GOELZER
INVESTMENT MANAGEMENT

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The Importance of a Strong IPS in Times of Crisis

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Developing Strong Investment Policies

2020 Market and Covid-19 Crisis

- Sharp Market Declines
  - S&P 500 Dropped 20% in just 16 days marking a dramatic end to the historic bull market.
  - Most institutional non-profit investors saw their portfolios drop by 8% to 17% during the first quarter*.

- Operational Issues
  - On top of that, many Foundations were ordered to close operations and work from home

- Health Concerns
  - The nature of the virus also posed a real threat to personal health and safety of staff and the community

- Increased Community Need
  - The direct impact to the local communities caused an immediate need for economic resources to be established and distributed in a rapid fashion.

- Ongoing Uncertainty
  - Going forward, the economic uncertainty will likely result in more volatile markets and could directly impact future fundraising and spending.

"What should we be doing with our investments?"

* Source: Callan NonProfit Database 1Q2020 Capital Market Review

Think Long-Term and Process (not short-term and outcome)

What happens when you make short-term decisions with long-term capital?

- Constantly change your strategy and chase past performance
- Reactive vs. Proactive
- Incur higher fees and opportunity costs
- Lose sight of goals and time horizon
- Portfolio is built to withstand the last war, NOT to win the next one

THE IMPORTANCE OF A STRONG IPS IN TIMES OF CRISIS

What Can (and Should) You Be Doing?

- Direct Attention to the Investment Policy Statement
  - A strong Investment Policy Statement should document the “Game Plan” for action in all market environments.
- Prepare in Advance
  - The Strategic Planning that occurs in developing a strong IPS should prepare the portfolio for the “what if” scenarios.
- Focus on what you can Control
  - A key determinant of success is not WHETHER to respond but HOW to respond - focusing decisions on what we can control.
- Be Disciplined
  - Disciplined EXECUTION of the Strategic Plan is the priority and will ultimately lead to attainment of long-term objectives.

A Strong Investment Policy Statement

The IPS is NOT:

- A "one size fits all" document that looks the same for every investor
- A document that should change frequently
- A crystal ball for predicting the markets
- A black and white measure for making granular investment decisions
- An encyclopedia of investment answers for every future outcome

A Strong IPS promotes:

Rational Thinking	*Confident Decisions*	*Clear Communication*
Encourages decisions to be made based on long-term measures versus short-term emotions Recognizes risks in the portfolio and describes the actions taken to mitigate those risks	Eliminates the need for second-guessing Promotes making the best decisions regarding the portfolio based on the information at the time	Clearly defines the roles and responsibilities of all parties States reasonable expectations of portfolio outcomes in advance

A Strong IPS protects the portfolio from ad hoc revisions of a sound long-term policy

Drivers for Making Changes to the IPS

What may drive a prudent change to the IPS

- Change in long-term objectives or Spending needs
- Change in Risk Tolerance – Lack of ability to withstand short-term losses
- Change in Time Horizon – Significant, unanticipated change in Cash Needs
- Significant Inflows or Outflows

What should not drive a change to the IPS

- An attempt to avoid large losses after they have already occurred
- Change in Board or Committee members
- Change in vendor or provider to the Plan (i.e. Inv. Manager)
- A change in policy of a peer (other Foundation)

Developing a Crisis Game Plan

Developing a Crisis Game Plan

PROCESS FOR DEVELOPING A CRISIS GAME PLAN

1 *Identify the Risk*	2 *Quantify the Impact*	3 *Identify Mitigation Strategies*	4 *Build the Game Plan*	5 *Review the Plan Frequently*
Define the Risk What will disrupt your objectives: *Short-term & Long-term*	Examine the potential outcomes Evaluate the importance: Magnitude of damage Likelihood of occurrence	How to respond effectively to each scenario What steps are required to resolve the crisis What resources are needed Who is involved	Document roles and responsibilities Define the frequency of communication	Ensure all parties are informed of the Plan Stress Test the Plan

THE IMPORTANCE OF A STRONG IPS IN TIMES OF CRISIS

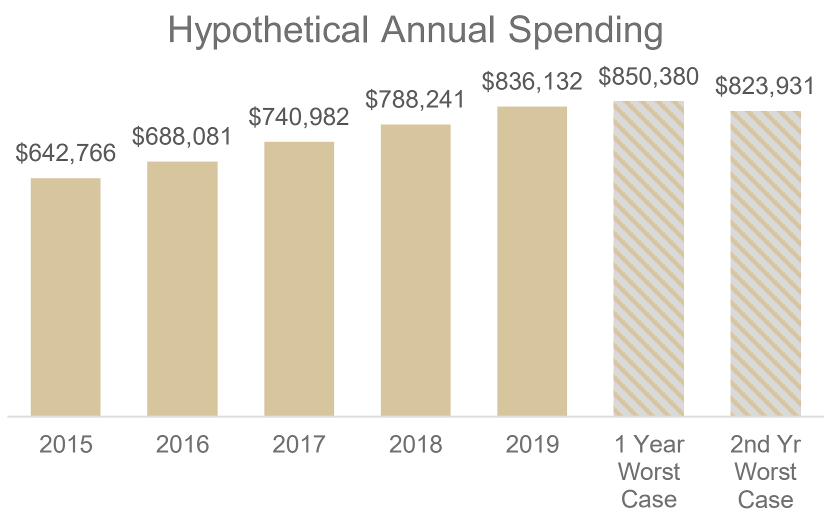
Identify the Risk

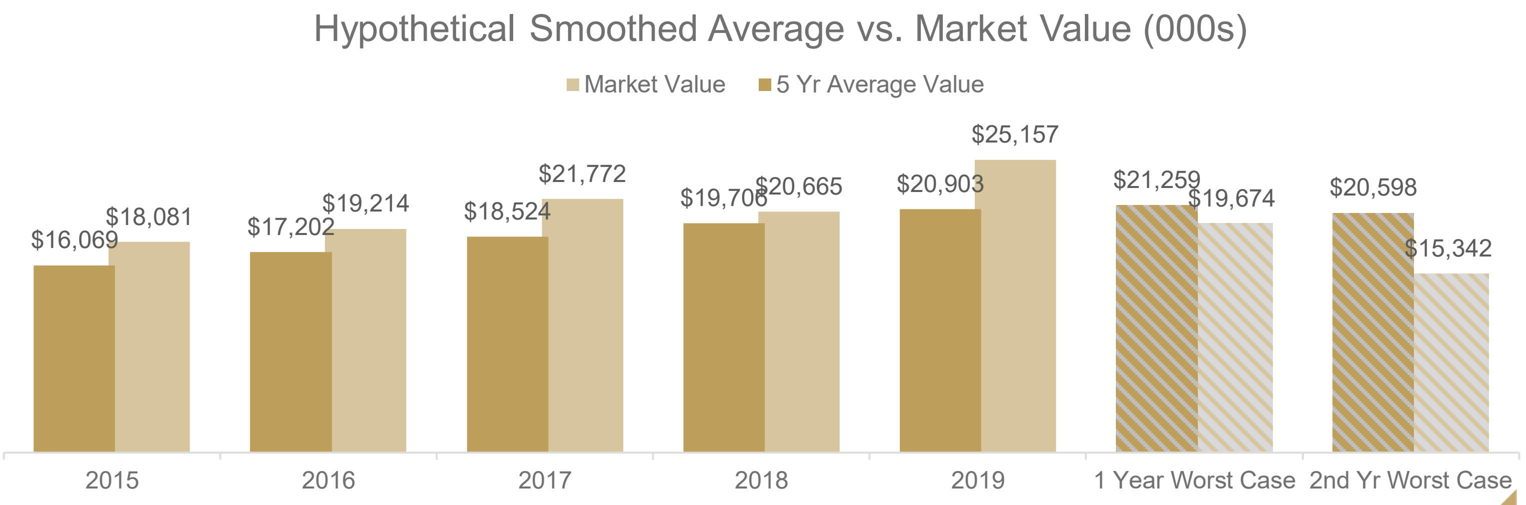
Sharp Short-term Portfolio Losses

- Short-term volatility should be anticipated
- Identify worst case scenarios
- Study the short-term and long-term impact
- Identify mitigation strategies

SAMPLE PORTFOLIO STATISTICS

EXPECTED RETURN	One Year	6.4%
	Time Horizon	5.9%
EXPECTED RISK (STRATEGY)	One Year	9.8%
	Time Horizon	1.8%
WORST CASE RETURN (ANNUALIZED)	One Year	-15.5
	Time Horizon	2.5%
PROBABILITY OF NEGATIVE RETURN	One Year	26.7%
	Time Horizon	0.0%

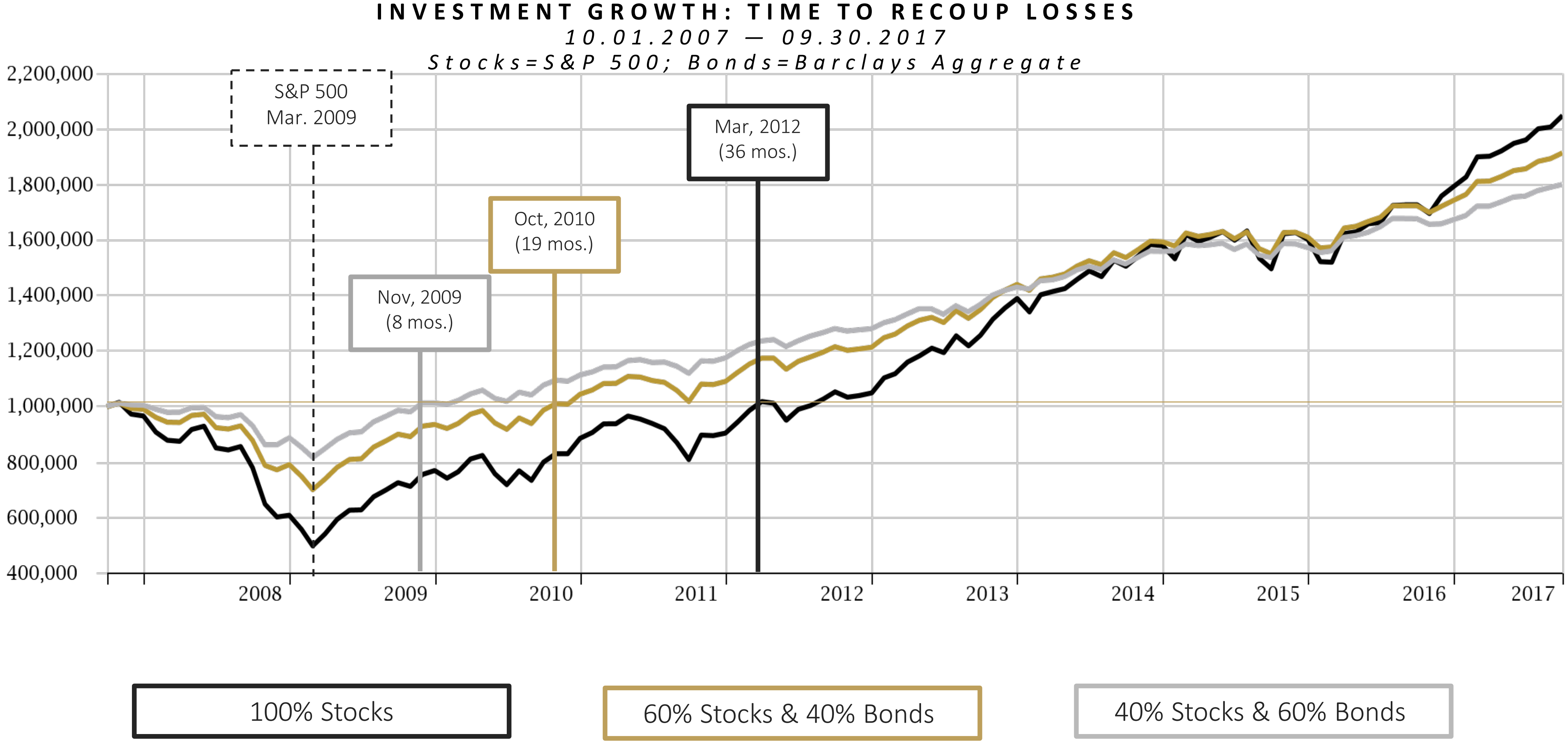




Mitigation Strategies – Diversify Portfolio Assets

Diversified Asset Allocation

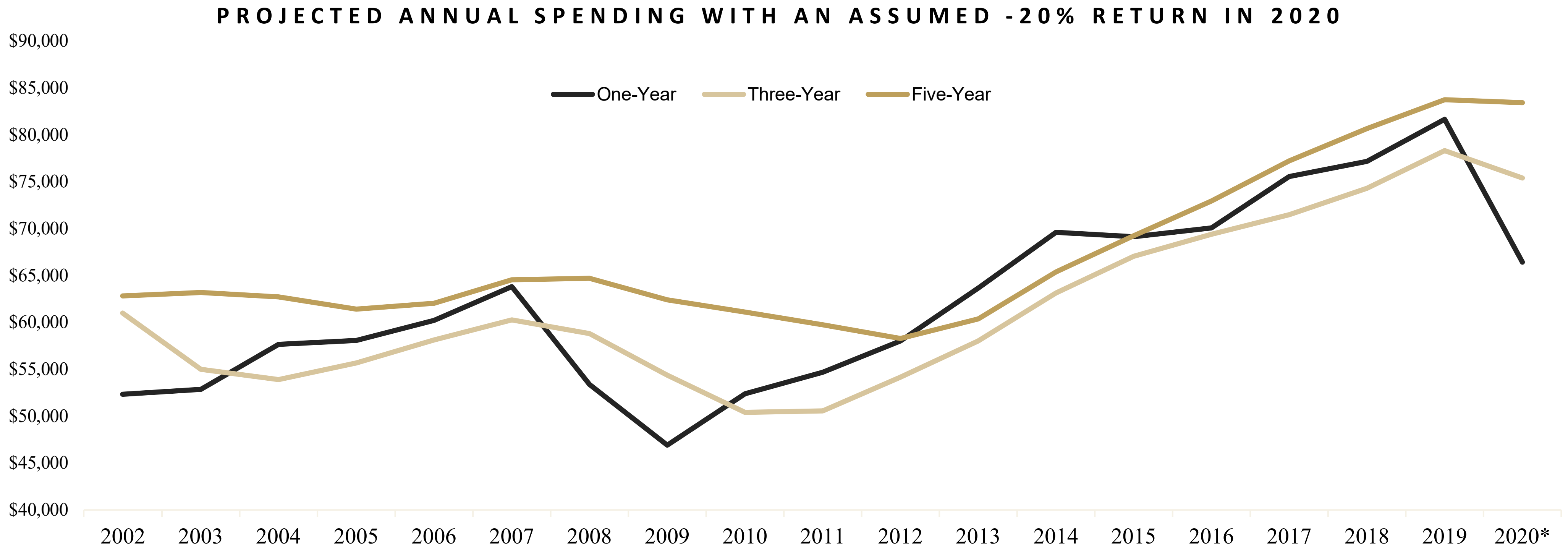
- Diversified Portfolios tend to recover faster due to the downside protection provided by less volatile, uncorrelated asset classes



Mitigation Strategies – Smoothed Spending Policy

Spending Policy and Smoothing Methods

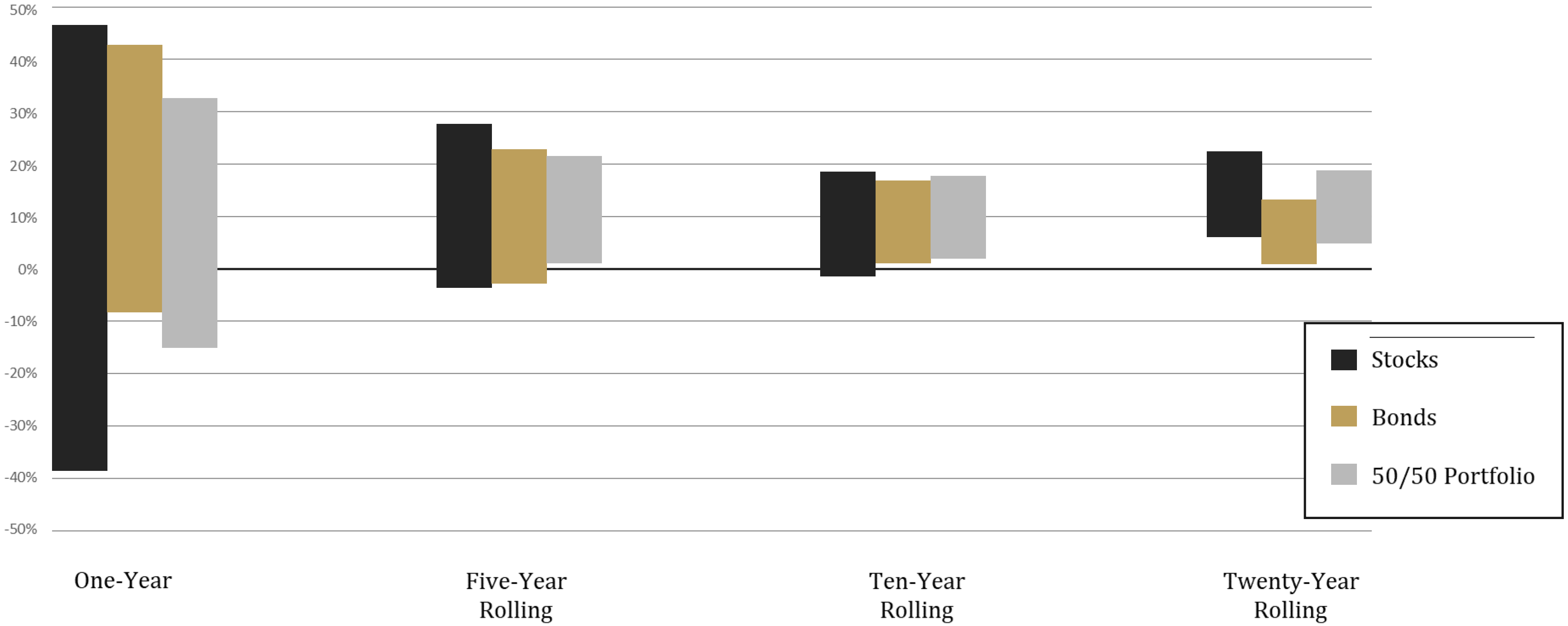
- Applying a smoothing rule to your annual spending mitigates the effects of dramatic negative returns and allows for more consistent spending during periods of market stress



Mitigation Strategies – Long-term Time Horizon

- Investors with longer time horizons can support increased allocations to Equities despite the potential for larger fluctuation in the short-term.

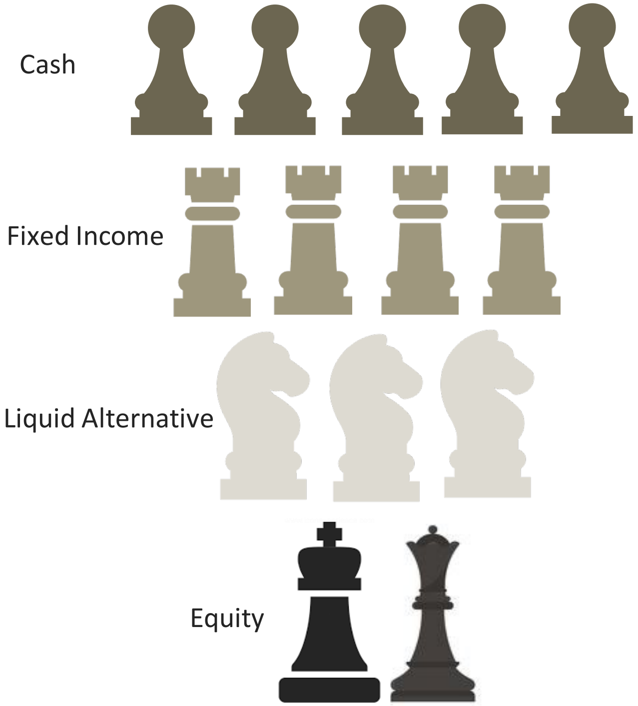
RANGE OF STOCK, BOND, AND BLENDED TOTAL
ANNUAL TOTAL RETURNS, 1950-2019



Source: JP Morgan Guide to the Markets, Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.

Mitigation Strategies – Portfolio Liquidity

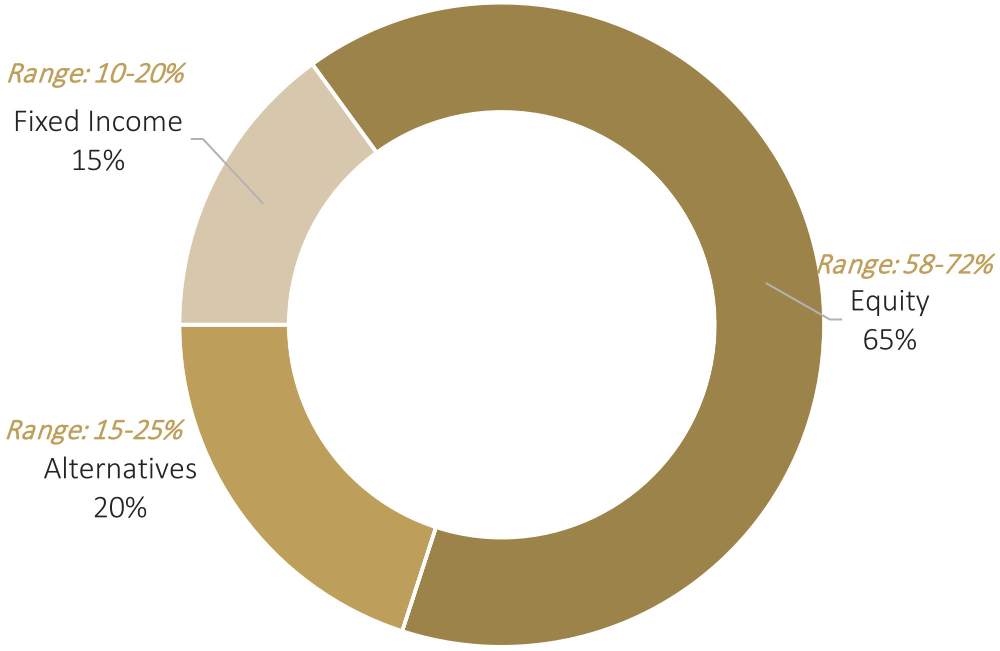
- Fixed Income and Cash components can serve as the front line in providing liquidity in extreme market periods.

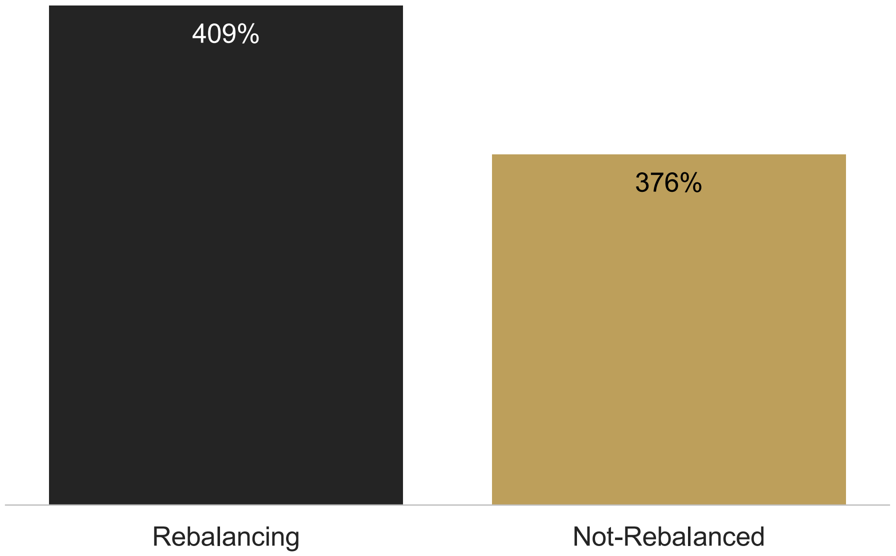


Mitigation Strategies – Rebalancing and Execution

- Rebalancing the portfolio when asset classes exceed min/max ranges enforces selling high and buying low behavior
- Additional value can be added with the Execution of Rebalancing.
  - Hitting the exact low is not probable.
  - Bear markets tend to drop in phases calling for rebalancing to occur in stages.
  - Assurance of liquidity and functioning markets should be monitored

JANUARY 1998 — DECEMBER 2019





Source: Goelzer Investment Management
Portfolio is rebalanced back to original target once the upper or lower band is violated for any of the asset classes listed above.
Equities are represented by the Russell 3000 Index, Fixed Income by the Bloomberg Barclays Aggregate Index and
Alternatives by the Barclay Hedge Fund Index.

Review of Game Plan – Roles and Responsibilities

A documented Game Plan reduces the need to react in a manner that adversely impacts the Plan allowing everyone to focus on the task at hand.

Goelzer Investment Management

- Monitor markets for liquidity, efficiency, and fiscal/economic support.
- Notify the Committee if there are concerns with effectively executing the Investment Policy.
- Rebalance at opportunistic times based on our evaluation of the extent of the economic downturn.
- Look for opportunities created due to market disconnects.
- Monitor the underlying investment managers – Asset Loss, Performance deviation; etc.

Finance Committee

- Stay on Course with the Strategic Plan, avoid reactionary decisions when possible.
- Follow the guidance of the Investment Policy Statement
- Communicate any changes in circumstance (i.e. Spending, Time Horizon, Risk Tolerance, or Liquidity needs).
- Recognize that there could be additional needs required of the portfolio given the extenuating circumstances.

Manager Evaluation in Times of Crisis

Investment Manager Evaluation

Including expectations in the IPS establishes a mutual understanding of both parties in advance

- Understand the manager's role in the portfolio
- Judge over/under performance with the appropriate perspective
- Avoid terminating a manager based solely on short-term underperformance

Which Manager Would You Choose?

Long-term		Short-term
Manager A		*Manager B*
Beat the index by 5% over the last 5 years (cumulative) Beat their median peer by an average of 1.8% per year over the last 15 years Downside Capture Ratio is 64% of the index over the last 10 years	It is the same Manager	Ranked in the worst quartile of peers in 13 out of 28 quarters Trailed the median peer in 15 out of 28 quarters Standard Deviation last year 170 bps higher than index Trailed the index by more than 10% in one year

Investment Manager Evaluation

Potential factors that may lead to manager termination

Qualitative Evaluation

- Organizational or Personnel Changes
- Changes in Philosophy or Process
- Unexplained performance relative to peers or index (both over and under)
- Sudden Loss of Assets in Strategy
- Inability to articulate strategy or next course of action

Quantitative Evaluation

- Long-term Returns relative to index and peers below what is expected given strategy and market environment
- Risk (Standard Deviation) relative to index and peers is higher than expected over a full market cycle
- Active return is not consistent with the stated strategy or process

Thank you

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