

A no-nonsense newsletter from The Dayton Foundation for estate planners and financial advisors

Understanding the Philosophy and Objectives of The Dayton Foundation's Investment Strategy

By W. Quincy Brown, Vice President-Consultant, Fund Evaluation Group, LLC

"In order for the donors' wishes to be sustained and endure, a certain level of growth must be achieved, while also protecting the assets."

— W. Quincy Brown

As vice president and consultant of Fund Evaluation Group, (FEG) LLC, I have worked with The Dayton Foundation for nearly 15 years, providing third-party evaluation and performance monitoring of the Foundation's investment portfolio. When working with the Foundation, it's beneficial to understand the Foundation's investment strategy and philosophy and how it can help you in your work with clients.

The Dayton Foundation's Statement of Investment Policy was developed and is reviewed annually by a volunteer Finance Committee, comprised of members of leading financial and investment institutions and businesses. The Foundation's Finance staff administers the investment portfolio and consults with the Finance Committee and Governing Board. Final oversight of investment policies and performance rests with the Foundation's Governing Board.

The purpose of the Investment Policy is to establish a clear understanding between the Finance Committee, Governing Board and the Foundation-approved investment managers who invest donors' funds. It also conveys the Foundation's specific investment expectations, while providing sufficient flexibility

for changing economic and market conditions.

Investment Philosophy

The mission of The Dayton Foundation is to empower others through philanthropy and community leadership. That vision was drawn upon the idea to help individuals find a way to have their charitable wishes stand the test of time. For the donors' wishes to be sustained and endure, a certain level of growth must be achieved, while also protecting the assets.

So the objective becomes long-term, focused on achieving a return level of appreciation that exceeds inflation, spending and associated expenses, thus protecting the purchasing power of the assets. The assets are managed in a manner that will meet the primary long-term investment objective, while attempting to limit volatility in year-to-year spending.

The strategy deployed by The Dayton Foundation to meet the dual objective of building capital and preserving the real value of the assets is based on the premise that investment decisions should be made with a long-term perspective, and the portfolio should be constructed to achieve diversification from global risk factors. With these factors in mind, it's the belief that investing in assets with higher return expectations outweighs the short-term volatility risk. As a result, the majority of assets are invested in equity or equity-like securities, including real assets (real estate, natural resources and infrastructure). Real assets also are expected to provide the added benefit of inflation protection. Fixed income and diversifying strategies are

used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the portfolio, but it's a residual to the investment process and used to meet short-term liquidity needs.

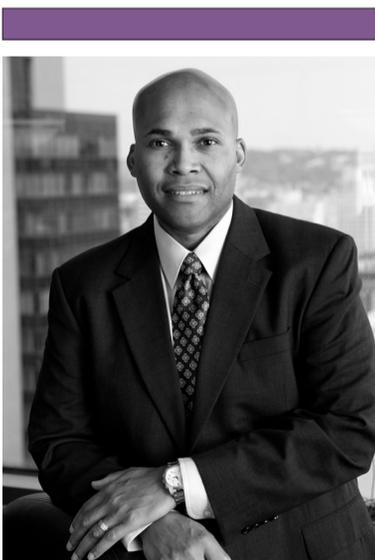
A driving force behind determining the long-term returns generated is the asset allocation decision. Diversification of investments across multiple markets that are not similarly affected by economic, political or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories is based on the impact to the total portfolio, rather than judging asset categories on a stand-alone basis.

Types of Investments

Investments generally fall into one of four asset categories; Global Equity, Global Fixed Income, Real Assets and Diversifying Strategies. Each category serves a specific role within the portfolio. An allocation to all four categories can provide diversification to major market risk factors while establishing a simple framework to review the exposures within the portfolio.

• Global Equity is intended to be the primary source of long-term capital appreciation for the portfolio. While having higher expected returns than fixed income, they also have higher expected volatilities. Outside of public equities, this area also includes semi-liquid hedged equity obligations.

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Continued from page 1

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– W. Quincy Brown

Futures is made possible by five Dayton Foundation

I Believe!

donor families who have stepped forward to become the 2014-2015 “I Believe!” Partners of The Dayton Foundation. Their commitment underwrites a full year of Dayton Foundation publications, thereby freeing resources for the Foundation's other community work.

“I Believe!” Partners: Denise K. & Richard (Rip) P. Hale, III, Lori A. Hausfeld, Barbara A. Hayde & Ronald F. Budzik, Jayashri & Ratna K. Palakodeti, M.D., Mary Kay & Richard H. Wick

• Global Fixed Income is intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities, and can be categorized as interest rate sensitive and credit sensitive.

• Real Assets are intended to insulate the portfolio from inflation shocks and provide a source of non-correlating returns with other asset categories. This area includes public investments in real estate, natural resources (e.g., commodities), and infrastructure (e.g., power generation or mid-stream energy Master Limited Partnerships “MLPs”).

• Finally, Diversifying Strategies are intended to provide diversification from systematic market risk, with the primary determinant of returns typically derived from manager skill (alpha) rather than the market (beta). Sub-categories include both liquid and semi-liquid non-directional strategies that seek low correlations to the public equity and fixed income markets.

Investment Portfolio Options

Within its Investment Policy Statement, The Dayton Foundation has established guidelines and procedures for how to invest. There are allowances as to how much may be invested in the respective categories. Today, the targets are generally 70% to global equity, 20% global fixed income and 10% diversifying strategies.

Although diversification may be the basis of the Foundation's portfolio, it is understood that some donors and their financial advisors are more comfortable with other approaches or desire special considerations. The Dayton Foundation has adopted addendum strategies

Make Clients' Charitable Giving Easier This Holiday Season

As a trusted advisor, your clients look to you for ways to give to their favorite charities during the holidays and throughout the year. Budgeting for these gifts and keeping track of receipts for tax time, however, can be a hassle. The Dayton Foundation makes it easier through their free Charitable Checking Account ServiceSM (CCA).

With a CCA, your clients may deposit cash when their budget allows or donate appreciated assets, such as stocks, into their account when it's most beneficial for them. They also can direct charitable grants, contribute to their fund and view their balance and gift history online through the Foundation's free, secure Donor Express system. Best of all it's free, and no minimum balance is required. Learn more at www.daytonfoundation.org/ccaservice or contact a member of the Foundation's Development staff at (937) 222-0410.

to accommodate these instances. Socially Responsible, Conservative Investment, Broad Large Cap & Fixed Income, Fixed Income and the new Catholic Values, among others, are included in these addendum strategies.

The unique structure of a Socially Responsible Portfolio seeks separate consideration in identifying appropriate investments that meet the selected socially responsible criteria. The asset allocation for the Conservative Investment Portfolio requires additional exposure to fixed-income assets to reduce the overall volatility of the portfolio and increase the generation of income. The Broad Large Cap & Fixed Income Portfolio is not required to have international and small-cap equity exposure. This portfolio follows the specified investment guidelines and restrictions of The Dayton Foundation's Investment Policy Statement but utilizes an asset allocation dedicated to large cap equities and fixed income. As the name suggests, the asset allocation targeted for the Fixed Income Portfolio is 100% exposure to fixed income investments within the parameters of The Dayton Foundation guidelines. The Catholic Values Portfolio is designed to adhere to the United States Conference of Catholic Bishops Socially Responsible Investment Guidelines and excludes investments in companies

that are involved in activities that run counter to the Catholic faith.

For over 25 years, FEG has been empowering institutions, including The Dayton Foundation and more than 50 other community foundations across the country, to achieve their goals through superior investment performance, objective insights and research. During this time, FEG has partnered with financial intermediaries to leverage resources toward all parties meeting their respective missions and desired outcomes.

To learn more about The Dayton Foundation investment strategies, contact Joseph Baldasare, vice president of Development for The Dayton Foundation, at (937) 222-0410 or at jbaldasare@daytonfoundation.org.

Note: Solutions will differ from case to case. The above does not constitute professional financial or tax advice.

W. Quincy Brown is a vice president and consultant with Fund Evaluation Group. He provides investment structure review, investment policy statement construction and revision, investment manager implementation, and review and ongoing performance monitoring among other services to nonprofit organizations. He also has been a featured presenter at industry conferences, including the Council for Advancement and Support of Education Conferences and Philanthropy Ohio.

Futures: Five-time national award-winning publication, Wilmer Shields Rich Awards, Council on Foundations

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