

Jeffrey Slocum & Associates, Inc.
43 Main St. SE
Minneapolis, MN 55414

612.338.7020
www.jslocum.com

Deborah Weiss, CFA
Senior Consultant
(612) 252-7197, DeborahWeiss@JSlocum.com

Texas Hemmaplardh, CFA
Principal
(612) 252-9368, TexasH@JSlocum.com

PRESENTATION TO



ALBUQUERQUE
COMMUNITY
FOUNDATION
DONORS

MARCH 2012

PRESENTERS



■ **Deborah Weiss, CFA (Senior Consultant)**

Deb joined the Slocum team of consultants in July 2005 from The Valspar Corporation, for which she served as Vice President/Treasurer. At Valspar, Deb created and chaired the Benefit Plans Investment Committee. Earlier Deb spent eight years as Manager, Benefit Funds Investments at 3M Company, with primary responsibility for 3M pension investments, as well as 401(k) and VEBA trusts. Deb then became Treasurer at Imation Corp., a \$2.3 billion spin-off from 3M.

Deb holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Society of Minnesota. She earned her M.B.A. from the Owen Graduate School of Management at Vanderbilt University in Nashville, TN and her Bachelor's degree from Michigan State University (with high honors), where she was a National Merit Scholar and elected to Phi Beta Kappa. Deb serves on the Board of Jewish Family Service and on the investment committee for the UJFC of St. Paul, MN.



■ **Texas Hemmaplardh, CFA (Principal)**

Texas joined Slocum in 1997. He has expertise in capital markets research and portfolio construction across multiple asset classes, particularly the integration of alternative investments into diversified risk-controlled portfolios. He is a member of the firm's Executive Committee and frequently makes presentations to institutional investors on asset allocation and alternative investments. Texas began at Slocum as Director of Global Fixed Income Research. He has also held the roles of Director of Alternative Investments and Director of Hedge Fund Strategies.

Prior to joining Slocum, Texas worked as Finance Director for GlobaLearn, Inc., a not-for-profit educational company in Connecticut. Texas holds a B.A. in Economics from Yale University, an M.B.A. (with honors) from the University of Chicago's Booth School of Business, and was in the Advanced Studies Program at Oxford University. He is a Chartered Financial Analyst Charterholder (CFA).

SLOCUM SNAPSHOT

■ Experience

- Established in 1986, SEC-registered
- **Completely independent**
- More than 100 clients with over \$91 billion
- National practice
- Multiple Community Foundations as clients

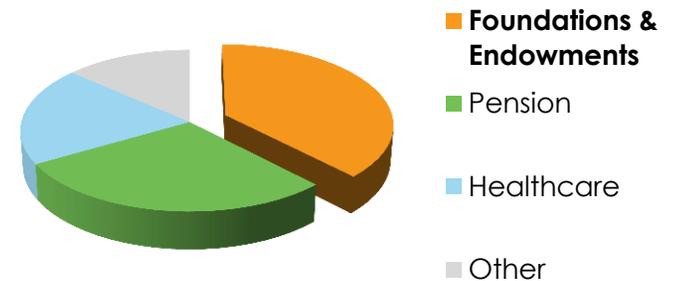
■ Qualifications

- 25 Research Professionals, many with investment management experience
- 14 Consulting Professionals with research & fund sponsor backgrounds
- Credentialed: 18 Chartered Financial Analyst Charterholders (CFA), 2 Chartered Alternative Investments Analyst Charterholders (CAIA), 1 Certified Public Accountant (CPA), 1 Certified Investment Performance Measurement (CIPM), 2 employees have law degrees (JD)

■ Collaborative Service Model

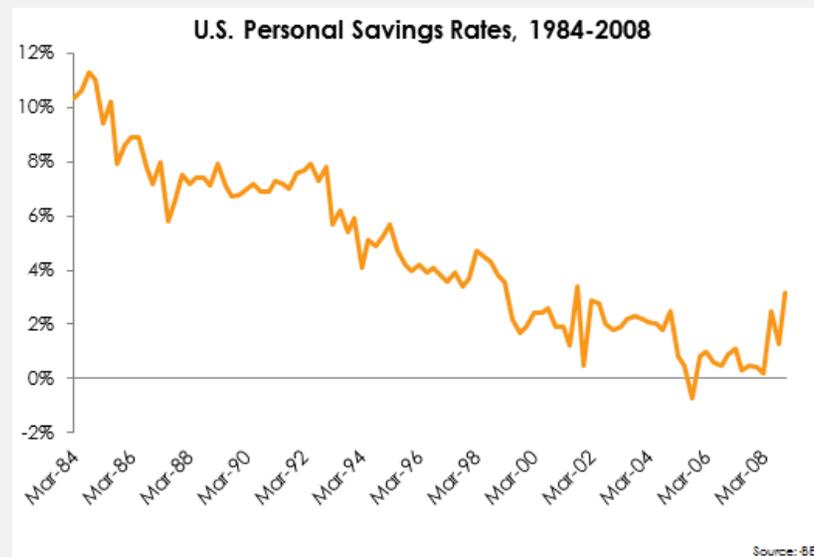
- A macroeconomic view informs our investment strategy
- Team approach for consistent and timely service
- Careful consideration of client-specific circumstances

Slocum Clients, by number



THE BIG PICTURE: HOW DID WE GET HERE?

- Through the late '90s, policymakers failed to raise rates because of the low inflation environment, driven by disinflationary forces from China and productivity gains from technology
- Long period of economic growth, very low interest rates, greater debt, rising asset prices, and falling savings



- Today: Zero interest rate policy and quantitative easing are the latest measures to reinstate the “old” growth model

OUTLOOK FOR ECONOMIC GROWTH

- **In a deleveraging (falling debt levels) world, growth rates will be lower**

- U.S.: Slow Improvement
 - Encouraging recovery in GDP growth
 - Stubbornly high (but falling) unemployment
 - **The U.S. recovery is proceeding at the slowest pace in the post-war era**

- Europe: Recession
 - Liquidity crisis has been averted (for now)
 - Global competitiveness issues have not been addressed
 - **Europe faces a steep uphill battle**

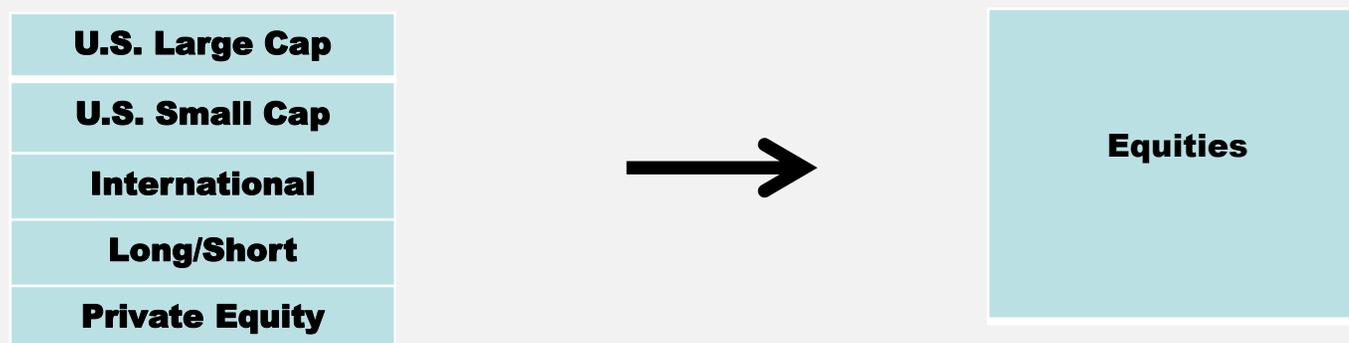
- China: Slowing, Hopefully Not Too Quickly
 - Meager export growth expected for 2012
 - Political pressure for slower, but more sustainable, growth
 - **China cannot continue to be the world's sole engine for growth**

IMPLICATIONS FOR INVESTORS

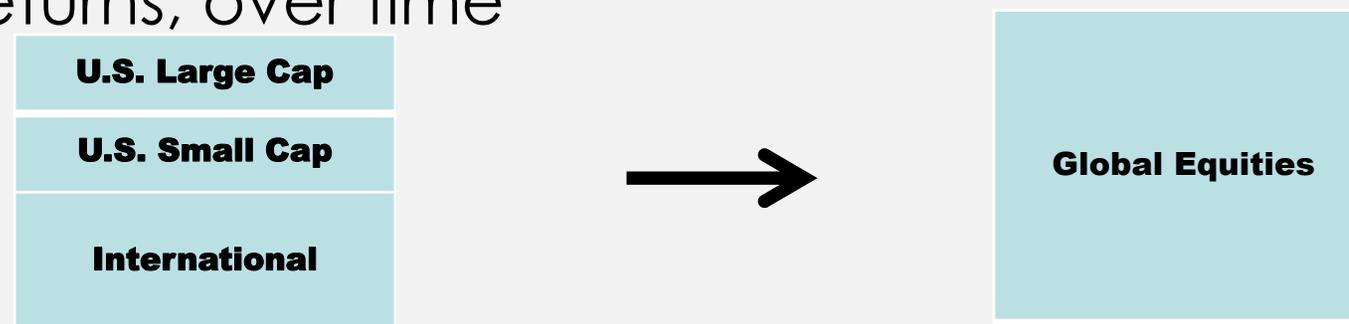
- Nominal and real asset returns will be low on a trend basis
 - Equities: the era of debt-driven margin expansion is over
 - Corporate margins are stretched
 - Earnings multiples (P/E ratios) were not attractive, even before the rally in early 2012
 - Fixed Income: interest rates are rising from generational lows
 - Emerging markets are becoming more compelling, but involve risk
 - Pockets of pricing inefficiencies (opportunities)
 - Sector diversification only goes so far in the face of rising interest rates
 - **Two main challenges for investors:**
 - **Muted returns across all asset classes**
 - **Higher volatility of returns, without a commensurately higher level of return**

IMPLEMENTING THE BROAD ASSET ALLOCATION FRAMEWORK

- Combine styles into one broad asset class which facilitates aggregate risk analysis



- Add flexibility: managers are expected to earn higher returns, over time

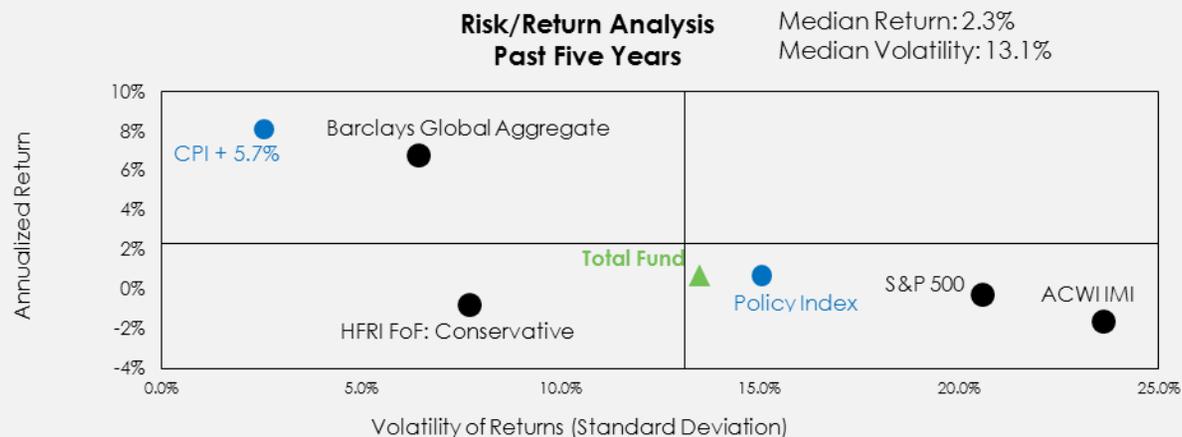


PORTFOLIO IMPLEMENTATION

- Use all the tools in an asset class toolkit:
 - Public long-only investments
 - Long/short strategies
 - Less liquid investments
 - Include broader, flexible, active, less benchmark-sensitive mandates, e.g.:
 - Global active equity
 - Unconstrained active fixed income
 - Actively managed commodities
 - Less liquid opportunistic strategies that may blur the line between private capital and hedge funds
- Give some managers wider latitude and a better chance of outperforming with broader, more flexible mandates**

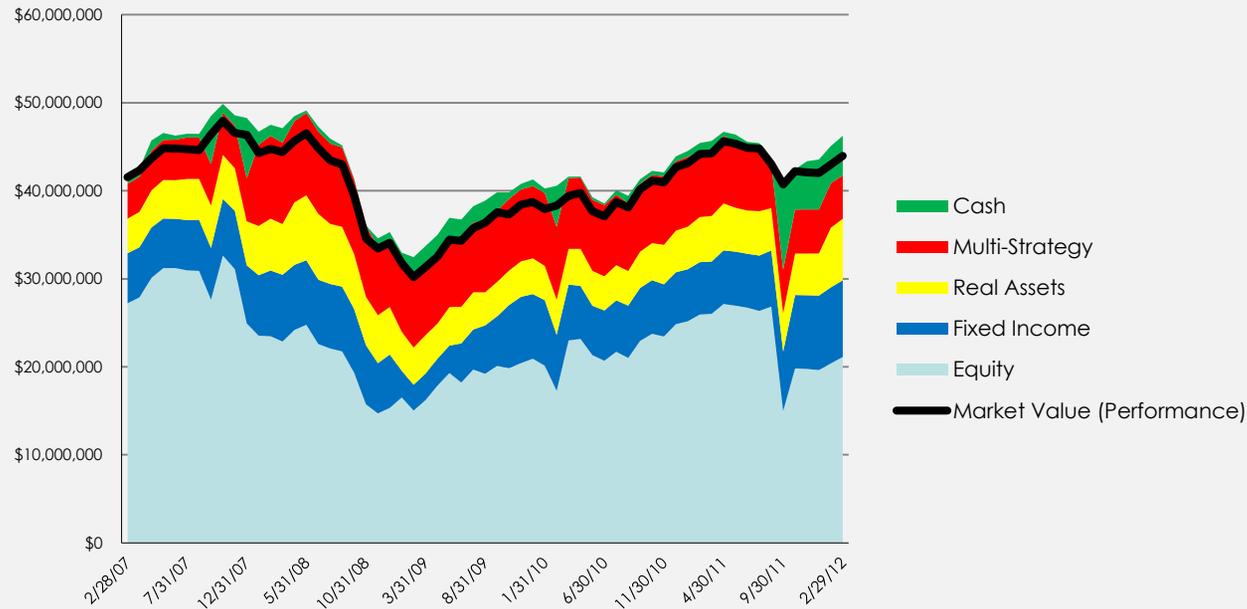
INVESTMENT OBJECTIVES

- Produce growth and income to support both donor goals and Foundation objectives
- Long-term objective: Inflation plus spending rate plus administration costs
 - Emphasize preservation and enhancement of purchasing power
 - Investment managers will concentrate on total return, in excess of benchmark plus fees



PORTFOLIO TRANSITION

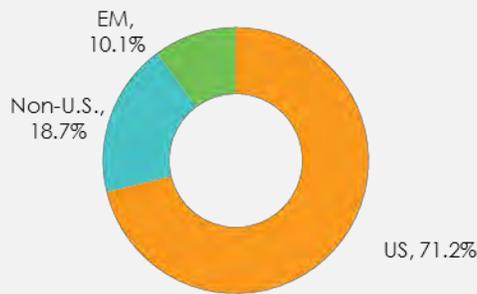
Five Year Historical Market Value (millions)



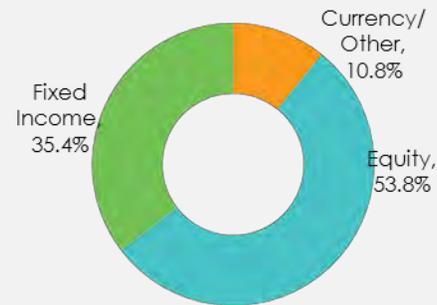
Asset Class	Previous Target	2/29/12 Actual	Target	Over/Under Target
Equity	55.0%	45.8%	45%	+0.8%
Fixed Income	14.0%	18.7%	20%	-1.3%
Real Assets	10.0%	15.1%	15%	+0.1%
Multi-Strategy	20.0%	10.7%	20%	-9.3%
Cash	1.0%	13.0%	0%	+9.7%

MONITORING PORTFOLIO RISK (AS OF 12/31/2011)

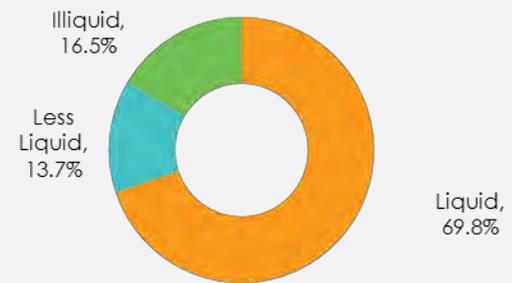
Geographic Exposure



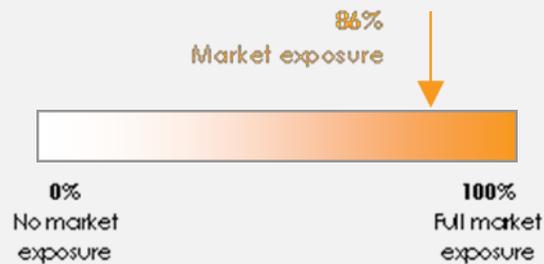
Asset Class Gross Exposure



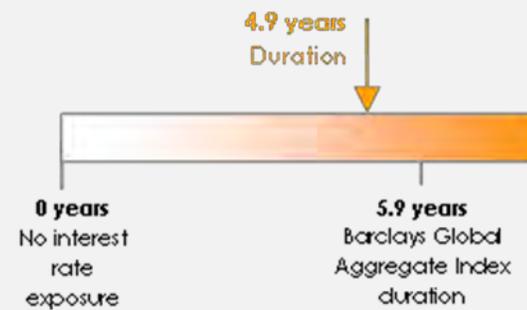
Liquidity Profile



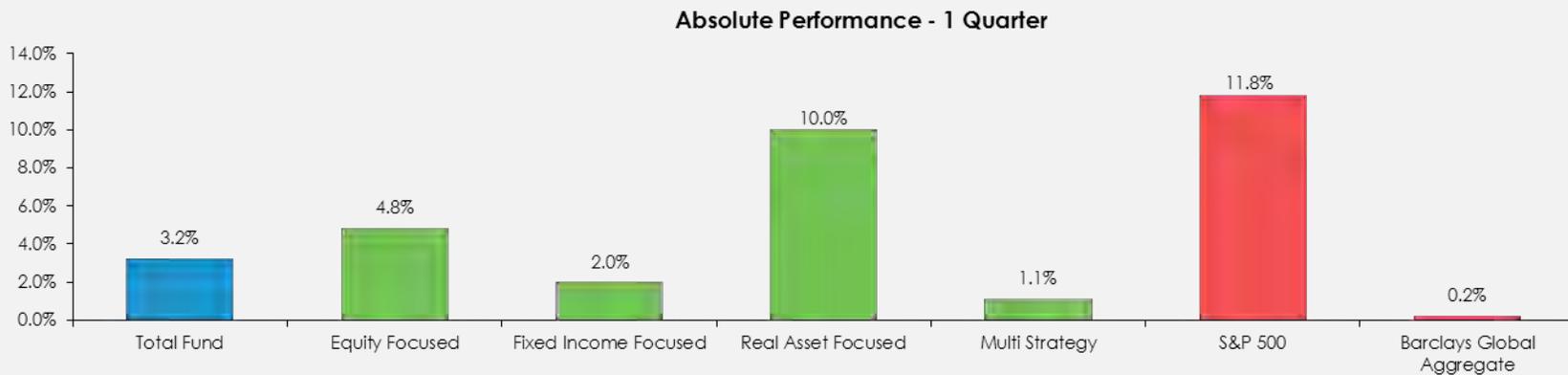
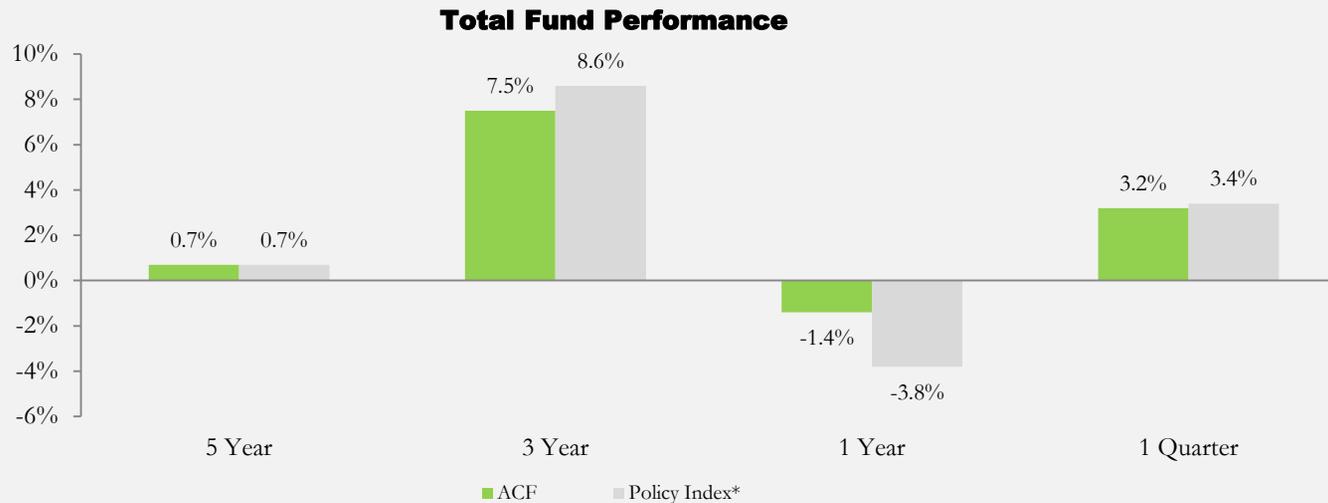
Net Market Exposure



Interest Rate Duration (years)



PERFORMANCE – PERIODS ENDING 12/31/11



* The policy index can be thought of as what the expected return would be if the Foundation invested only in passive indices, weighted according to the approved target weights for each broad asset class.

Current List of Managers (Style)

- Equity Managers
 - Dodge & Cox (Global Value)
 - Dreyfus (Global Growth)
 - Vanguard Dividend Appreciation Index (U.S. Large Cap Dividend)
 - IronBridge (Small-Mid Cap Core)
 - Eaton Vance (Structured Emerging Markets)
 - Common Sense (Long/Short Equity)
 - Commonfund (Domestic, International, and Venture Private Equity)
 - The Investment Fund for Foundations (Private Equity)
- Fixed Income
 - Colchester (Global Bonds)
 - T. Rowe Price (Emerging Markets)
 - PIMCO (Opportunistic)
 - Janus (Core Plus)
- Real Assets Managers
 - Guggenheim (Real Estate)
 - Blackstone (Commodities)
- Multi-Strategy Managers
 - Corbin
 - Magnitude
 - Silver Creek
 - BlackRock

ASSET CLASS DEFINITIONS

- **Equities** can include but not be limited to strategies such as global equities, domestic equities, international equities, and emerging markets equities. They can include structures such as separate accounts, mutual funds, and commingled funds for long-only equities, and limited partnerships and mutual funds for long/short equities and private equity.
- **Fixed Income** can include but not be limited to strategies such as global bonds, domestic fixed income securities, international, and emerging markets debt instruments. It can include structures such as separate accounts, mutual funds, and commingled funds for long-only fixed income, and limited partnerships and mutual funds for long/short fixed income and opportunistic structures. Securities can include, but are not limited to Treasuries, U.S. government agency securities, asset-backed securities, and other sovereign bonds, as well as corporate bonds, other non-agency securities, and derivatives on any of the aforementioned securities.
- **Real Assets** refer to investments or strategies composed of real property, buildings and developments, timber, or commodities (through public mutual funds, commingled funds, and private partnerships), all of which generally respond more directly to changes in inflation. The goal of the Albuquerque Community Foundation's allocation to real assets is to hedge against unexpected inflation, to maintain the real purchasing power of the Foundation's future grants.
- **Multi-strategy Investments**, in response to market opportunities, dynamically allocate capital among strategies that cross traditional asset class definitions without the limitations imposed when managing versus a specific benchmark. Multi-strategy investments seek to generate a positive return regardless of the performance of the public, long-only markets.

GLOSSARY OF INVESTMENT TERMS

- **Public Equity** - equity capital of a company whose shares are traded publicly on an exchange or over-the-counter
- **Private Equity** – private equity investments in operating companies that are not publicly traded on a stock exchange (strategies can include: leveraged buyouts, venture capital, growth capital, distressed investments, mezzanine capital)
- **Long-only Equity** – investments in equities with the expectation they will increase in value
- **Long/Short Equity** – a strategy that involves buying (long) equities that are expected to increase in value and selling (short) equities that are expected to decrease in value
- **Price/Earnings (P/E) ratio** – a valuation measure of a company's current stock price compared to its per-share earnings
- **Core Plus** – a fixed income investment style that includes high yield, global, and emerging markets debt in addition to investment grade, domestic bonds
- **Gross exposure** – the sum of the long-only investments plus the absolute return of the short investments
- **Net exposure** – the long-only investments minus the short positions
- **Liquidity** – the ease with which an investment can be sold without affecting its price

BENCHMARK DEFINITIONS

- **MSCI All Country World Investable Market Index (IMI)** – The Morgan Stanley Capital International ACWI IMI includes large cap, mid cap, and small cap segments, and provides coverage of these segments by targeting a range of nearly 99% of the free float-adjusted market capitalization in 45 countries (24 developed domestic and international markets, and 21 emerging markets)
- **Barclays Global Aggregate Index** – a broad-based measure of the global, investment grade, fixed rate debt markets
- **Dow Jones-UBS Commodity Index** – a broadly diversified measure of commodity futures price movements
- **HFRI Fund of Funds: Conservative Index** – an index constructed by Hedge Fund Research, Inc. of multi-manager fund of funds that primarily invest in more “conservative” strategies and that show generally consistent performance regardless of market conditions.
- **S&P 500 Index** – a capitalization-weighted index of 500 US stocks published by Standard & Poor’s. The index which is heavily dominated by the largest stocks in the US market, contains about 80% of the total US stock market capitalization
- **Policy Index** – a benchmark for Total Fund performance composed of the target allocations to the asset class benchmarks. Currently for the Albuquerque Community Foundation, the policy index is 45% MSCI All Country World Investable Market Index, 20% Barclays Global Aggregate Index, 15% Dow Jones-UBS Commodity Index, and 20% HFRI Fund of Funds: Conservative Index.