



San Antonio Area Foundation
Where Giving and Community Connect

Investment Strategy/Performance
As of December 31, 2017

Market Commentary

The US equity markets continued to power higher in 2017 (S&P 500 +21.8%). The magnitude and duration of the market increase since the Financial Crisis is quite dramatic. However, the US economy has not been nearly as strong as the stock market would suggest and the mood of the average consumer has certainly been less enthusiastic. The main reason for this divergence is perhaps the sub-par pace of economic growth since the crisis. The large magnitude of the drop in the last recession and the debt overhang coming out of the crisis are some of the reasons for the stunted recovery. As a result, the US Federal Reserve has been quite active in creating financial stimulus by expanding its balance sheet. While this activity has slowed over the last few years, central banks outside the US have picked up the slack.

While US equity markets were strong in 2017, non-US equity markets were even stronger. Developed markets outside the US (MSCI EAFE) were up 25% and emerging markets outside the US were up more than 37% on the year. The laggards in 2017 included real estate, MLPs, commodities, and bonds. In the fixed income markets, the core Bloomberg Barclays US Aggregate index was up only 3.5% and Merrill High Yield Index was up 7.5%. Within US equity, the market was powered higher by large cap growth stocks (Russell 1000 Growth +30.2%), while small cap and value stocks were relative laggards (Russell 2000 Value +7.8%). The out performance of growth has been a constant theme the last few years and the differential is beginning to reach the historical extremes last seen in the late 1990's.

*Foundation Investment Performance vs. Benchmarks
Through 12/31/17, Net of Investment Management Fees*

| | Fourth Quarter | CYTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|--------------------------|-------------------|--------------|--------------|-------------|-------------|-------------|-------------|
| Legacy Portfolio | 3.8% | 15.7% | 15.7% | 5.4% | NA | NA | NA |
| <i>CPI+3.75%</i> | <i>1.6%</i> | <i>6.1%</i> | <i>6.1%</i> | <i>5.5%</i> | <i>5.3%</i> | <i>5.5%</i> | <i>5.4%</i> |
| <i>Target Benchmark*</i> | <i>4.0%</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> |
| Managed Portfolio | 4.3% | 17.5% | 17.5% | 5.8% | NA | NA | NA |
| <i>CPI+3.75%</i> | <i>1.6%</i> | <i>6.1%</i> | <i>6.1%</i> | <i>5.5%</i> | <i>5.3%</i> | <i>5.5%</i> | <i>5.4%</i> |
| <i>Target Benchmark*</i> | <i>4.1%</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> |
| 60/40 Portfolio | 3.0% | 12.0% | 12.0% | NA | NA | NA | NA |
| <i>CPI+3.75%</i> | <i>1.6%</i> | <i>6.1%</i> | <i>6.1%</i> | <i>5.5%</i> | <i>5.3%</i> | <i>5.5%</i> | <i>5.4%</i> |
| <i>Target Benchmark*</i> | <i>3.6%</i> | <i>14.0%</i> | <i>14.0%</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> | <i>NA</i> |

* Target benchmark is a weighted average of market indices using the strategic asset allocation through time.



Confirmed in Compliance with National Standards for U.S. Community Foundations



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Asset allocation is the key to the Foundation’s investment results. Accordingly, the Foundation constructs its portfolio with the following in mind:

- Allocate the majority of the portfolio to asset classes with high long-term returns (i.e. equities and alternative investments for the Legacy Portfolio, equity for the Managed Portfolio)
- Construct a well-diversified portfolio able to achieve its return objectives during a variety of economic and market conditions
- Avoid attempts to predict short-term market behavior via market timing strategies
- In the Legacy and Managed Portfolios, retain world-class investment managers who are expected to out-perform index funds over long time periods

Asset Allocation Strategy/Investment Manager Summary

Legacy Portfolio

| <i>Asset Class</i> | <i>Target Allocation</i> | <i>Managers</i> |
|--|--------------------------|----------------------------|
| U.S. Large/Mid Capitalization Equities | 23% | Vanguard/Eagle/Bares |
| U.S. Small Capitalization Equities | 8% | DFA/Vanguard/Towle |
| International Equities | 21% | Marathon/Sanderson/Lizard |
| Emerging Markets | 10% | Polunin/Parametric |
| Fixed Income | 5% | Vanguard |
| Global Bond | 5% | Colchester |
| Hedge Funds | 10% | Lone Juniper |
| Direct Lending | 18% | TCW/Capital Spring/Stellus |



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Managed Portfolio

| <i>Asset Class</i> | <i>Target Allocation</i> | <i>Managers</i> |
|--|--------------------------|----------------------|
| U.S. Large/Mid Capitalization Equities | 26% | Vanguard/Eagle/Bares |
| U.S. Small Capitalization Equities | 9% | DFA/Vanguard/Towle |
| International Equities | 23% | Marathon/Sanderson |
| Emerging Markets | 12% | Polunin/Parametric |
| Fixed Income | 10% | Vanguard |
| Global Bond | 10% | Colchester |
| Real Assets | 5% | Hartford |
| High Yield | 5% | Oak Hill |

60/40 Index Portfolio

| <i>Asset Class</i> | <i>Target Allocation</i> | <i>Managers</i> |
|--|--------------------------|-----------------|
| U.S. Large/Mid Capitalization Equities | 23% | Vanguard |
| U.S. Small Capitalization Equities | 7% | Vanguard |
| International Equities | 22% | Vanguard |
| Emerging Markets | 8% | Vanguard |
| Fixed Income | 40% | Vanguard |

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