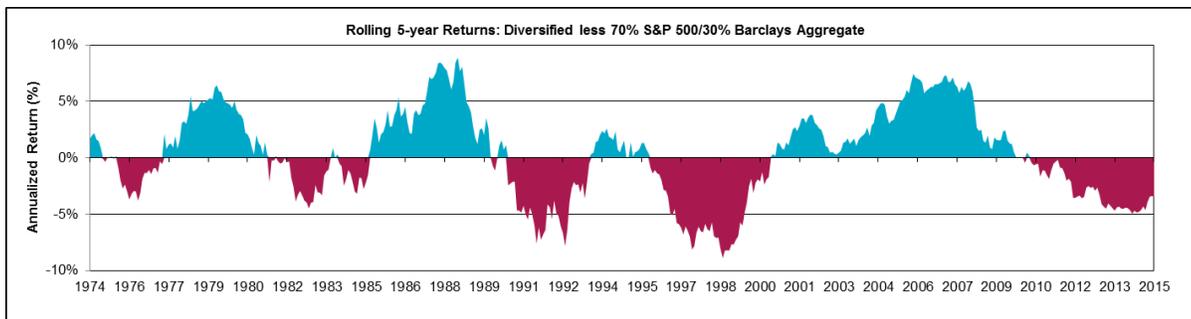


The Value of Diversification in Long-Term Investment Portfolios

The primary investment objective of long-term institutional investors, such as the Community Foundation, is to achieve a specified return over the long-term while taking a prudent amount of risk. In other words, the Investment Committee is responsible for choosing an asset allocation that is expected to generate a return (e.g., ~8%) over the long-term while minimizing the year-to-year volatility.

Why Is Diversification Important To Achieving This Objective?

Concentrating assets in a single asset class, such as US equity, may outperform a diversified portfolio during certain time periods. However, a well-diversified portfolio offers protection during turbulent markets and while a diversified portfolio may not outperform a benchmark or asset class in a given year, it is designed to take an appropriate amount of risk and achieve the long-term desired returns of the Community Foundation. In order to achieve those returns, the Investment Committee must strike the right balance between risk and return.



Note: Diversified Portfolio: 45% global stocks, 10% private equity, 5% real estate, 5% natural resources, 15% hedge fund of funds, 2.5% HY bonds, 2.5% LC EMD, 15% core fixed income. Source: Datastream, Capital IQ, HFR, Mercer

As displayed above, there are periods in which a diversified portfolio adds value over a less diverse mix of 70% stocks / 30% bonds and periods in which it does not. However over the long-term (45+ years), a diversified portfolio has outperformed the 70/30 mix while also experiencing less volatility.

The Community Foundation Portfolios

In the Long-Term Growth Portfolio, the Community Foundation invests across a range of asset classes, including public domestic and international equity, domestic and international fixed income, risk-reducing hedge funds, public real estate and private equity. In general, public and private equity exposure along with real estate provides long-term growth potential for the portfolio and mitigates long-term inflationary pressures. Fixed income and diversified hedge fund exposure helps to dampen overall portfolio volatility and provide sources of return with low correlation to traditional asset classes.

To accommodate the varying investment preferences of donors, the Community Foundation also offers an Indexed Growth Portfolio which invests in passive index funds and does not offer exposure to hedge funds or private equity and a Defensive Growth Portfolio that offers a relatively more conservative risk profile. Both of these portfolios are also appropriately diversified.

The prudent combination and position sizing of asset classes allows the Community Foundation portfolios to be appropriately exposed to different drivers of return in all market environments. The asset mixes of the portfolios change over time as the market environment changes and areas of opportunity are identified.