Greater Tacoma Community Foundation – Endowment Portfolio

**Portfolio composition**

- 59% Equity
- 11% Private Equity
- 16% Fixed Income
- 5% Real Estate
- 9% Liquid Alternatives

Local impact investments may represent up to 3% of the portfolio, spread across real estate, fixed income, and equity.

**Endowment Performance**

<table>
<thead>
<tr>
<th></th>
<th>Portfolio</th>
<th>Benchmark*</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd QTR</td>
<td>3.3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>YTD</td>
<td>3.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>1 Yr</td>
<td>7.5%</td>
<td>7.4%</td>
</tr>
<tr>
<td>3 Yr</td>
<td>9.7%</td>
<td>9.2%</td>
</tr>
<tr>
<td>5 Yr</td>
<td>6.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>10 Yr</td>
<td>6.6%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Inception (12/31/1999)</td>
<td>6.1%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Data as-of September 30, 2018. Source: Vanguard
*Returns are net of investment management fee
**Time weighted benchmark. Benchmark history available upon request.
3rd Quarter Overview

U.S. Equity markets continued to produce strong results

Propelled by 7.1% in gains in the third quarter, U.S. equities\(^1\) continued to outperform international markets\(^2\) by a wide margin as international stocks achieved only a modest 0.5% return for the 3 month period. For the quarter, large cap stocks turned in the best performance, with a 7.5% gain, while the mid-cap and small-cap\(^3\) equity segments each returned nearly 5%. Growth\(^4\) stocks outpaced their value\(^5\) counterparts for the quarter, returning 8.9% versus 5.4%, respectively. Over the past nine months, growth stocks continued their dominance as their 17% returns more than quadrupled the 4.2% results of value-oriented equities. The bull market in U.S. stocks persisted even as heated trade negotiations continued and the anticipation of higher inflation loomed. Continued strength in the U.S. equity market led to a 10.6% year-to-date return as large cap\(^3\) (+10.5%), mid-cap\(^4\) (+7.4%), and small-cap\(^5\) (+11%) stocks all contributed to the advance. In the international markets, the effects of new trade agreements, uncertainty surrounding Brexit, and a stronger U.S. dollar contributed to just a 1.1% return for developed markets for the third quarter. The year-to-date results were also lackluster as developed markets fell -1.8%. Emerging markets\(^6\), which were also affected by the stronger dollar and rising oil prices, returned -0.8% for the third quarter, and -7.6% on a year-to-date basis. Market participants continue to be concerned with high debt levels and potential volatility in certain emerging market regions.

Higher rates produced flat results for the broad bond market

The yield on the benchmark ten-year Treasury note rose from 2.85% at the end of June to 3.05% by the end of the third quarter. The Treasury yield curve continued to flatten as another Federal Reserve rate hike in September sent the shorter end of the curve upwards. Intermediate and long-term interest rates rose much more slowly based upon the expectations for future economic growth and inflation. The spread between the yields of the two-year and ten-year Treasury notes tightened to an extreme 18 bps (0.18%) on August 27\(^{th}\), and finished the quarter at 24 bps. The broad U.S. fixed income market\(^10\) returned 0.03% during the third quarter, and -1.6% year-to-date as bond prices fell in response to the rising interest rate environment. Both U.S. Treasury bonds\(^11\) and credit bonds\(^12\) suffered losses on a year-to-date basis, returning -1.7% and -2.1%, respectively. However, credit bonds outpaced Treasury securities in the third quarter, returning 0.9% versus the broad Treasury benchmark mark of -0.6%. High yield bonds\(^13\), much more sensitive to economic conditions, outpaced the other areas of the fixed income market, returning 2.4% for the quarter and 2.6% year-to-date. In the international fixed income arena, a stronger dollar hurt the returns of unhedged bonds\(^14\) as they fell -3% through September. Their currency-hedged counterparts\(^15\) fared better as evidenced by their 1.3% returns during the same period.

Final thoughts

Vanguard continues to urge investors to remain disciplined and globally diversified and to arm themselves with reasonable return expectations and low-cost strategies. Vanguard Chief Investment Officer, Greg Davis, summarized our forecast in a recent article, “Bond returns are likely to remain modest and U.S. equities also face some headwinds due to high valuation levels, which translate into subdued return expectations for the next decade. For all the contrast between the performance of the economy and market returns over the past ten years, we may be heading into a period of lower portfolio returns over the next ten years. A global balanced portfolio may return between 3% and 5% after accounting for inflation, compared with a historical return of around 7%.”


Benchmark History

Endowment History

From inception through 7/31/2013, the benchmark is represented by 32% S&P 500 Index, 3% Russell Midcap Index, 3% Russell 2000 Index, 11% MSCI EAFE Index, 2% MSCI Small Cap EAFE Index, 8% MSCI Emerging Markets Index, 22% Barclays U.S. Aggregate Bond Index, 3% Barclays U.S. TIPS Index, 6% DJ/CS HFI Long/Short Equity, 3% DB Liquid Commodity Index–OY Div., 7.00% U.S. T-Bill + 3%. From 8/31/2013 to 9/30/2016, the benchmark is represented by 10% S&P 500 Index, 5% Russell Midcap Index, 5% Russell 2000 Index, 10% MSCI EAFE Index, 2% MSCI Small Cap EAFE Index, 8% MSCI Emerging Markets Index, 18% Barclays U.S. Aggregate Bond Index, 2% Barclays U.S. TIPS Index, 5% DJ/CS HFI Long/Short Equity, 7.50% Bloomberg Commodity Index, 7.50%, 20% U.S. T-Bill + 3%, 7.5%, FTSE EPRA/NAREIT Global Index. From 10/1/2016 through 6/30/2018, the benchmark is represented by 40% Spliced Total Stock Market Index, 26% Spliced Total International Stock Index, 10% Spliced Bloomberg Barclays US Agg Float Adj Ix, 4% Bloomberg Barclays GA ex-USD FIAj RIC Cplx Hgd, 10% REIT Spliced Index, 5% Citi 3 month Treasury Bill, 5% FTSE 3-month U.S.T-Bill Index + 4%. Thereafter, the benchmark is represented by 40% Spliced Total Stock Market Index, 26% Spliced Total International Stock Index, 10% Spliced Bloomberg Barclays US Agg Float Adj Ix, 4% Bloomberg Barclays GA ex-USD FIAj RIC Cplx Hgd, 10% REIT Spliced Index, 10% Citi 3 month Treasury Bill.

Note: Inception date of MSCI Small Cap EAFE Index total return series is 1/31/2001, prior to that the price only series was used.