www.desmoinesfoundation.org
515.883.2626

INVESTMENT MANAGEMENT

Contributions made to the Community Foundation of Greater Des Moines are held in component funds and are pooled for investment purposes. A system of unitization, much like a mutual fund, allocates the total return of each portfolio to each component fund. These component funds represent a collection of the interests of individual donors and agencies who have united to increase the effectiveness and assure the future of charitable giving. Advantages of pooling funds include greater diversification of investments and access to investment vehicles that would not be possible for individual funds. This, in turn, provides for greater opportunities without increasing risk.

What is the Community Foundation's Investment Objective?

The Community Foundation's investment objective is to earn a return that allows donors to make a significant number and significant size of grants while maintaining the endowment's future purchasing power, taking into account inflation and expenses. The current target for total return (i.e., income plus increase in market value), varies by portfolios but is generally between 5.2 – 8.2% per year over the long-term net of investment expenses.

How is Investment Return Measured?

Investment return is measured by total return, which includes interest and dividend income, as well as realized and unrealized gains and losses less expenses.

What is the Role of the Investment Committee?

The Investment Committee is charged by the Community Foundation's board of directors to oversee the investment management of contributions made to the Community Foundation. The committee establishes target asset allocations for the portfolios, selects investment managers and monitors the investment performance of these managers. Committee members are volunteers with significant business and investment management experience. The Investment Committee has also engaged Mercer as an investment consultant. The Investment Committee meets quarterly. Between meetings, committee members and Community Foundation staff regularly confer with Mercer regarding investments.

What is the role of Mercer?

Mercer is a Chicago-based investment consulting firm which serves as a consultant to the Investment Committee. Mercer assists the committee in determining the asset allocation strategies for the portfolios, recommends investment managers to implement those strategies and monitors the performance of managers selected. They are an independent fiduciary, free of conflicts of interest.

How are Investment Managers Selected?

When the Investment Committee seeks a new investment manager for a particular asset class (domestic large capitalization stocks, for example), Mercer identifies managers with a three- to five-year outstanding track record for this asset class. Members of the Investment Committee and Community Foundation staff meet with Mercer to review each fund manager's organizational profile, investment philosophy, investment process, professional staff and investment performance in up and down markets. Based on this review, the Investment Committee selects the optimum manager or managers for the asset class allocation.

How is the Manager's Investment Performance Monitored?

Mercer provides detailed monthly reports on the performance of the portfolios and of each investment manager in the portfolios. At each quarterly meeting of the Investment Committee, Mercer provides an in-depth analysis of each manager's investment performance. This analysis includes comparisons against the appropriate benchmark and against the manager's peer universe. In addition, the Investment Committee monitors any organizational changes within an investment firm that may influence performance in the future and confirms that each manager continues to adhere to investment guidelines. In addition to these quarterly reviews, Investment Committee members, Community Foundation staff and Mercer may also confer informally about investment managers.

Does the Investment Committee Ever Change Fund Managers?

Yes. New managers are selected when the Investment Committee seeks greater depth in a particular asset class or when reductions to an allocation in an asset class is made. Reasons for dismissal of a manager include poor performance over a period of time, moving away from the investment discipline for which a given manager was hired, unfavorable changes in the organizational structure of the investment firm and loss of investment talent. However, given the rigorous process by which managers are selected and how consistently their investment performance is monitored and compared, the Investment Committee's practice is to retain a manager a minimum of three years. In other words, the fact that a manager does not have a good quarter, or even a good year, compared to the appropriate benchmark for that asset class does not in itself require dismissal.

Why are the Community Foundation Portfolios Invested in Different Asset Classes?

The Investment Committee has determined that greater return can be gained, with less risk, if the portfolio is strategically diversified among large, mid and small capitalization companies, public and private companies, international as well as domestic stocks, global as well as domestic bonds, various types of real assets and absolute return vehicles. The strategic mix of these asset classes represents the Community Foundation's asset allocation strategy.

Why Does the Community Foundation Have a Charitable Disbursement Rate, Rather Than Allowing Each Fund to Spend What is Earned in a Given Year?

The charitable disbursement rate, or spending rate, determines the dollar amount available for distribution annually. This methodology smoothes out the peaks and valleys that would be experienced if income and dividends earned (or not earned) by a fund were distributed each year. This is a strategy that has been adopted by most major endowments. The spending rate is currently five percent.

What Fees do Donors Pay to the Community Foundation?

Funds at the Community Foundation are assessed two fees, those for investment management and those for Community Foundation administrative costs. Investment management fees are those charged by our investment managers and are dependent on the investment portfolio selected. These professional consulting and brokerage fees are allocated pro-rata over all funds participating in each portfolio of the Community Foundation. Administrative fees are based on asset size and fund type.

Historical Rate of Returns

The Long-Term Growth Portfolio seeks maximum growth and controlled risk through a diversified portfolio of global stocks, bonds and alternative investment strategies.

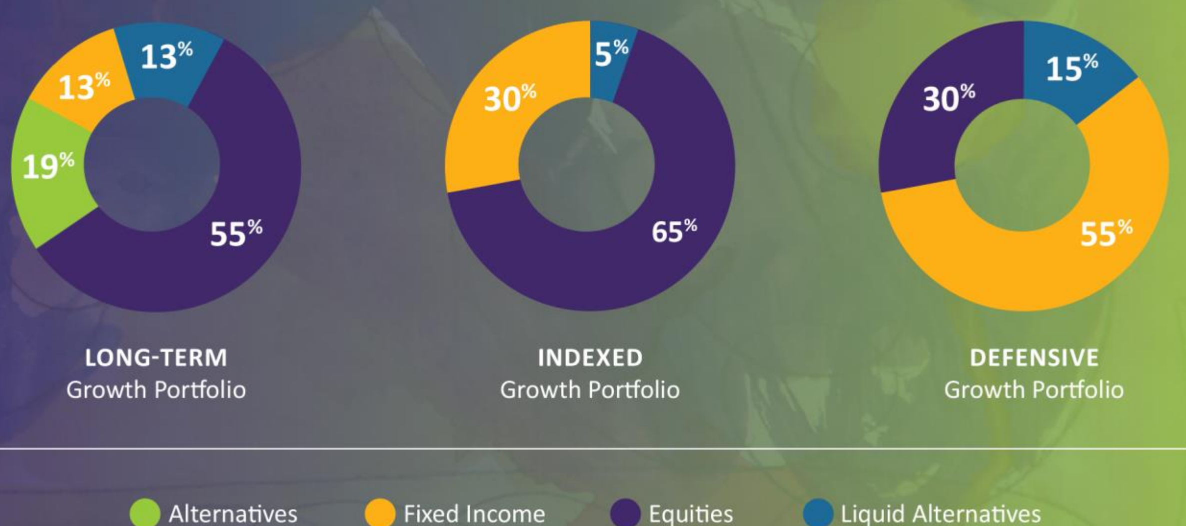
2012	2013	2014	2015	2016	Five-year Average Return
12.6%	13.2%	4.9%	-.8%	5.3%	7.0%

The Indexed Growth Portfolio seeks maximum growth primarily through indexed funds resulting in lower active management risk.

2012	2013	2014	2015	2016	Five-year Average Return
10.8%	13.5%	4.5%	-1.6%	6.2%	6.4%

The Defensive Growth Portfolio is designed for growth at a more moderate level of risk.

2012	2013	2014	2015	2016	Five-year Average Return
11.9%	7.3%	2.7%	-1.7%	3.6%	4.8%



What if I Have More Questions?

The Community Foundation's financial audits, form 990s and investment reports are available for public inspection at www.desmoinesfoundation.org or upon request.

For more information about investment management contact us at 515-883-2626