

Ventura County Community Foundation

November 2011

Open Investment Committee Presentation



FY 2011

- **Market Volatility**
 - Volatile national and international markets - wider swings of markets - implications
 - Ongoing review of managers
 - Expand the opportunities for long term growth, including more international exposure in private and public investments
 - 6 year asset allocation targets reached early; committee is reviewing new long term targets –
 - More education & transparency with local NFPs
 - Commitment to long term capital growth to benefit Ventura County

Volatile & Changing Markets

- VCCF strategies – focus on long term growth of capital in excess of annual distribution, inflation and fees
- Attention to near-term market swings and long term outperformance
- Which sectors are driving the market – diversification the key to long term growth within acceptable risk levels
- Consistent oversight of managers, performance and markets

Regulatory Framework Guiding Endowments

- UPMIFA guidelines frame strategies:
 - Prudent levels of distributions not exceeding 7% (before investment costs)
 - Balance need of donors for distribution with preserving long term endowments
 - Explicit donor prohibition for principal invasion will trump
 - Donor intent remains key
 - Investment policy reflects fiduciary responsibility
- VCCF board reconfirms distribution policy framework based on % of core historic value

Education/Transparency

Ongoing transparency/dialog with donors and beneficiaries

- Ongoing sharing of results and relative performance
- Ensure principal invasion prohibition honored
- August notification of available balances
- Scholarship fund donors notified in September for additional contributions if needed
- New CNL classes for donors/nonprofits:
- Endowments, Building an Investment Policy
- VCCF fund performance on line –
- November open committee meeting

VCCF Oversight of Endowments

Oversight rests with VCCF Board of Directors

Investment Committee meets at least six times per year, and often more frequently

Current members include:

- Robert Katch, Chair
- Pierre Tada, VCCF board chair
- Stacy Roscoe, VCCF board member
- Richard Shipley, Former VCCF board member
- Drew Brahos, portfolio manager, SB Bank & Trust

- Consultant: D. Robinson Cluck, Canterbury Consulting

Staff:

- Hugh Ralston, VCCF President & CEO
- Clare Brown, Vice President/Controller

Oversight of Policy & Managers

- Investment Committee's first responsibility:
 - Manage the managers and replace where appropriate
 - Review and monitor the asset allocation targets
 - Explore other managers as appropriate
 - Evaluate absolute and relative performance and trends
 - Review distribution policy amid portfolio expectations for growth
 - Evaluate economic conditions and best opportunities for long term investments
 - Make recommendations to VCCF board

Long Term Allocation Strategies



Update Review of Asset Allocation Targets

Asset Allocation – single most important factor in portfolio performance

2006 – Reviewed prior five years and set new long term allocation, with focus on:

- Diversification of managers
- Long term alternatives for higher net returns and lower volatility
- Expanding international exposure
- Broadening private capital
- 5 year plan set in motion
- Managers increased from 6 to 25
 - 2007-09 Market declines accelerated some targets range
 - Focused on finding good manager, balancing risk/exposure to key market segments and build higher returns
 - Long term commitment to expand alternatives as appropriate

2011 - Time to review the long term targets – still valid?

Asset Allocation: Game Plan

	VCCF 2006 Target	Phase 1 – 12/31/06	Phase 2 – 12/31/08	Phase 3 – 12/31/10	09/30/11 Actual	LT Target Allocation
Domestic Equities	45.0%	45.0%	40.0%	35.0%	32.1%	35.0%
International Equities	17.5%	17.5%	20.0%	20.0%	17.7%	20.0%
Fixed Income	27.5%	27.5%	25.0%	20.0%	18.8%	15.0%
Hedge Funds	7.5%	7.5%	10.0%	15.0%	16.9%	20.0%
Private Capital*	2.5%	2.5%	5.0%	10.0%	14.0%	10.0%

*Includes Venture Capital, Leveraged Buy-Out, Mezzanine, and Distressed.

VCCF – A Long Term Investor

- VCCF remains committed to its core competency: Managing endowments for long term capital growth so that annual distributions – after fees and inflation – still permit capital growth through market cycles.
- VCCF believes that risk adjusted diversified portfolios provide the best opportunity to achieve those goals than all other options that others may offer and/or consider
- VCCF's endowment policies are different from Retirement and/or individual strategies – different risk threshold/different time horizon/different goals

Distributions to Make Sense Over the Long Term

- Market timing rarely works consistently and often involves great risk to the portfolio's future value. We don't believe in it – and we are not good at it.
- Total return works to the benefit of the beneficiary as well as to the donor – it provides smoothing of annual distributions while preserving capital. This is particularly true in volatile markets
- In 2000-2010, total return distributed more than 'income', to benefit the nonprofit – adjusting the % allows preservation of long term capital and future distributions.

Consistent Long Term Performance

VCCF Fiscal Year Ends September 30							
	FY 2012 Last Month As of 10.31.11	Last Quarter As of 9.30.11	Fiscal Year 2011 As of 9.30.11	Fiscal Year 2010 As of 9.30.11	Last 3 Fiscal Years FY 2008-2011	Last 5 Fiscal Years FY 2006-2011	Last 10 Fiscal Years FY 2001-2011
VCCF	8.0	(12.1)	(1.6)	11.0	4.8	2.3	5.9
Policy Index	7.2	(9.6)	0.8	9.4	3.9	1.7	4.9

Since inception, portfolio returns are 7.7% net of fees, vs. policy index of 7.0%

*Portfolio returns reflect the VCCF endowment funds net of fees. Fiscal year ends September 30, 2011. The Policy Index is 50% Russell 3000 / 15% MSCI EAFE After Taxes (MSCI ACWI ex. US after 6/30/11)/ 35% Barclays Capital Aggregate Bond.

Performance record vs. All Master Trust (<\$1 billion in assets) (gross of fees):

5 year performance	26th percentile
10 year performance	10th percentile
Since inception	33rd percentile

Segment Performance FY2011

	Fiscal YTD 2011	Last 3 Fiscal Years	Last 5 Fiscal Years
Total Fund Composite	(1.6)	4.8	2.3
Policy Index	0.8	3.9	1.7
Domestic Equity Composite	(3.1)	1.4	(1.1)
Russell 3000 Index	0.5	1.5	(0.9)
International Equity Composite	(14.8)	0.2	(1.1)
MSCI EAFE (net)	(9.4)	(1.1)	(3.5)
Fixed Income Composite	0.7	10.2	8.0
Barclays Capital Aggregate	5.3	8.0	6.5
Hedge Fund Composite	(0.3)	2.9	0.7
HFRI Fund Weighted Index	(0.7)	4.2	3.2
Private Equity Composite	25.2	10.8	10.8

Segment Performance FY2011 By Quarter

	Fiscal Year 2011: Q1 (as of 12.31.10)	Fiscal Year 2011: Q2 (as of 3.31.11)	Fiscal Year 2011: Q3 (as of 6.30.11)	Fiscal Year 2011: Q4 (as of 9.30.11)
Total Fund Composite	6.4	4.4	0.8	(12.1)
Policy Index	6.3	3.8	1.0	(9.6)
Domestic Equity Composite	12.9	6.9	(0.7)	(19.2)
Russell 3000 Index	11.6	6.4	0.0	(15.3)
International Equity Composite	5.8	2.9	0.7	(22.3)
MSCI EAFE (net)	6.6	3.4	1.6	(19.0)
Fixed Income Composite	(0.5)	1.5	1.8	(2.1)
Barclays Capital Aggregate	(1.3)	0.4	2.3	3.8
Hedge Fund Composite	3.4	2.4	0.0	(5.9)
HFRI Fund Weighted Index	5.3	1.7	(0.9)	(6.5)
Private Equity Composite	5.9	7.9	5.0	4.3

* VCCF Fiscal Year Ends September 30th.

VCCF – An investment leader among US Community Foundations

- VCCF ranked in top 11 Community Foundations in long term performance from 2005-2010
- Annual performance of community foundations tracked by Council on Foundations for members
- VCCF ranked #8 of 90 CFs for 10 year record, # 3 in peer group (of 28) and 11th of 55 for 15 year performance – as of June 2011
- Against median for US CF (5.27%), VCCF record ‘captures’ \$ 1.3MM in value for VC nonprofits at \$100 MM asset size



What is Driving the Market Now?

D. Robinson Cluck
Chairman, Canterbury Consulting

November 15, 2011



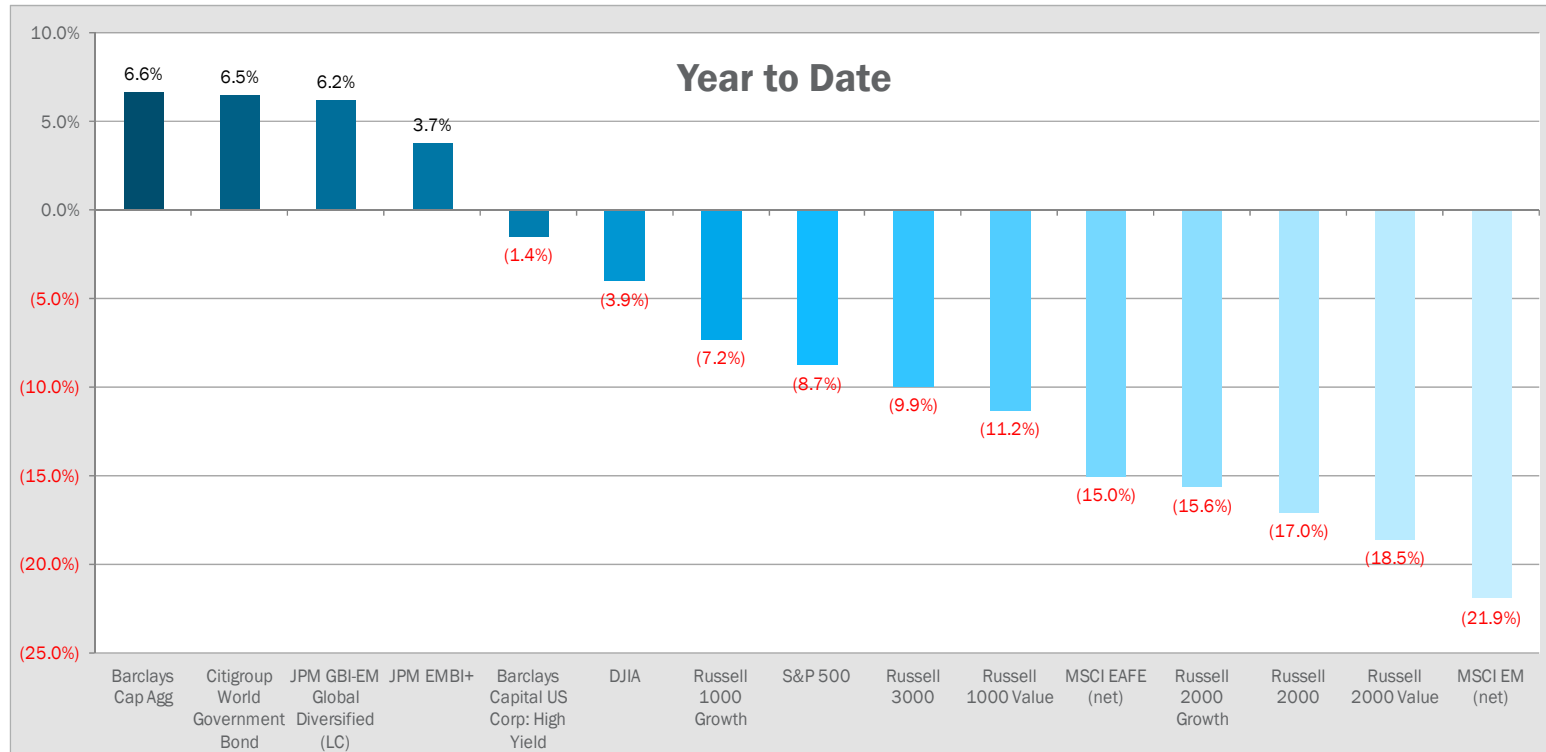
Negative headlines and macroeconomic headwinds increased volatility and put downward pressure on equity markets in the Third Quarter

- Despite the first wave of bailout packages for Greece and Portugal, governments in Europe have thus far failed to put forward an actionable plan to resolve the Eurozone sovereign debt situation and fears are growing that the crisis will spread to European banks and businesses
- Confidence in the United States Congress waned while the Democrats and Republicans, publicly and ineffectively, battled over raising the national debt ceiling - this fiscal ineffectiveness partially led to Standard & Poor's historic downgrade of debt issued by the United States
- Macro fears and mixed economic data reignited fears of a double-dip recession in the United States as forecasters lowered estimates of real GDP from 2.3% to 1.5% for 2011 and 2.5% for 2012 according to the Congressional Budget Office
- Emerging markets were broadly negative as concerns grew about whether developing economies, especially China, would decelerate into a "hard" or "soft" landing
- The Federal Reserve initiated Operation Twist in which it announced its intention to sell shorter-term fixed income securities and purchase longer-term securities (those with 6 year to 30 year maturities) in an effort to flatten the yield curve keeping long-term interest rates low - with the effect of making assets such as homes and stocks more attractive than cash and bonds

	QTD	YTD
S&P 500	(13.9%)	(8.7%)
Barclays Capital Aggregate	3.8%	6.6%
MSCI EAFE (net)	(19.0%)	(15.0%)
MSCI Emerging Markets (net)	(22.6%)	(21.9%)

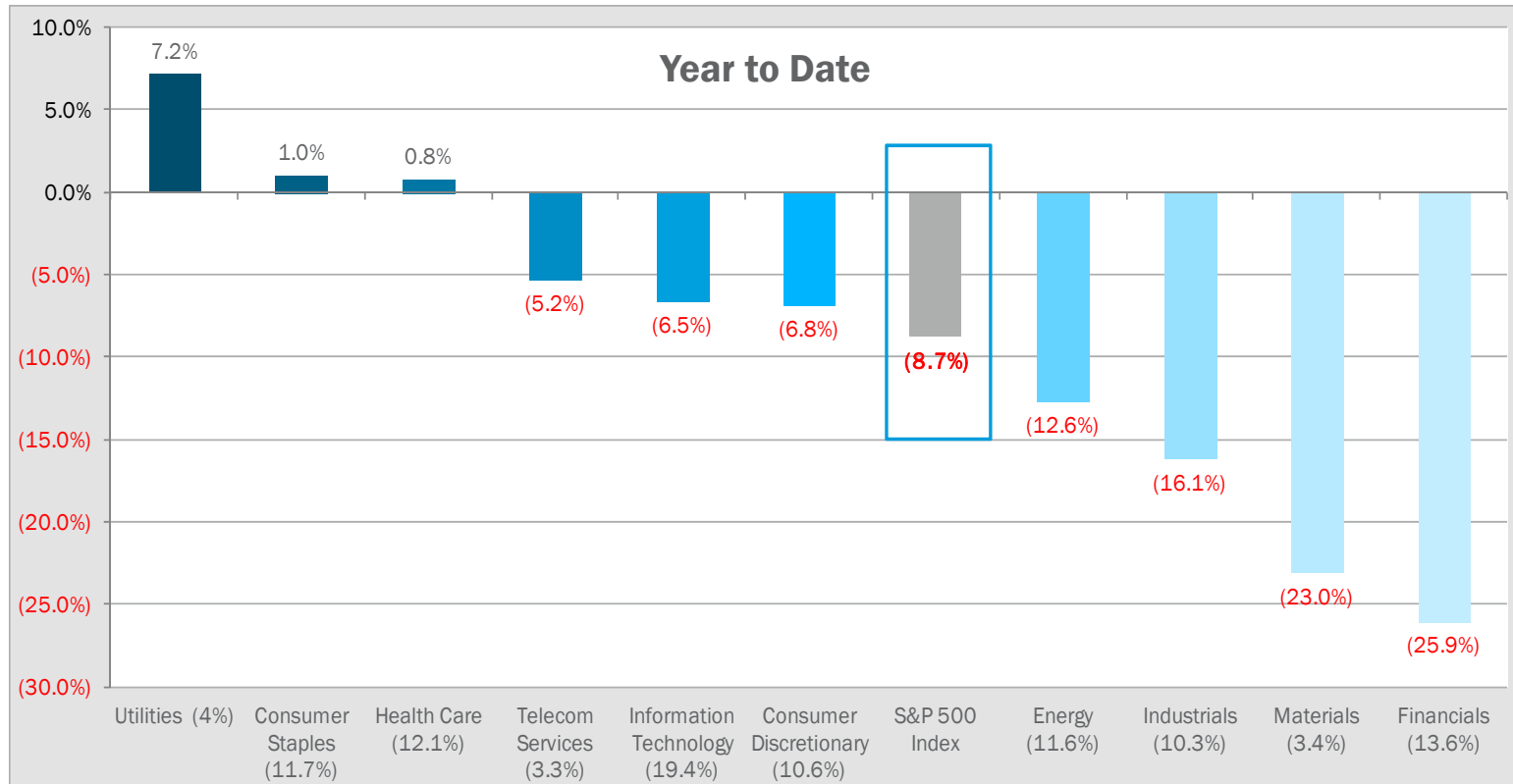


INDEX RETURNS



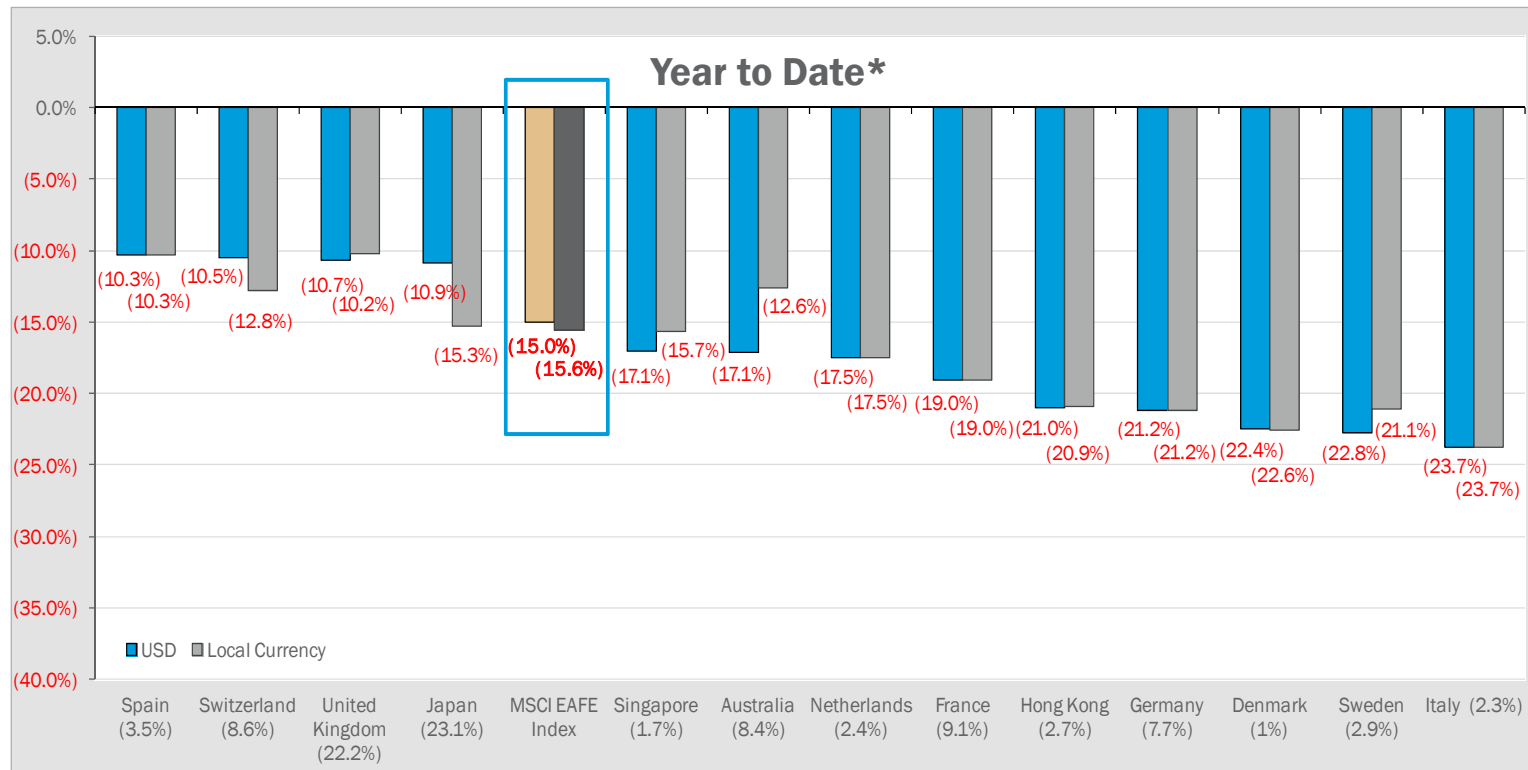


S&P 500 INDEX SECTOR RETURNS





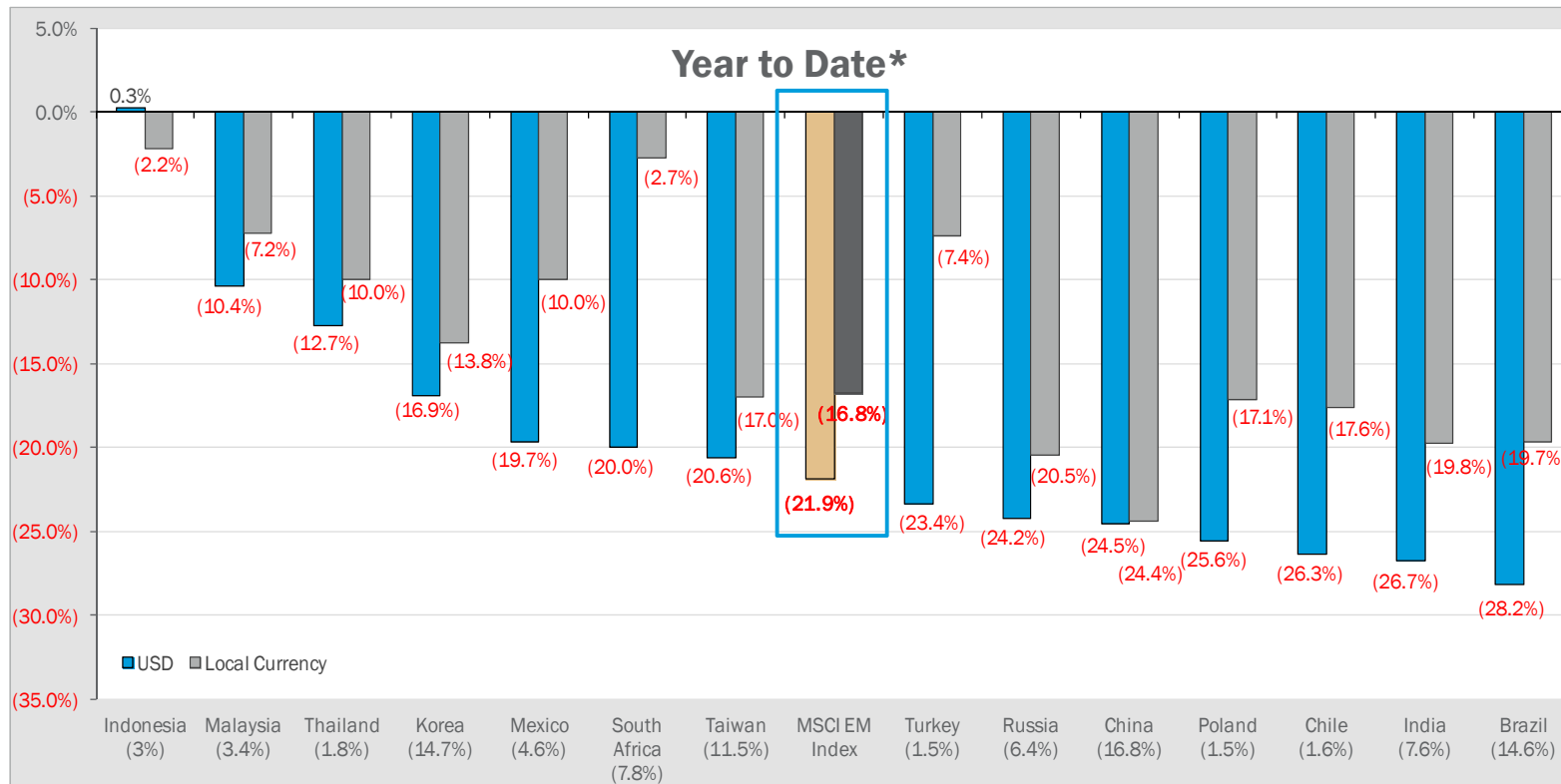
INTERNATIONAL EQUITY RETURNS: Developed Markets



*Countries with weightings less than 1% are not shown



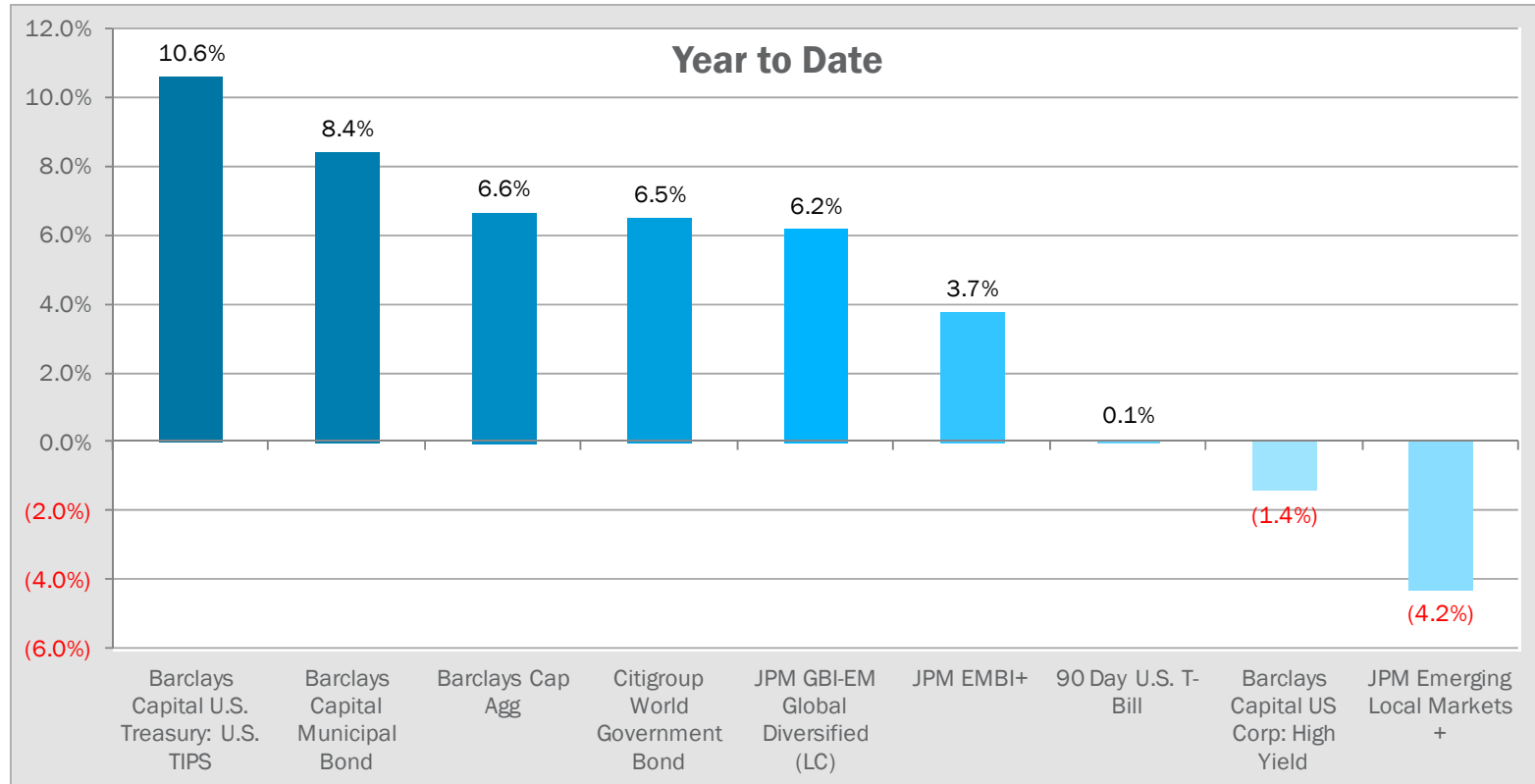
INTERNATIONAL EQUITY RETURNS: Emerging Markets



*Countries with weightings less than 1% are not shown

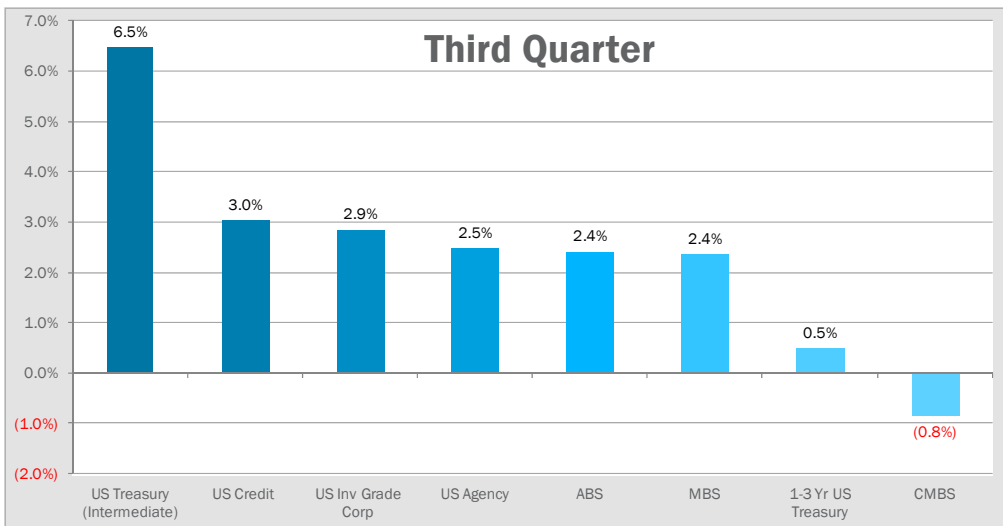


FIXED INCOME INDEX RETURNS

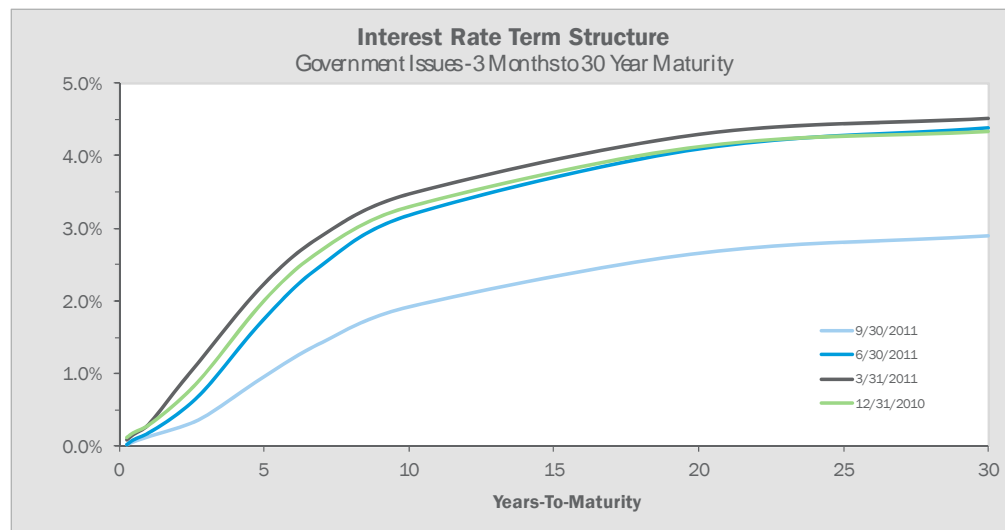
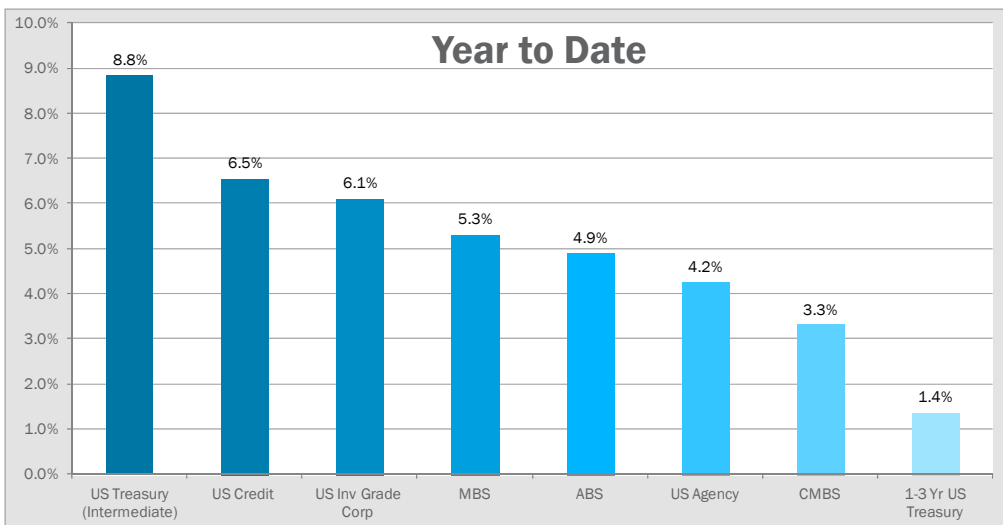




FIXED INCOME SECTOR RETURNS

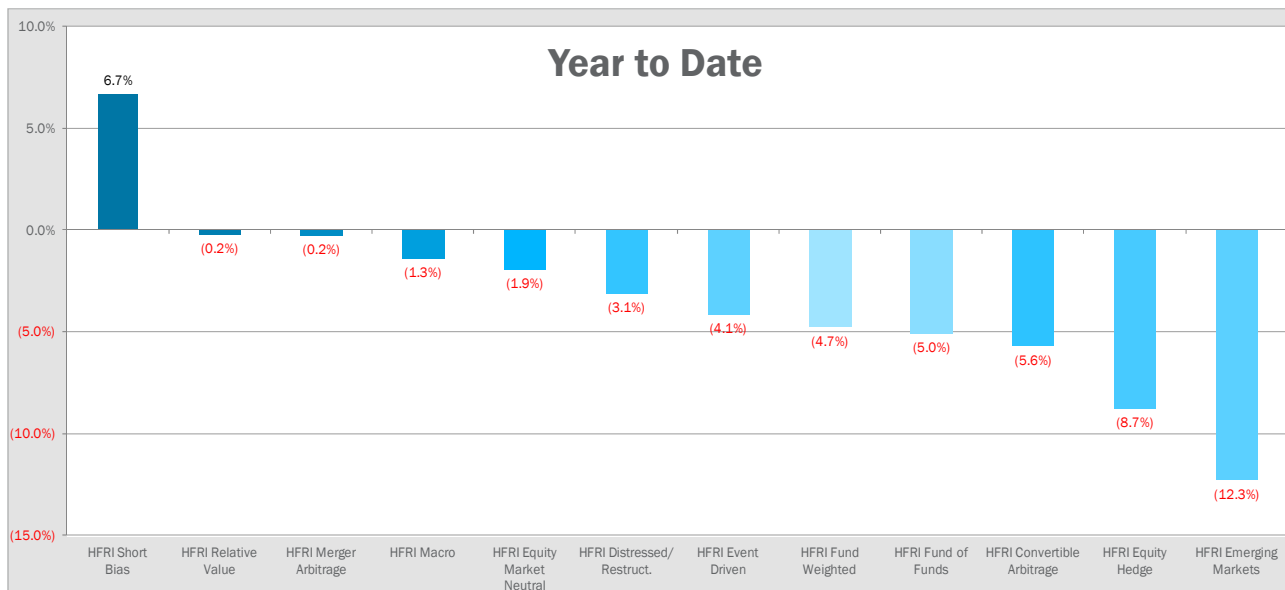
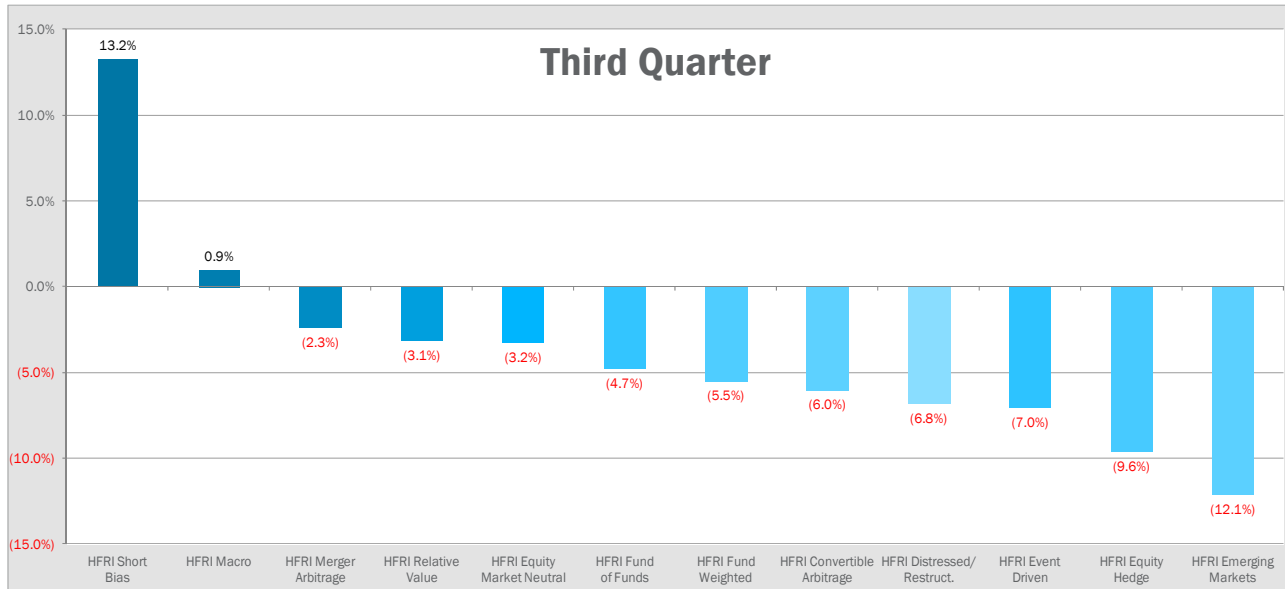


- The 10-year Treasury yield ended the quarter at 1.92% down from 3.16% at the end of the second quarter
- Treasuries benefitted from a flight to quality and concerns over a stalling global economic recovery and uncertain Euro zone





HEDGE FUND INDEX RETURNS



- Hedge fund performance varied widely in the third quarter as the combination of high intra-stock correlations and influential macro events overwhelmed business fundamentals as the key factors driving stock prices
- In the first half of 2011, credit contributed positively to multi-strategy hedge fund performance while during the third quarter, short exposure and market hedges differentiated between those who protected capital effectively and those who did not
- Most alternative managers finished the quarter with depressed gross and net exposures, but increased concentration in their highest conviction investments



Year over Year Statistics

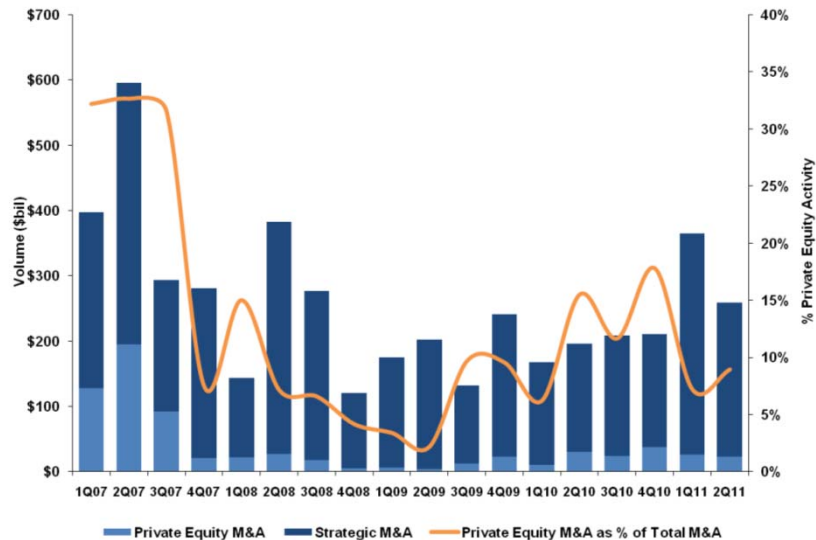
	Sept 30 2009	Sept 30 2010	Sept 30 2011
DJIA	9,712	10,788	10,913
S&P 500	1,057	1,141	1,131
NASDAQ	2,122	2,369	2,415
PE of S&P¹	26.69	14.45	12.77
S&P Earnings Yield	3.75%	6.92%	7.83%
Fed Funds Target Rate	0.0 - 0.25%	0.0 - 0.25%	0.0 - 0.25%
2 Year Treasury Yield	0.95%	0.42%	0.25%
10 Year Treasury Yield	3.31%	2.53%	1.92%
Gold (\$/oz)	\$1,006.60	\$1,309.00	\$1,624.80
WTI Crude Oil (\$/bbl)	\$69.41	\$79.97	\$79.20
Yen/\$1 U.S.	89.98	83.50	77.04
\$/Euro	1.46	1.36	1.34
\$/U.K. Sterling	1.60	1.57	1.56
Unemployment Rate	9.80%	9.90%	9.10%
3 Month LIBOR	0.30%	0.29%	0.37%
Headline CPI²	(1.30%)	1.10%	3.80%

¹P/E of the S&P 500 is provided by Standard & Poor's and is calculated using operating earnings. September 2011 value is an estimate based on the September 30 closing price. Operating earnings measure a company's earnings from regular operations which remain somewhat stable from one quarter to the next. Reported earnings include one time charges or write-offs, which can cause the earnings number to be very different from operating earnings for any short period of time. Estimated P/E of the S&P 500 found elsewhere in this report is provided by Worldscope/Thompson Financial and may differ.

²Data reflects most recently available as of 9.30.11. CPI values shown are % change vs. 1 year ago and reflect August 2011 CPI for All Urban Consumers (CPI-U) data.



PRIVATE EQUITY



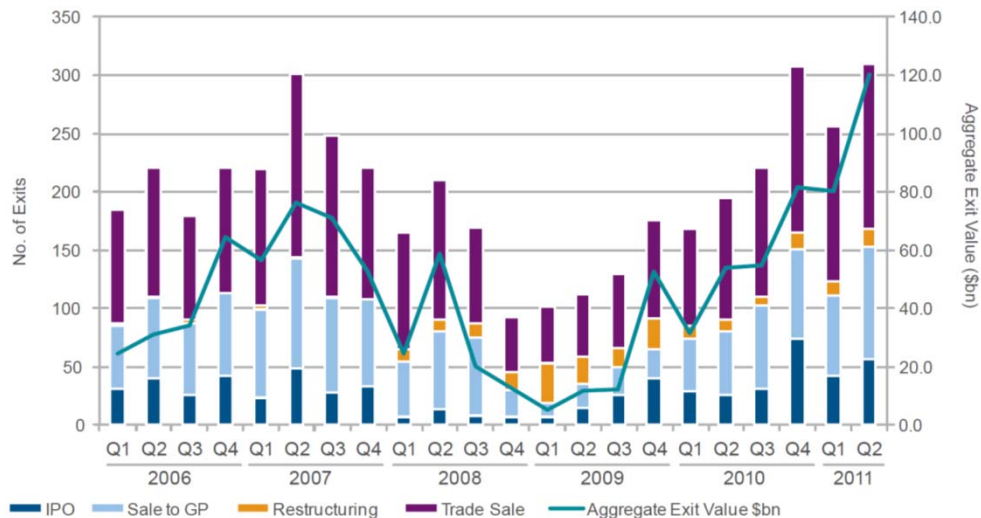
Source: Thomson Reuters

— The pace of growth in the private equity market has been slow and steady though the level of activity is still well off the 2007 peak

- According to Thomson Reuters, Private Equity buyouts in the United States were up 21% in the first half of 2011 compared to the same period in 2010
- Overall M&A activity in the U.S. increased 70% during this period - although the second quarter of 2011 was less robust than the first

— Exit activity for private capital funds is currently very strong with the second quarter 2011 reaching record levels

- According to data collected by Preqin, there were 309 private equity backed exits in the second quarter with an aggregate value of over \$120 billion



Source: Preqin/Hamilton Lane

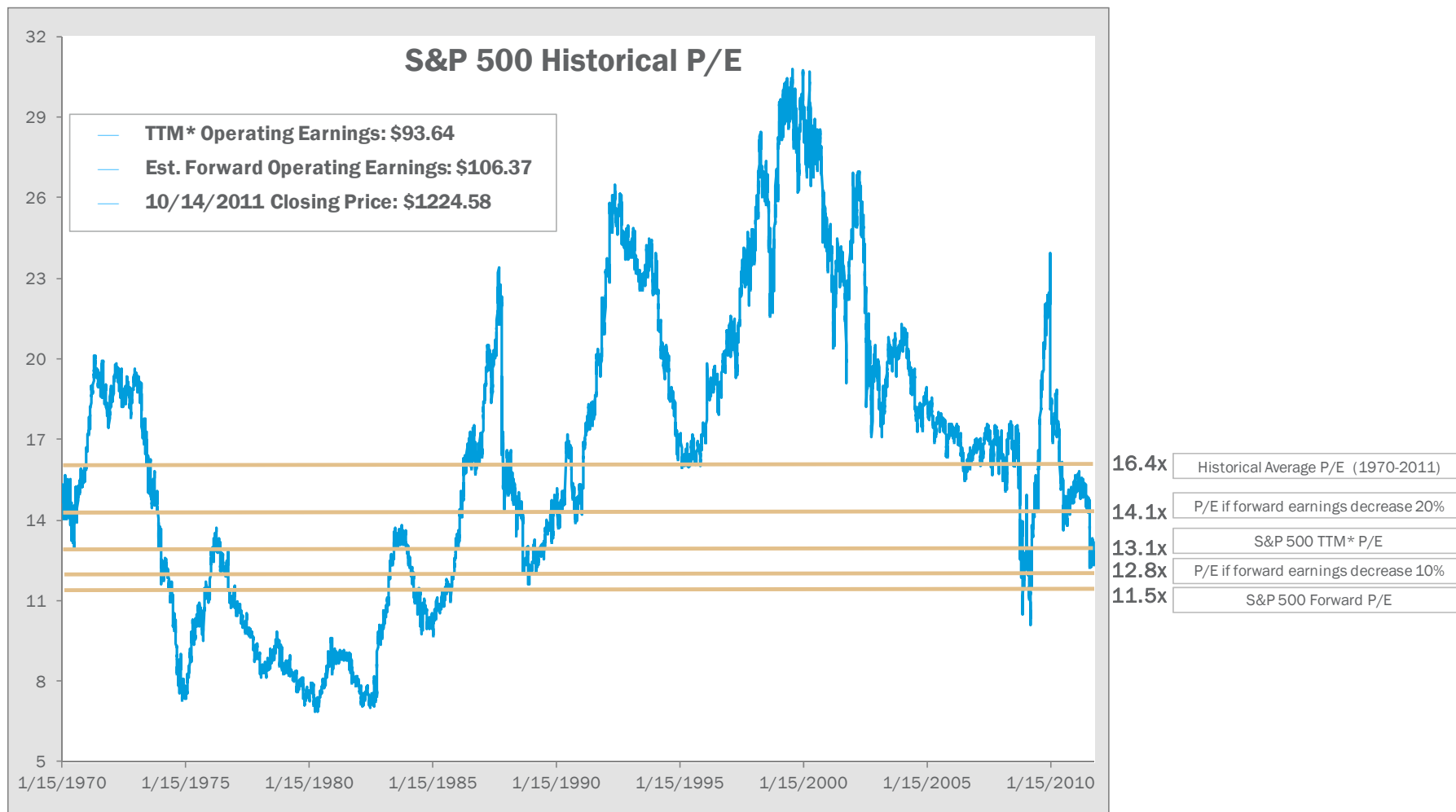
So, what does the optimal portfolio look like for the current environment...looking forward?

Portfolio Opportunities

- **Equities:** Equity valuations across the globe look historically attractive and we recommend rebalancing to target weights in domestic, international, and emerging market equities
- **European Distressed Debt:** The combination of forthcoming debt maturities, a general lack of new credit for refinancing, and widening spreads presents an opportunity in European distressed debt
- **Real Estate:** It is an attractive environment to consider opportunistic or value-add private capital real estate funds that will take advantage of the effect of slow fundamental growth on over-leveraged distressed owners and borrowers
- **High Yield:** Based on current spread levels and strong underlying corporate fundamentals, we believe the recent market sell off in high yield fixed income has created an attractive entry point for investors with a longer term horizon



THE WAY WE SEE IT: Attractive Equity Valuations



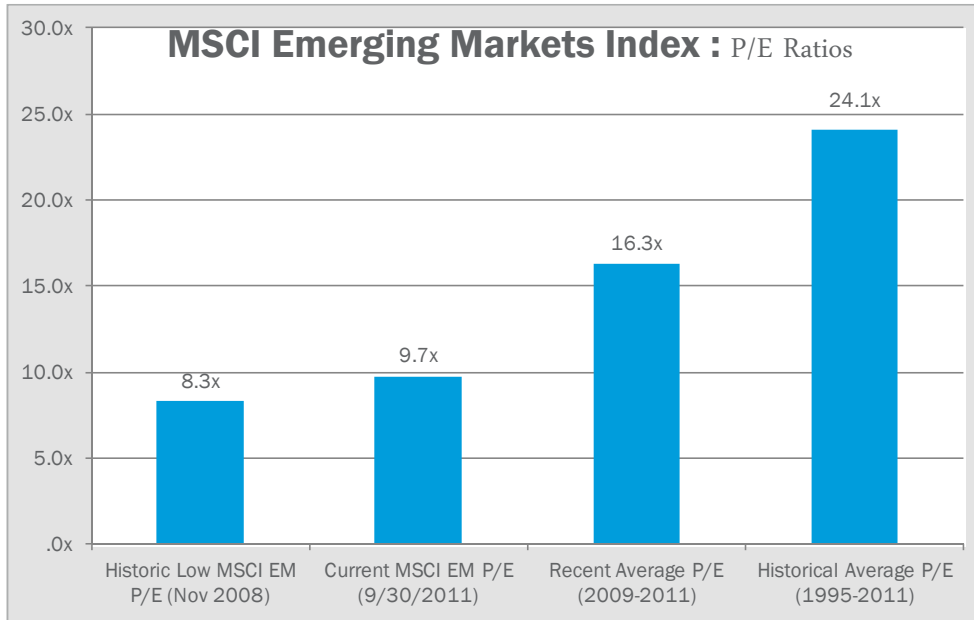
*TTM: Trailing Twelve Months

Source: Standard & Poor's

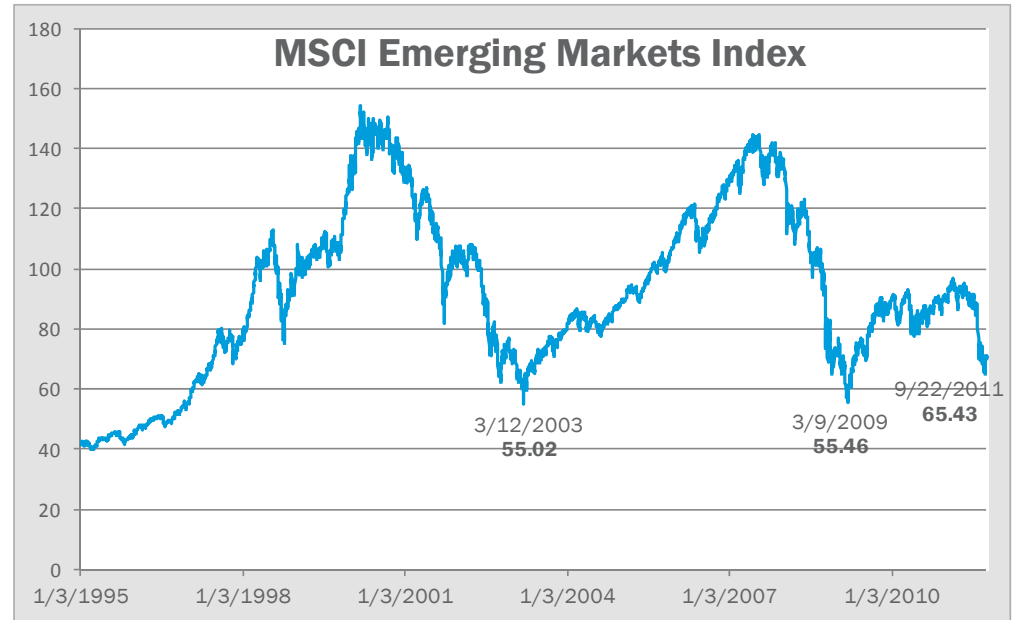
- Global equities have been put under pressure by macro concerns and have moved down in lockstep; a return to fundamental valuations will cause equities to appear historically attractive on a P/E basis – even if earnings estimates are off by as much as 20%
- US corporate balance sheets are flush with cash and companies are in a much better position to withstand a slow growth environment than they were in 2008



THE WAY WE SEE IT: Attractive Equity Valuations



Source: Bloomberg



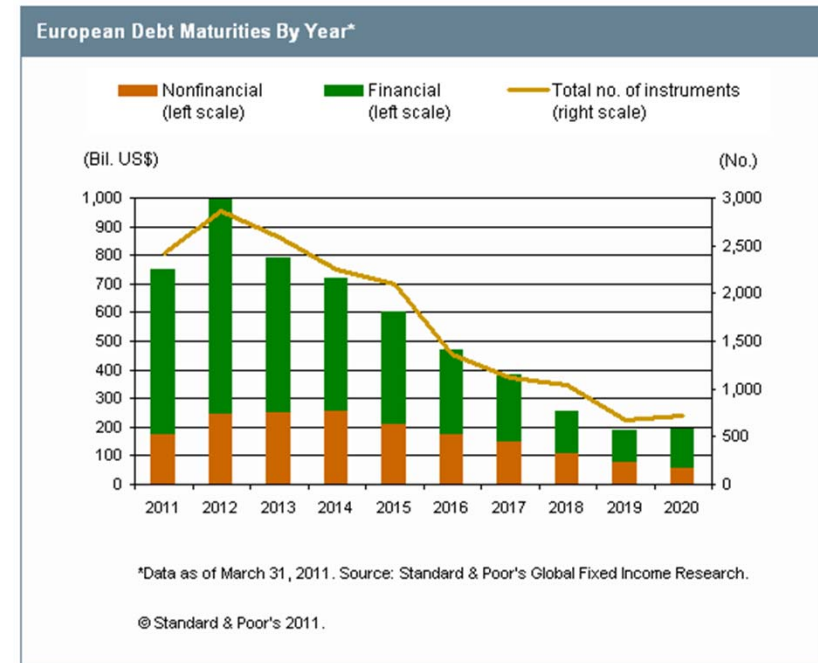
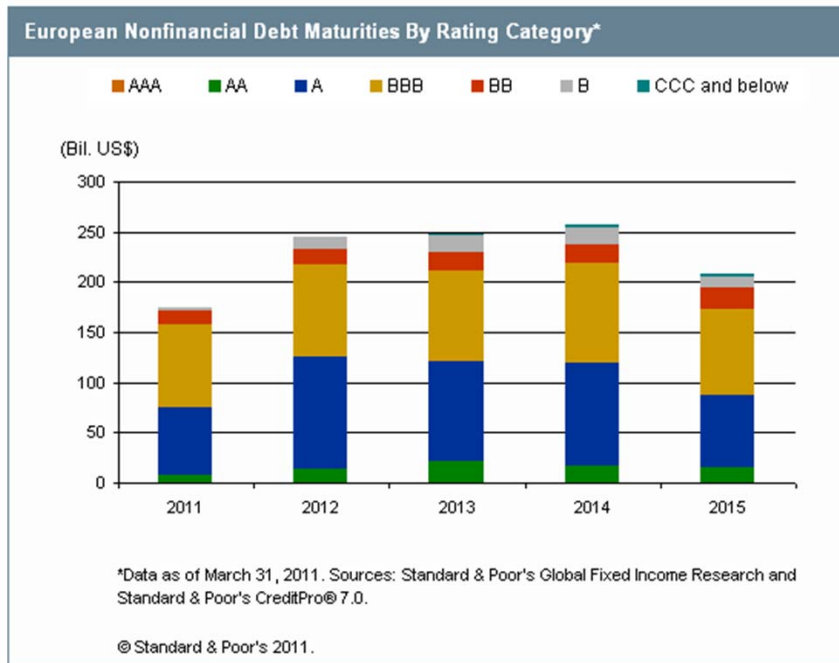
Source: Bloomberg

- We recommend adding to Emerging Market (EM) equities exposure following the extreme sell-off (down 26.6% since May 2, 2011 through September 30, 2011) as EM economies will likely maintain their substantial growth gap relative to developed economies
 - Despite the pull-back in EM equities it is important to note that emerging markets have not materially underperformed relative to developed markets and are currently trading at a discount to developed world equities amid higher economic growth and financial productivity
 - EM economies are in a position to respond to the current slowdown in growth with counter-cyclical policy
 - As most EM economies are in the process of switching their focus from growing exports to growing domestic consumption, this switch will allow for greater appreciation in their nominal exchange rates



THE WAY WE SEE IT: European Distressed Debt

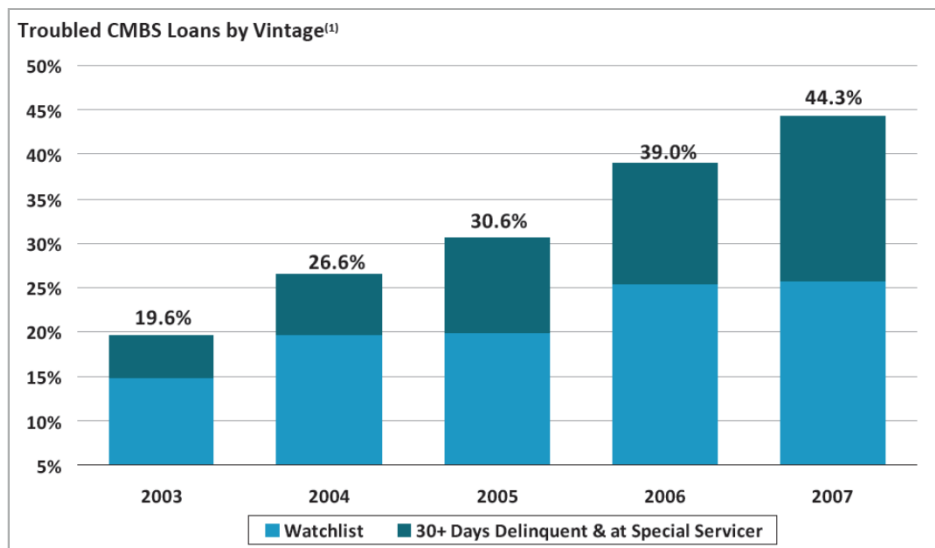
- According to Standard & Poor's, European non-financial firms will be obliged to refinance \$1.1 trillion of debt which will mature between 2011 and 2015, reflecting heavy reliance on cheap credit in the middle of the 2000's
- Europe presents multiple opportunities for distressed investors:
 - Given current capital ratios and new regulations, European financial institutions will be forced to sell assets
 - Recent sovereign debt issues have created compelling opportunities to invest in the debt of the financial institutions
 - Economic weakness in Europe will lead to further distress in certain cyclical industries presenting an opportunity to invest in the debt of those companies at attractive entry points



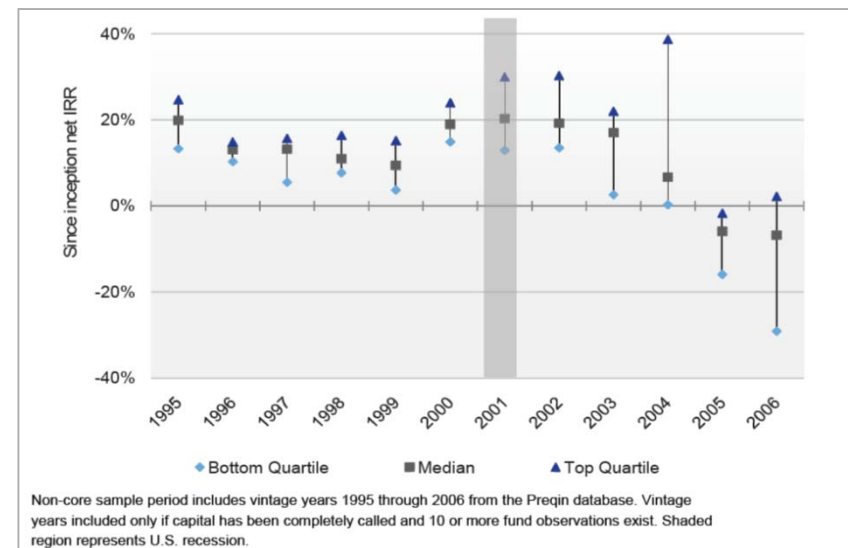


THE WAY WE SEE IT: Opportunistic Real Estate

- The current real estate market and macro environment are favorable for value-add and opportunistic real estate investors
 - According to Real Capital Analytics, commercial real estate values have dropped 43% since the peak of the market
 - Increasing delinquencies set the stage for future distressed sale activity
 - Approximately \$1.3 trillion of commercial real estate loans are maturing through 2013 in a period of depressed values
- There is a clear advantage of entering non-core real estate funds at “lower” points in the cycle such as 1995 and 2000 - 2002



Source: CS Marketwatch

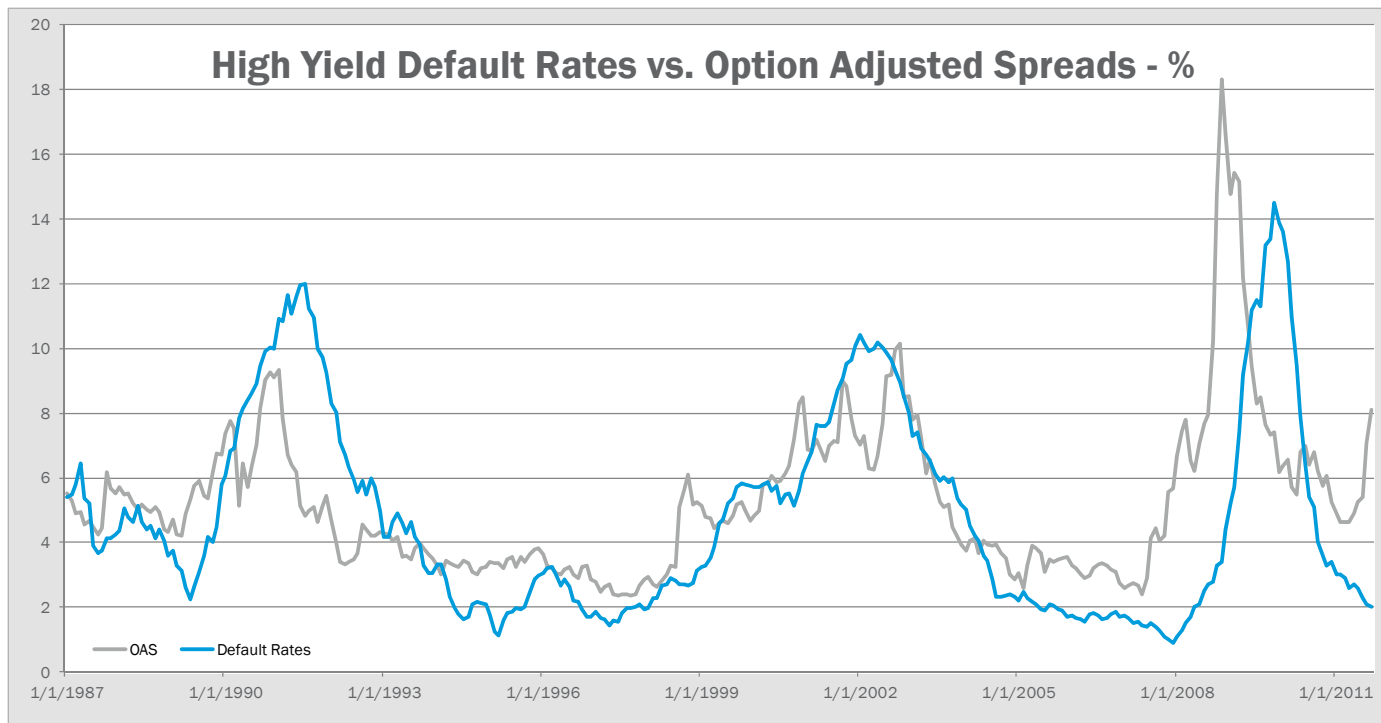


Source: Russell Investments



THE WAY WE SEE IT: High Yield

- Based on current spread levels and strong underlying corporate fundamentals, we believe the recent market sell off in high yield has created an attractive entry point for investors with a longer term horizon
- Current spread levels indicate the market is expecting a high future level of corporate defaults (roughly 8%) however default rates have continued to trend lower around a 2% level
- When comparing current issuers to the 2008 period, companies in general have higher liquidity and lower leverage than they did three years ago (i.e. reduced short term borrowing), termed out long term debt, and increased cash as well as an improved quality of new issuance; therefore, issuers are much better positioned to confront a period of higher market uncertainty
- Given the risk of continued widening spreads, which may further reduce investment return, the high level of current income within high yield is poised to help offset further price declines



Source: Moody's, Bloomberg, Barclays Capital; monthly data through 9/30/11

What lies ahead in FY 2012

- Market volatility remains/increases
- European Debt Crisis
- Slowdown in China ?
- US Economy:
 - Impact of the federal fiscal stalemate and 2012 election
 - Corporate cash
 - Unemployment
 - Impact of state/federal government cuts?

VCCF Remains Committed to its Core Competency & Values

- Long term investor to grow endowment capital over market cycles
- Diversified portfolios will outperform benchmarks
- Good managers with proper oversight will outperform index and market averages
- Consultant provides informed, experienced and unbiased advice
- Investment Committee & VCCF board accept and undertake fiduciary oversight of donated funds, with ironclad commitment to protecting donor intent and to grow charitable capital for VC
- Transparent information available to all donors & wider community.

FY 2012 VCCCF Priorities

VCCF Core Priorities:

- Stewarding donor legacies
- Teaching nonprofit leadership
- Investing in the Future

10 year initiative:

Expanding Opportunities for Youth

Donor Engagement


- Stakeholder Survey – Implement recommendations/next steps
- Strategic Communications Plan
- Relationship Reviews with donors and prospect

Online tools

- Increased online fund presence – Annual Report online again
- Online donor research tools – DonorTrak/ DonorEdge ?
- Center for Nonprofit Leadership - Board Leadership/Technology Works for Nonprofits/Leadership 2.0/Arts 2.0/CareerTrak & BoardTrak
- *Century Circle/Associates*

2012 Calendar -- Pending

- Community Leadership Awards (March/April)
- Ventura County Veterans Fund (Spring)
- Annual Scholarship Reception/\$1.2 million distributed (June)
- Women's Legacy Fund Grants Reception (September)
- Center for Nonprofit Leadership Open House (October)
- Open Investment Committee (November)
- Social Justice Fund grants (November)

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- Questions & Answers
 - Online version of presentation at www.vccf.org
 - Online statements to be posted shortly