebook, Amazon, Netflix, and Google.
- What lessons do investors need to learn from this experience? What do we need to guard against?
  - Fear of missing out (“FOMO”)
  - Short-term time horizons
  - Trying to “beat” the market
  - Relying on macro prediction models
  - Allowing emotions to take over
  - Thinking “this time is different”



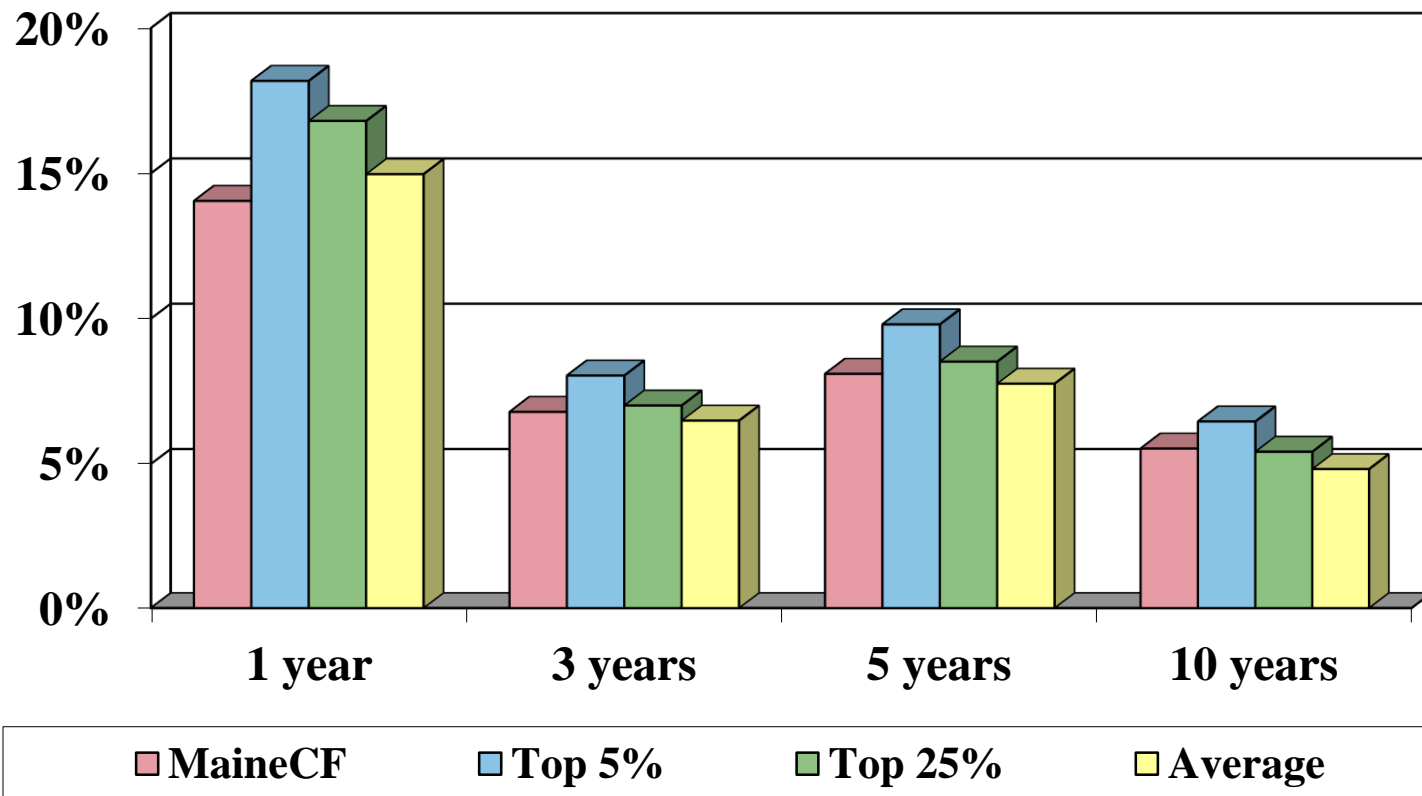
# Finding the Best Opportunities for Discovering and Sustaining Long-Term, Risk Adjusted Returns

- While it is impossible for most of us to entirely avoid these pitfalls, it is essential that we learn to recognize our tendency to lean in these directions and redouble our efforts to think and act differently.
- Throughout history the cycle of booms and busts has repeated itself many times: 1929, 1973, 1987, 1999, 2008, 2011. No one can predict with any certainty *when* such events will occur in the future. But we can be absolutely sure they will occur sometime in the future.
- Melt downs can occur, what can we do to plan for such events? Looking back over what worked well and what didn't, we can seek strategies that survived.

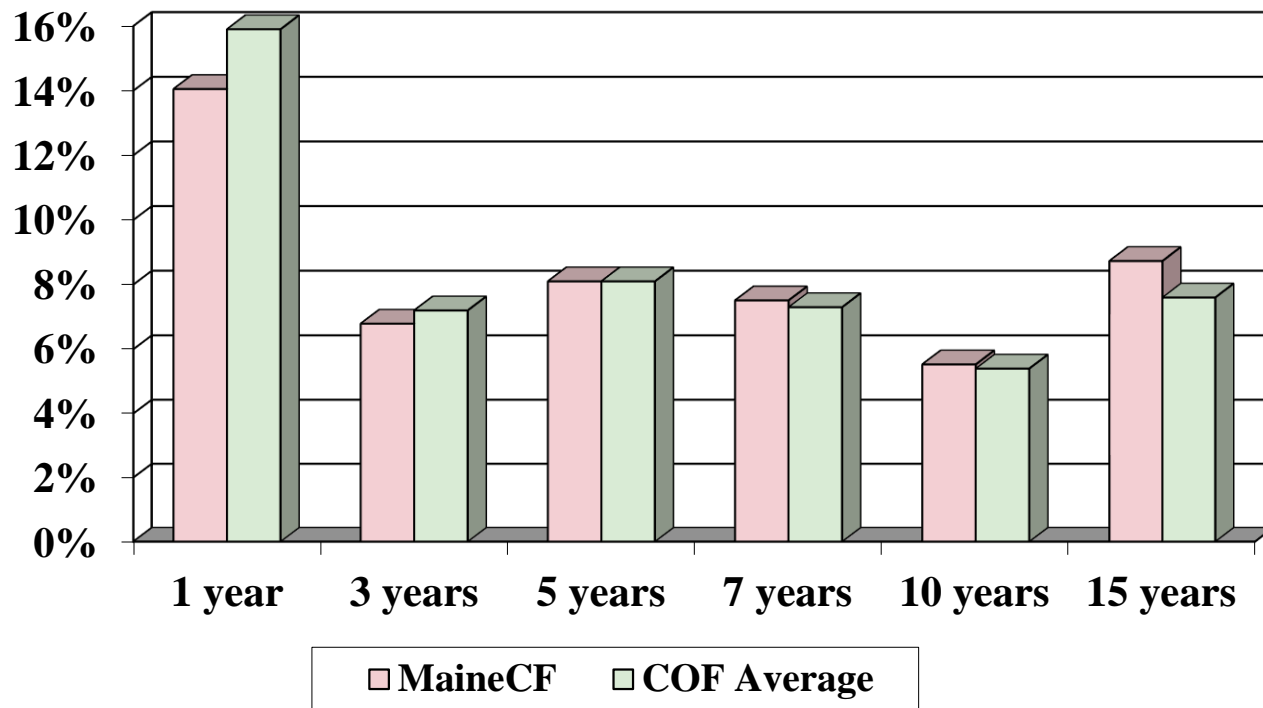
# Finding the Best Opportunities for Discovering and Sustaining Long-Term, Risk Adjusted Returns

- Assets such as large company equities, especially those trading at very high prices relative to their earnings, often suffer most when markets correct. As Howard Marks recently observed, “I am convinced the easy money has been made...the one thing we can say for sure is that the current prospects for making money in U.S. equities aren’t what they were half a dozen years ago...thus I don’t see a reason to be aggressive.”
- This is not a clarion call to sell. It is merely meant as a reminder that caution should only rarely be “thrown to the wind.” Modestly rebalancing some of our assets away from those asset classes that just did well to areas that didn’t seem appropriate and timely to us.

# MaineCF v. Cambridge Assoc. Universe of Approximately 200 Endowments and Foundations as of December 31, 2017



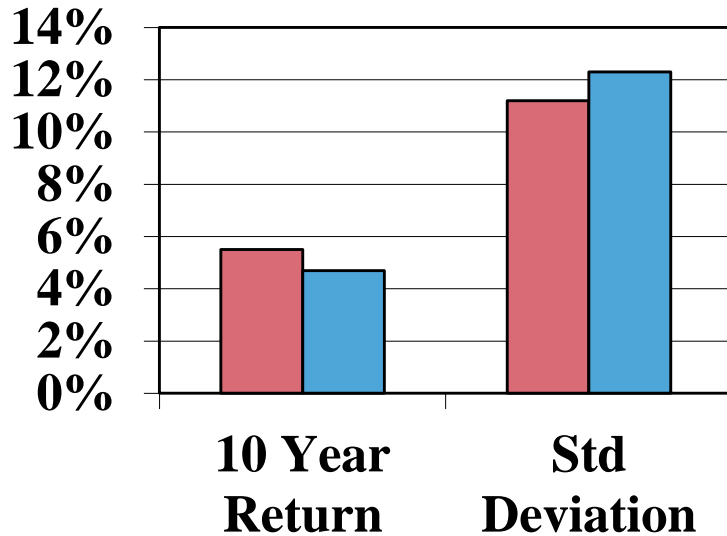
# MaineCF Investment Performance v. Approximately 70 Community Foundations <sup>(1)</sup> as of December 31, 2017



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

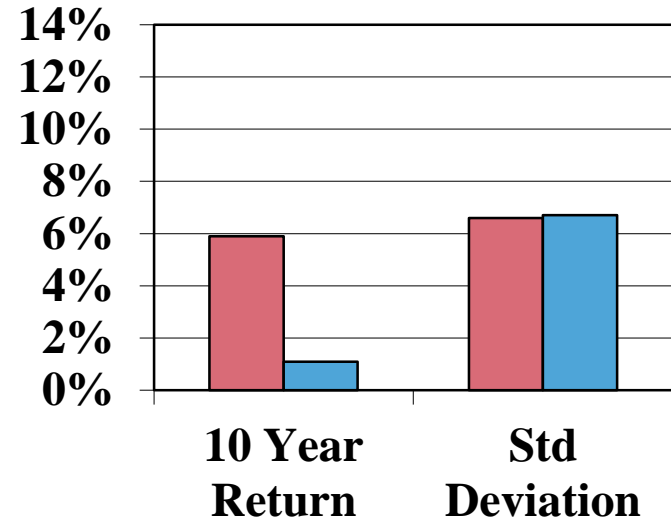
# Risk as Measured by Volatility for the Past 10 Years as of December 31, 2017

**Volatility of Total Portfolio**



■ MaineCF ■ Benchmark

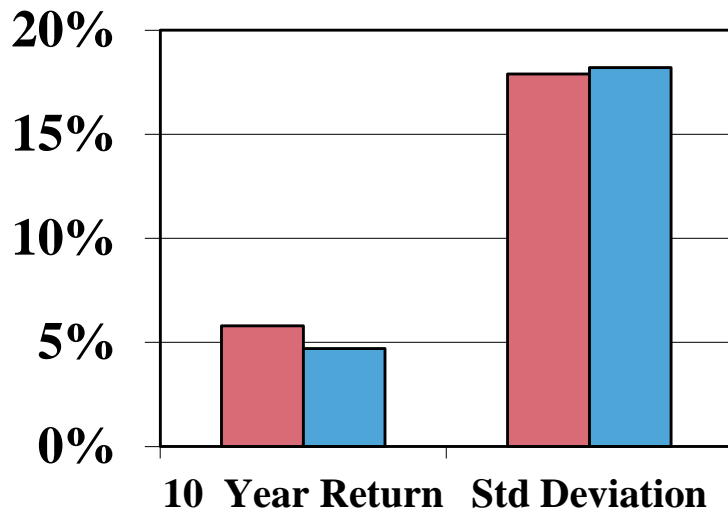
**Volatility of Marketable Alternatives**



■ MaineCF ■ Benchmark

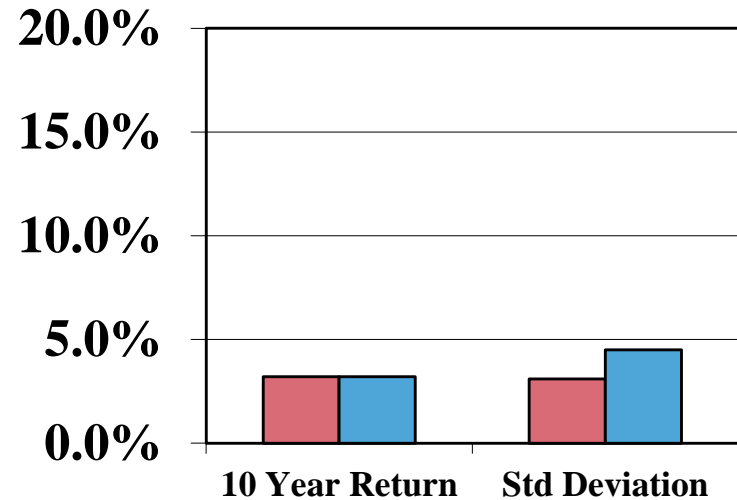
# Risk as Measured by Volatility for the Past 10 Years as of December 31, 2017

**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	2.1%	1.6%	1.6%	2.1%
Required Return	7.1%	6.6%	6.6%	7.1%
MCF Actual	8.1%	7.5%	5.5%	8.7%

# Changes Made in 2017

- We reduced our U.S. equity allocation by \$7 million (about 1.5% of total assets) and added that amount to cash/fixed income
- We reduced our passive investment in the EAFE index by \$2 million and added that amount to an active strategy focused in Europe
- Two of our hedge funds managers closed their funds in 2017, we had about \$5 million in each manager. We added that amount to two other hedge fund managers already in the portfolio with similar strategies and risk profiles.
  - One manager closed to run for governor in his home state of Connecticut, they had strong returns for the past 10 years.
  - One manager closed their fund because of withdrawals. They had breakeven performance over the past 5 years.
- We terminated our position in the PIMCO Real Return Fund (TIPs) and add that amount to our intermediate U.S. Treasury Bonds



## Changes Made in 2017 continued

- We added \$9 million to our bond/cash allocation
  - \$7 million from the sale of U.S. Equities
  - \$2 million from cash inflows into the portfolio
- We added a \$3 million commitment to a new venture capital fund, with a long track record at one of our current managers

# Change to the Benchmark in 2017

- 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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