

# Investment Stewardship: So You Can Focus on Your Mission

**Presented to:  
Community Foundation of the Florida Keys**

**Presented by:  
Barry Beach  
Senior Portfolio Manager**

11130 Sunrise Valley Drive  
Suite 200  
Reston, VA 20191  
[www.masoncompanies.com](http://www.masoncompanies.com)  
(703) 716 – 6000  
[bbeach@masoncompanies.com](mailto:bbeach@masoncompanies.com)



**MASON INVESTMENT  
ADVISORY SERVICES, INC.**

# Overview of Topics we will Cover

1. Overview of Mason and our focus on Community Foundations
2. Mason's Relationship with CFFK
3. Investment Objectives and Asset Allocation
4. Manager Selection and Evaluation
5. Short Term Volatility is to be Expected



# Mason Investment Advisory Services, Inc.

- **Founded 1982 – Financial Planning Roots**

- 56 Employees
- Independent, no proprietary products
- Clients in 42 states|

- **Investment Advisory Summary**

- Assets under management
- Investment management clients
- Recently listed in *Forbes*, *Financial Times* and *Barron's*

	<u>Total</u>	<u>Institutional</u>
--	--------------	----------------------

	\$4.7B	\$2.1B
--	--------	--------

	670+	68
--	------	----

- **Focus on Community Foundations & Nonprofits**

- 36 Community Foundation Clients in 16 states, totaling \$1.09B in Assets Under Mgmt.
- Working with Community Foundations since 1998
- 100% Community Foundation Client Retention



# Community Foundation Focus - Assets Under Management

Number	Organization Name	Account Value*	(Year-Month)	State
1	Wyoming Community Foundation	\$ 99,000,000	2010 - 07	WY
2	Community Foundation of Central Georgia	\$ 97,000,000	2008 - 03	GA
3	Community Foundation of the Eastern Shore	\$ 95,000,000	1998 - 07	MD
4	San Angelo Area Foundation	\$ 79,000,000	2014 - 09	TX
5	First Community Foundation of Pennsylvania	\$ 69,000,000	2006 - 12	PA
6 <sup>1</sup>	Community Foundation of North Texas	\$ 60,000,000	2015 - 10	TX
7 <sup>1</sup>	Community Foundation**	\$ 52,000,000	Pending	KY
8	Central Alabama Community Foundation	\$ 44,000,000	2014 - 04	AL
9	Community Foundation of Greater Lafayette	\$ 43,000,000	2010 - 09	IN
10	Porter County Community Foundation	\$ 38,000,000	2009 - 12	IN
11	Western Colorado Community Foundation	\$ 38,000,000	2013 - 10	CO
12	Community Foundation of North Central Massachusetts	\$ 38,000,000	2005 - 06	MA
13	Community Foundation**	\$ 35,000,000	Pending	AL
14	Topeka Community Foundation	\$ 33,000,000	2013 - 05	KS
15	Blue River Community Foundation	\$ 31,000,000	2006 - 03	IN
16	Community Foundation of Washington County	\$ 25,000,000	2008 - 12	MD
17	Community Foundation**	\$ 23,000,000	Pending	IN
18	York County Community Foundation	\$ 23,000,000	2010 - 09	PA
19	Community Foundation of Bloomington and Monroe County	\$ 22,000,000	2012 - 02	IN
20	Community Foundation**	\$ 21,000,000	Pending	IN
21 <sup>2</sup>	Lehigh Valley Community Foundation	\$ 20,000,000	2015 - 03	PA
22	Community Foundation**	\$ 15,000,000	Pending	CT
23	Community Foundation of the Central Blue Ridge	\$ 15,000,000	2009 - 07	VA
24	Hancock County Community Foundation	\$ 14,000,000	2006 - 03	IN
25	Community Foundation of Crawford County	\$ 13,000,000	2012 - 06	OH
26	Community Foundation of the Florida Keys	\$ 13,000,000	2008 - 06	FL
27	Southeastern Illinois Community Foundation	\$ 7,700,000	2014 - 09	IL
28	Scott County Community Foundation	\$ 7,300,000	2015 - 09	IN
29	Community Foundation of Anne Arundel County	\$ 5,000,000	2015 - 05	MD
30	Brookline Community Foundation	\$ 4,900,000	2013 - 09	MA
31	Community Foundation of Burke County	\$ 4,900,000	2014 - 09	NC
32	Community Foundation**	\$ 3,500,000	Pending	VA
33	Delaware County Foundation	\$ 3,400,000	2014 - 05	OH
34	Piedmont Community Foundation	\$ 1,900,000	2013 - 06	VA
35	Community Foundation of the Northern Shenandoah Valley	\$ 1,500,000	2008 - 09	VA
<b>Total</b>		<b>\$ 1,095,100,000</b>		



# Community Foundation Focus – Continued Assets Under Advisement/Data Aggregation

Number	Organization Name	Account Value*	(Year-Month)	State
<b>Assets Under Advisement - (Consulting Only)</b>				
6 <sup>1</sup>	Community Foundation of North Texas	\$ 90,000,000	2015 - 10	TX
7 <sup>1</sup>	Community Foundation**	\$ 5,000,000	Pending	KY
<b>Total</b>		<b>\$ 95,000,000</b>		

<b>Data Aggregation &amp; Performance Reporting Only</b>				
6 <sup>1</sup>	Community Foundation of North Texas	\$ 60,000,000	2015 - 10	TX
7 <sup>1</sup>	Community Foundation**	\$ 18,000,000	Pending	KY
21 <sup>2</sup>	Lehigh Valley Community Foundation	\$ 15,000,000	2015 - 02	PA
36	Greater Saint Louis Community Foundation	\$ 289,000,000	2013 - 10	MO
<b>Total</b>		<b>\$ 382,000,000</b>		

\* Account Values are Approximated

\*\* Assets and/or Contract Pending

1 This client utilizes our discretionary investment management service, our non-discretionary investment advisory service and our data aggregation and reporting service.

2 This client utilizes both our discretionary investment management service and our data aggregation and reporting service.



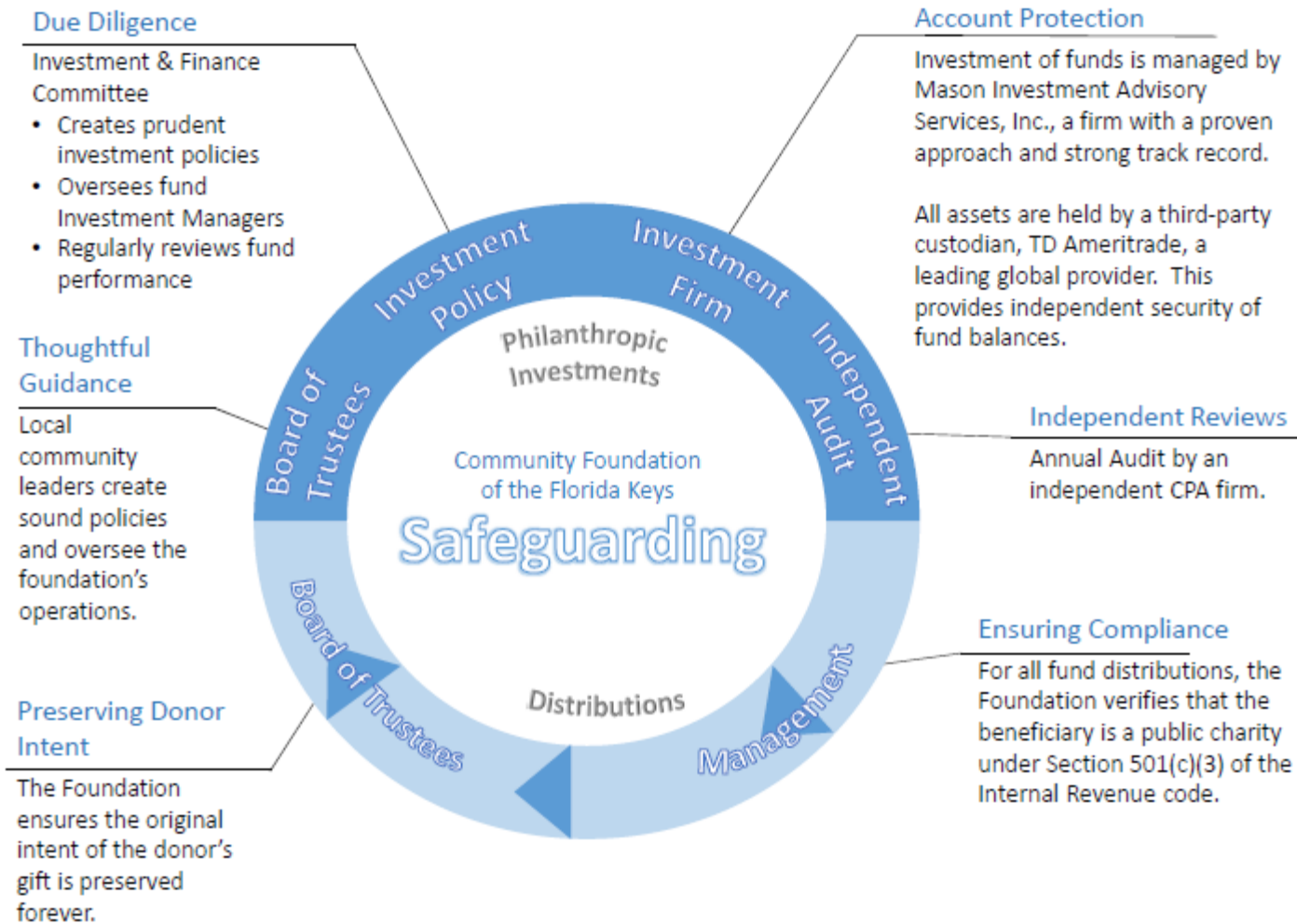
# Role of Consultants

## *(Mason's Relationship with CFFK)*

- **Investment Consultant to the Foundation since 2008**
- **Report to the Investment Committee (Quarterly) and the Board (as needed)**
- **Recommend:**
  - *Changes to Investment Policy Statement*
  - *Asset Allocation Targets*
  - *Spending Policy*
  - *Rebalancing Methodology*
- **Investment vehicles (funds & managers)**
  - *Selection*
  - *Evaluation*
- **Review / rebalance portfolio on regular basis**
- **Reporting (quarterly performance reports, donor reports, etc.)**
- **Education & donor development as requested**



# Safeguarding Donors' Gifts & Preserving their Charitable Intent



# Spending Policy/ Target Rate of Return Objectives

5 yr CPI\* + Annually Approved Grantmaking Rate (Currently 4.25%) + Average Administrative Fee (Currently 1.2%)

- ▶ The Spending Policy/Target Rate of Return is evaluated on a rolling 5 year basis
- ▶ Time horizon for this portfolio is in perpetuity

\* Historically the average annualized inflation rate has been approximately 3.1% since 1926.



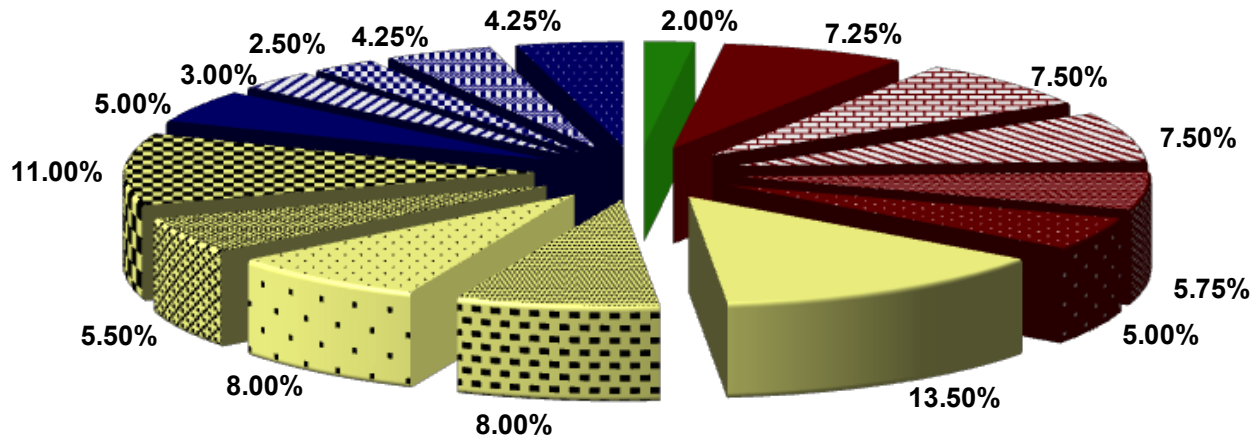
# Target Return Analysis

*As of October 31, 2015*

	<u>3 Year</u>	<u>5 Year</u>	<u>Since Inception</u> <u>(09/30/08)</u>
Consolidated Portfolio Return (TWR)	6.38%	6.15%	6.98%
Consumer Price Index (CPI)*	<u>0.97%</u>	<u>1.73%</u>	<u>1.21%</u>
Consolidated Portfolio Return Minus CPI	5.41%	4.42%	5.77%
Target Return From IPS: Real Return Rolling Five Year Period (Grantmaking Rate 4.25% + Avg. Admin Fee 1.2%)		5.45%	



# Mason “C” Asset Allocation Model



Safety <span style="color: green;">■</span>		Income <span style="color: red;">■</span>		Growth <span style="color: yellow;">■</span>		Aggressive <span style="color: blue;">■</span>	
Asset Class	% of Total Assets	Asset Class	% of Total Assets	Asset Class	% of Total Assets	Asset Class	% of Total Assets
Cash	2.00%	International Value	8.00%	Real Estate	11.00%	Small Value	5.00%
Short Term FI	7.25%	International Growth	5.50%	Small Growth	3.00%	International Small Cap	2.50%
Intermediate FI	7.50%	TIPS	5.75%	Energy & Nat. Resources	4.25%	Commodities	4.25%
Long Term FI	7.50%	International FI	5.00%	Large Value	13.50%		
Large Value	13.50%	Large Growth	8.00%				



# Annual Asset Class Leaders

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Through 09/30/15
Best ↑ Performance ↓ Worst	Comm.	Small Val.	Comm.	Intl. SC	REIT	Nat. Res.	REIT	Nat. Res.	Cash	Nat. Res.	REIT	LT Bond	Intl. Gr.	Small Gr.	REIT	ST Bond
	Nat. Res.	REIT	TIPS	Small Gr.	Intl. SC	Intl. SC	Intl. Val.	Intl. Gr.	Zero Ret.	Intl. SC	Small Gr.	TIPS	REIT	Small Val.	LT Bond	Intl. SC
	REIT	LT Bond	Intl. Bond	Small Val.	Nat. Res.	Comm.	Intl. Gr.	Comm.	Intl. Bond	Intl. Gr.	Small Val.	REIT	Intl. Val.	Large Gr.	Large Val.	IT Bond
	Small Val.	IT Bond	LT Bond	Intl. Val.	Intl. Val.	Intl. Gr.	Intl. SC	Large Gr.	LT Bond	Large Gr.	Intl. SC	IT Bond	Small Val.	Large Val.	Large Gr.	Cash
	TIPS	TIPS	IT Bond	REIT	Small Val.	Intl. Val.	Large Val.	TIPS	TIPS	Small Gr.	Nat. Res.	Intl. Bond	Large Gr.	Intl. SC	IT Bond	Zero Ret.
	IT Bond	ST Bond	ST Bond	Intl. Gr.	Intl. Gr.	REIT	Small Val.	Intl. Val.	ST Bond	Small Val.	Comm.	ST Bond	Intl. SC	Intl. Val.	MIAS C	TIPS
	LT Bond	Cash	REIT	Nat. Res.	MIAS C	MIAS C	MIAS C	Intl. SC	IT Bond	REIT	Large Gr.	Cash	Large Val.	Intl. Gr.	Small Val.	LT Bond
	Large Val.	Intl. Bond	Cash	Large Gr.	Large Val.	Large Gr.	Small Gr.	Small Gr.	MIAS C	Intl. Val.	Intl. Gr.	Zero Ret.	Small Gr.	MIAS C	Small Gr.	Large Gr.
	ST Bond	Zero Ret.	Zero Ret.	Large Val.	Small Gr.	Small Val.	Nat. Res.	Intl. Bond	Small Val.	MIAS C	Large Val.	Large Val.	LT Bond	Nat. Res.	TIPS	Intl. Gr.
	MIAS C	MIAS C	Nat. Res.	Comm.	Comm.	Large Val.	Large Gr.	Cash	Comm.	Large Val.	MIAS C	MIAS C	MIAS C	REIT	Intl. Bond	Intl. Bond
	Cash	Large Val.	MIAS C	MIAS C	Intl. Bond	Small Gr.	Intl. Bond	MIAS C	Large Val.	Comm.	LT Bond	Large Gr.	Intl. Bond	ST Bond	ST Bond	REIT
	Intl. Bond	Small Gr.	Intl. SC	Intl. Bond	Large Gr.	Cash	Cash	IT Bond	Large Gr.	LT Bond	IT Bond	Small Gr.	IT Bond	Cash	Cash	Small Gr.
	Zero Ret.	Nat. Res.	Small Val.	LT Bond	TIPS	LT Bond	LT Bond	ST Bond	Small Gr.	IT Bond	Intl. Val.	Small Val.	TIPS	Zero Ret.	Zero Ret.	MIAS C
	Small Gr.	Intl. SC	Intl. Val.	TIPS	LT Bond	TIPS	IT Bond	LT Bond	REIT	Intl. Bond	Intl. Bond	Intl. Gr.	Nat. Res.	IT Bond	Intl. Gr.	Intl. Val.
	Intl. Val.	Intl. Val.	Large Val.	IT Bond	IT Bond	IT Bond	ST Bond	Large Val.	Intl. Val.	TIPS	TIPS	Intl. Val.	ST Bond	Intl. Bond	Intl. Val.	Large Val.
	Intl. SC	Comm.	Intl. Gr.	ST Bond	ST Bond	ST Bond	Comm.	Zero Ret.	Intl. Gr.	ST Bond	ST Bond	Comm.	Cash	LT Bond	Intl. SC	Small Val.
Large Gr.	Large Gr.	Large Gr.	Cash	Cash	Zero Ret.	Zero Ret.	Small Val.	Intl. SC	Cash	Cash	Nat. Res.	Zero Ret.	TIPS	Nat. Res.	Comm.	
Intl. Gr.	Intl. Gr.	Small Gr.	Zero Ret.	Zero Ret.	Intl. Bond	TIPS	REIT	Nat. Res.	Zero Ret.	Zero Ret.	Intl. SC	Comm.	Comm.	Comm.	Nat. Res.	



# Manager Selection and Evaluation *Objectives*

1. Identify superior fund families with the potential for higher returns relative to peers
2. Select individual funds to obtain optimal exposure to each category
3. Utilize funds with competitive fee structures

# Fund Family Analysis

## *Comprehensive Study Conducted*

1. Evaluated the 27 largest fund families (\$8.8 trillion AUM) over a 12 year period
  - Fund families were analyzed over rolling 5 year periods and over the entire 12 year period
2. Evaluated both open, terminated and merged funds across fund families
3. Evaluated only lowest cost share classes



# Manager Selection and Evaluation *Results*

1. Fund family performance has persisted (no reversion to mean at fund family level).
2. Within each fund family there has been a strong reversion to the mean (often today's winning funds are tomorrow's losing funds and vice versa).

**Results:** Study identified preferred fund families that have shown superior relative performance rankings versus their peers over time and have consistently demonstrated a repeatable process across all of their offerings.

- |                   |                  |
|-------------------|------------------|
| 1. Dodge & Cox    | 4. Vanguard      |
| 2. American Funds | 5. T. Rowe Price |
| 3. PIMCO          | 6. DFA           |



# Ongoing Monitoring of Funds

- I. Fund Family Level: Update rolling five year returns on fund family analysis
  - a. Measure if approved fund families continue to outperform peer groups
- II. Fund Level: Update Quantitative and Qualitative Analysis of the funds within each of the approved fund families
  - a. Holdings based analysis
  - b. Not performance based
- III. Fund Level: Review of funds within the approved families confirming best asset class coverage
  - a. Evaluate styles, expense ratios, asset class coverage, new funds and share classes created within the approved fund families
- IV. Other: Re-evaluate funds chosen outside the approved fund families
  - a. Example: SPDR S&P Global Natural Resources

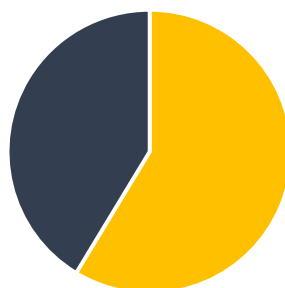


# Mason Portfolio Breakdown – Active vs. EMB (MIMS C Portfolio)

- Active EMB breakdown is the result of bottom up portfolio construction.
- The chart to the right shows a typical breakdown of the EMB component between passive and other EMB.

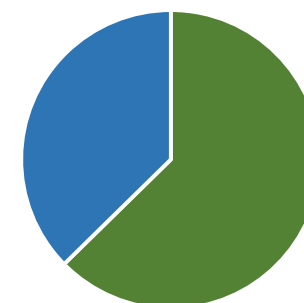
Portfolio Analysis			
	Number of Funds	Percent of Portfolio	EMB Breakdown
Active	16	58.66%	Passive EMB 62.65%
EMB	8	41.34%	Other EMB 37.35%

Portfolio Analysis



■ Active ■ EMB

EMB Breakdown



■ Passive EMB ■ Other EMB



# Changes in Investment Fees

- Drop in Weighted Average Investment Manager Fees: **0.22%**
  - *Weighted average investment manager fees were 0.57% before the EMB study began and are now 0.35%*

We feel that these lower cost “Efficient Market Based Managers” could potentially enhance future returns

- Drop in Total Weighted Average Investment Expense Ratio: **0.29%**
  - *Total weighted average investment expense ratio was 1.06% before the EMB study began and is now 0.77%.*



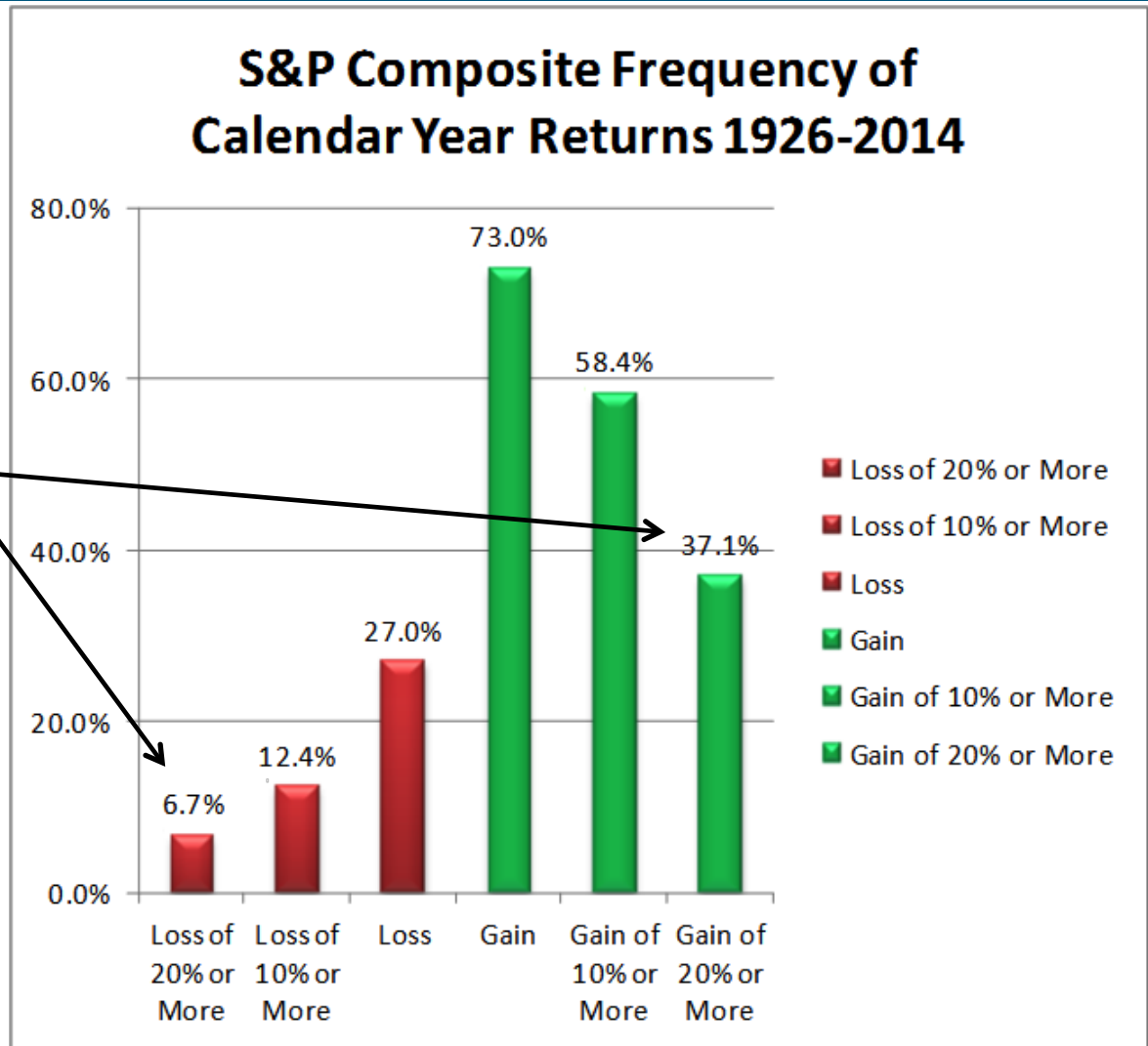
# Stocks Work Over Time

73% of years equity returns were positive  
27% of years were negative

37.1% of the time equities gained over 20%  
6.7% of the time equities lost more than 20%

The data clearly supports the benefit of equities over time and it is important to keep these odds in mind if taking money out of the market based on short term expectations or other market timing strategies.

However, recognize that 1 year out of 15 (6.7%) the S&P posted more than a 20% loss. These are times investors tend to react most strongly to negativity in the media and are the most tempted to get out of the market.



# Volatility is to be Expected

S&P 500 (1980 – 2014)

- Average calendar year return: **13.23%**
- **29** out of 35 years had positive returns
- Every year experienced an intra-year decline
  - Average intra-year decline: **-13.84%** (*Range -2.5% to -46.95%*)

In 2015, the intra-year decline of the S&P 500 from 7-21-15 to 8-25-15 was **-12.04%**. However, the return for the S&P 500 during calendar year 2015 through October 31st was **2.70%**

Short term volatility is normal, is to be expected, and long term investors should be indifferent to it.



# Summary

1. Overview of Mason and our focus on Community Foundations
2. Mason's Relationship with CFFK
3. Investment Objectives and Asset Allocation
4. Manager Selection and Evaluation
5. Short Term Volatility is to be Expected

