

# 2014 Investment Review – Long Term Pool

Prepared for



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## EXECUTIVE SUMMARY

The Humboldt Area Foundation's (HAF's) Long Term Investment Pool finished 2014 with \$85.8 million in assets, up from \$78.9 million at the end of 2013, and representing a high water mark in assets. The Long Term fund returned 4.8% (net of fees) for the year, which was slightly behind its passive policy index return of 5.1%, but ahead of the median community foundation peer return of 4.4%.

Fixed income delivered positive returns during 2014 (surprising many market observers) and the large cap US equity market had double-digit gains. In contrast, non-US developed and emerging equity markets experienced negative returns, and small cap stocks were lackluster. The divergence in performance between the US and non-US markets was the largest ever in 2014. The US was helped by improving economic conditions and continued expansionary monetary policy from the US Federal Reserve bolstered by new easing from central banks around the world. Hedge funds, considered as a group, outperformed global equities and credit sensitive bonds in 2014, but underperformed investment grade US fixed income.

This report reviews the Long Term Pool's portfolio structure and asset allocation policy, as well as expenses and performance. Our analysis covers the five investment manager organizations represented in the portfolio (American Funds, Dimensional Fund Advisors (DFA), Vanguard, Allianz, and PIMCO).

## BACKGROUND

Angeles has worked with the Humboldt Area Foundation since 2003, initially on a project basis to structure the portfolio and then conduct annual reviews through 2006. In 2007, HAF retained Angeles on an ongoing basis. Angeles Investment Advisors is retained by HAF to provide consulting services regarding HAF's investment assets. This relationship encompasses preparation of this annual investment report on the Foundation's assets, as well as advice and recommendations on any other investment-related issues throughout the year, including investment policy such as the asset allocation targets manager monitoring and selection issues, monthly performance reporting and attending meetings (including by conference call) as needed.

To prepare this report Angeles undertook the following:

- Reviewed monthly statements for the Foundation's assets and the allocations to each fund;
- Calculated returns for each asset class composite, and compared those to appropriate benchmarks;
- Evaluated performance of each fund individually; and,
- Reviewed organizational issues affecting the funds and their parent companies, including meeting with representatives of the fund families in which HAF invests.

Angeles' major findings in our review of HAF's Long Term Investment Pool during 2014 are:

- **Asset Allocation:** A primary investment objective of the Foundation's investment policy is to ensure that, over the long term, assets retain their purchasing power after inflation and spending. To this end, the Foundation's current Long Term investment policy targets are oriented to growth/capital appreciation assets with the following asset allocation: 70% in global equity, 5% in absolute return (hedge funds), 20% in fixed income and 5% in real estate securities. All asset classes and individual funds were within their allowable ranges at the end of 2014. Hedge funds are a relatively new asset class for HAF, which approved adding them in November 2013 and implemented this decision effective January 1, 2014. The objective of absolute return

## 2014 INVESTMENT PERFORMANCE REVIEW – LONG TERM POOL

strategies is to generate attractive risk-adjusted returns with lower correlation to traditional investment benchmarks and less downside risk.

- Angeles believes HAF's current policy is appropriate given the investment objectives of the Foundation to exceed inflation and spending over the long term. Angeles will continue to meet regularly with HAF's Investment Committee to review investment topics such as asset allocation policy, risk management and monitoring, and manager structure and will analyze alternative mixes.
- **Performance Review:** The Total Fund advanced 4.8% in 2014, behind the Policy Index's return of 5.1%. The Policy Index is a benchmark composed of passive asset class index returns weighted by HAF's long term asset allocation targets. Table I below provides a summary of recent and long term performance:

**Table I**  
**Summary of HAF Long Term Investment Pool Performance**

	% of Fund	Annualized					Since Fund	Inception				
		1 Year	3 Year	5 Year	7 Year	10 Year	Inception <sup>^</sup>	Date				
<b>Total Fund</b>	<b>100%</b>	<b>4.8</b>	<b>12.1</b>	<b>8.7</b>	<b>3.7</b>	<b>5.6</b>	<b>6.2</b>	<b>12/31/2003</b>				
Policy Index <sup>1</sup>		5.1	11.6	9.0	4.3	5.9	6.5					
	% of Fund	Calendar Years										
		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Total Fund</b>	<b>100%</b>	<b>4.8</b>	<b>18.1</b>	<b>13.7</b>	<b>-5.2</b>	<b>13.7</b>	<b>28.9</b>	<b>-33.9</b>	<b>5.7</b>	<b>15.4</b>	<b>9.0</b>	<b>13.2</b>
Policy Index <sup>1</sup>		5.1	15.7	14.4	-2.8	13.8	29.1	-32.3	6.6	15.5	7.1	12.3

<sup>1</sup>Effective January 1, 2014, the Policy Benchmark = 70% MSCI ACWIMI, 20% Barclays Aggregate, 5% HFRI Fund of Funds Composite Index, and 5% S&P Global REIT Index.

From April 1, 2013 to December 31, 2013, the Policy Benchmark = 70% MSCI ACWIMI, 25% Barclays Aggregate, and 5% S&P Global REIT Index.

From August 1, 2012 to April 1, 2013, the Policy Index = 70% MSCI All Country World Investable Market Index, 25% Barclays Universal Index, and 5% S&P Global REIT Index.

From June 1, 2008 to July 31, 2012, the Policy Index = 35% Russell 3000 Index, 35% MSCI All Country World Ex US Investable Market Index, 25% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index) and 5% Blended REIT Index. The Blended REIT Index consists of 50% Wilshire REIT Index and 50% S&P/Citi Global Ex US REIT Broad Market Index.

From June 1, 2006 to May 31, 2008, the policy index consists of 50% Russell 3000 Index, 20% MSCI ACWI Ex-US Index, 25% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index), and 5% DJ Wilshire REIT Index.

Prior to June 1, 2006, the policy index consists of 50% Russell 3000 Index, 15% MSCI ACWI Ex-US Index, 30% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index), and 5% DJ Wilshire REIT Index.

<sup>^</sup>Returns are annualized for periods greater than a year.

- **Peer Performance Comparison:** HAF outperformed the median return of community foundations (based on Council on Foundations (COF) data), which reported a median net of fees return for all community foundations of 4.4% in 2014. (The COF performance data covered 168 community foundations in 2014). Versus its similarly-sized peer community foundations (\$50-99.9 million in assets), HAF outperformed the median return of 4.6% in 2014. We believe HAF's higher allocation to fixed income and real assets versus peers is responsible for the positive performance gap versus other community foundations in 2014.
- **Investment Manager Review:** We continue to have confidence in the investment managers HAF has selected (American Funds, DFA, Vanguard, PIMCO, and Allianz).

In recent years **American Funds (AF)** (24% of total HAF assets) has lost assets as investors have shifted away from equities and due to some performance issues in large AF funds. The firm saw net outflows of \$12 billion in 2014 (<1% of firm AUM), which is lower than the \$39 billion (2.7% of AUM) in outflows observed during 2013. We continue to monitor asset outflows, but to date do not believe they have materially impacted the firm's well-resourced mutual fund family or its unique, multi-portfolio manager investment process.

We believe **DFA** (36% of total assets) is a solid organization whose research-driven investment approach and expertise in low-cost trading has produced strong investment results over time as well as significant growth in assets. Angeles maintains a positive view of DFA's well-communicated and gradual approach to implementing generational changes at the firm.

**Vanguard** ended 2014 as one of the largest fund families in the US, with \$3.0 trillion in assets. The firm has benefited from its reputation as a low-cost, well-governed organization.

**PIMCO**, added to HAF's holdings in 2012, offers a unique advantage to investors due to its utilization of multiple sectors of the bond market including niche areas such as non-agency mortgage securities. Angeles believes that the PIMCO Income fund is a strong diversifier for HAF's fixed income portfolio that offers a significant boost to current income. The firm experienced a major event in 2014 with the abrupt departure of founder Bill Gross, which has occasioned asset outflows at the firm. However, Bill Gross did not manage the PIMCO Income Fund, which HAF owns, and we do not expect Gross' departure to have a direct impact on the fund. Dan Ivascyn and Alfred Murata continue to manage the strategy, which finished 2014 ranked in the 6<sup>th</sup> percentile versus Morningstar's Multisector Bond Universe. While Gross' departure was a significant negative event for the firm, PIMCO has a deep bench of experienced investors across many asset classes. Angeles continues to monitor the situation, including increased management responsibilities of Ivascyn, additional personnel turnover and loss of assets.

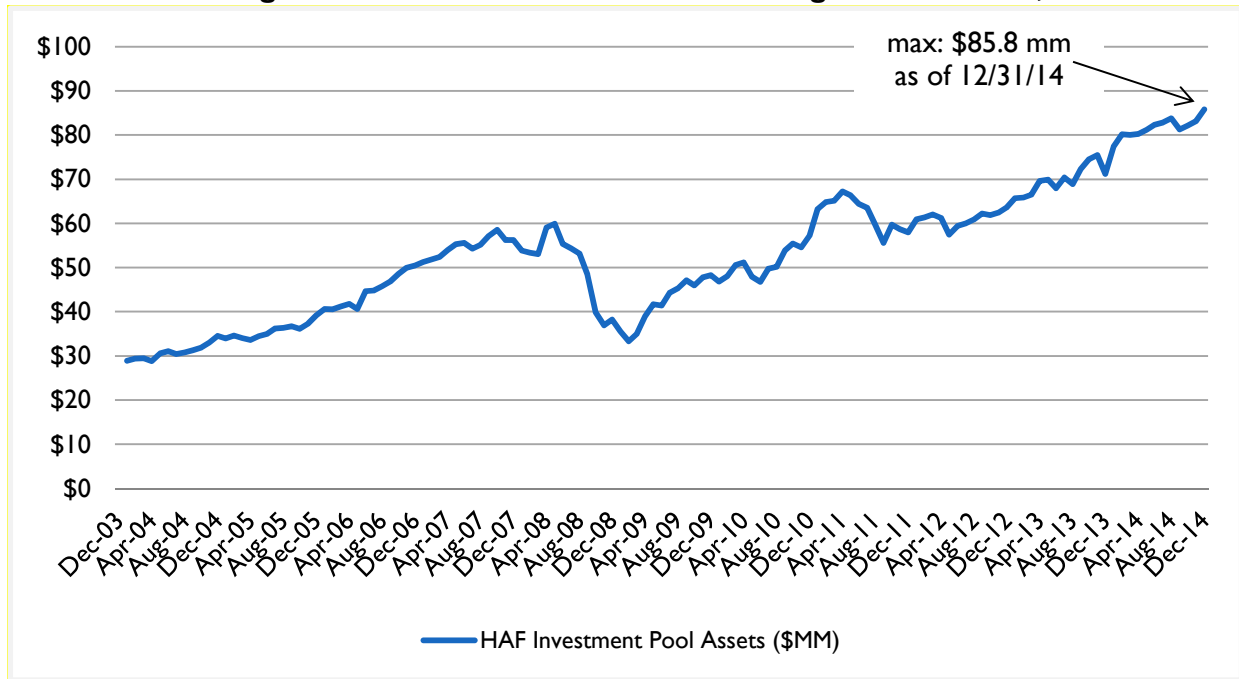
HAF also added **Allianz** in 2012 for exposure to a portfolio and asset class – convertible bonds – not available from the other firms held by HAF. This is a well-diversified, risk-controlled portfolio that employs deep credit modeling and fundamental research. The portfolio's bond orientation and income provide a cushion during falling markets and serves to dampen volatility in the equity portfolio.

- **Cost Review:** HAF's portfolio consists primarily of mutual funds from low cost mutual fund families, with fees charged by each of the individual funds that are well below the median of their respective universes. Six of the twelve funds held by HAF's Long Term Pool reported fees in the bottom 5<sup>th</sup> percentile of all fees for mutual funds in their peer groups. HAF's overall investment management fee for the Long Term Investment Pool is 0.55% of assets (55 basis points).
- **Fund Review:** Angeles will continue to review the holdings and investment policy of the Foundation on an ongoing basis and recommend changes to the Investment Committee for its consideration as necessary.

**ASSET ALLOCATION**

HAF’s Long Term Investment Pool assets reached \$85.8 million as of December 31, 2014, up from \$78.9 million on December 31, 2013, an all-time high for the fund. Assets increased during 2014 due to robust returns as well as net inflows. According to information provided by HAF, the pool had inflows during 2014 of \$6.5 million, and withdrawals of \$3.0 million during the year, resulting in net inflows of \$3.5 million during the year.

**Figure 1**  
**HAF Long Term Investment Pool Assets – Through December 31, 2014**



The Foundation’s current investment policy is oriented to **growth/capital appreciation**, and targets the following allocations in the Long Term Pool: 70% in global equity, 5% in absolute return, 20% in fixed income and 5% in real estate securities. HAF’s allocation to absolute return strategies (hedge funds) was implemented January 1, 2014 by an investment in the Angeles Absolute Return Fund, a diversified fund of 10-20 hedge funds selected and monitored by Angeles. Angeles receives no incremental fee from its consulting clients, including HAF, for managing the fund.

As of December 31, 2014, all asset classes remained within the allowable ranges established in HAF’s Investment Policy Statement and in line with the long term targets for all major asset classes.

**Table 2\***  
**Asset Allocation as of December 31, 2014**

	Market Value	Actual Allocation	Target Allocation	Variance from Target	Allowable Range
<b>Global Equity</b>					
DFA Small Cap Index	\$1,849,881	2.2%	2.1%	0.1%	
Fundamental Investors	\$2,799,093	3.3%	3.5%	-0.2%	
DFA Emerging Mkts Core Fund	\$1,865,347	2.2%	2.1%	0.1%	
DFA Int'l Small Cap Fund	\$2,451,926	2.9%	2.8%	0.1%	
DFA Global Equities	\$18,004,597	21.0%	21.0%	0.0%	
Allianz Convertibles	\$6,048,306	7.1%	7.0%	0.1%	
EuroPacific Growth Fund	\$17,916,509	20.9%	21.0%	-0.1%	
Vanguard Institutional Index	\$8,961,992	10.4%	10.5%	-0.1%	
<b>Total Global Equity</b>	<b>\$59,897,651</b>	<b>69.8%</b>	<b>70.0%</b>	<b>-0.2%</b>	<b>55-85%</b>
<b>Absolute Return</b>					
Angeles Absolute Return Fund	\$4,316,517	5.0%	5.0%	0.0%	
<b>Total Absolute Return</b>	<b>\$4,316,517</b>	<b>5.0%</b>	<b>5.0%</b>	<b>0.0%</b>	<b>0-10%</b>
<b>Fixed Income</b>					
Vanguard Total Bond Market Index	\$6,002,473	7.0%	7.0%	0.0%	
PIMCO Income Fund	\$8,529,971	9.9%	10.0%	-0.1%	
DFA 1-Year Fixed Income	\$2,577,657	3.0%	3.0%	0.0%	
<b>Total Fixed Income</b>	<b>\$17,110,101</b>	<b>19.9%</b>	<b>20.0%</b>	<b>-0.1%</b>	<b>15-30%</b>
<b>Real Estate Securities</b>					
DFA Global Real Estate Securities	\$4,298,498	5.0%	5.0%	0.0%	
<b>Total Real Estate</b>	<b>\$4,298,498</b>	<b>5.0%</b>	<b>5.0%</b>	<b>0.0%</b>	<b>0-7%</b>
<b>Cash</b>					
TDA - Cash Sweet Account	\$51,378	0.1%	0.0%	0.1%	
TD Bank USA MMDA - Cash Reserve	\$106,954	0.1%	0.0%	0.1%	
<b>Total Cash</b>	<b>\$158,332</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.2%</b>	<b>0-1%</b>
<b>Total Fund</b>	<b>\$85,781,099</b>	<b>100%</b>	<b>100%</b>		
<b>Total American Funds</b>	<b>\$20,715,602</b>	<b>24.1%</b>	<b>24.5%</b>	<b>-0.4%</b>	
<b>Total DFA Funds</b>	<b>\$31,047,906</b>	<b>36.2%</b>	<b>36.0%</b>	<b>0.2%</b>	
<b>Total Vanguard Funds</b>	<b>\$14,964,465</b>	<b>17.4%</b>	<b>17.5%</b>	<b>-0.1%</b>	
<b>Total Allianz Funds</b>	<b>\$6,048,306</b>	<b>7.1%</b>	<b>7.0%</b>	<b>0.1%</b>	
<b>Total PIMCO Funds</b>	<b>\$8,529,971</b>	<b>9.9%</b>	<b>10.0%</b>	<b>-0.1%</b>	
<b>Total Angeles Fund</b>	<b>\$4,316,517</b>	<b>5.0%</b>	<b>5.0%</b>	<b>0.0%</b>	

\*Unless otherwise noted, all HAF market value data in this report was provided to Angeles by Premier Financial Group. Targets indicated for fund families are the sum of targets for individual funds, not targets for a fund family per se.

**Asset Allocation Policy:**

HAF's asset allocation is reviewed regularly by the Investment Committee with assistance from Angeles Investment Advisors. The Committee's last major review was in November 2014. In that meeting, HAF reviewed portfolio performance and discussed the possibility of adding private equity to the portfolio.

When we review asset allocation for clients like HAF, Angeles Investment Advisors uses proprietary capital market assumptions to project future long term returns. Our assumptions include the expected return, risk (volatility or standard deviation of returns) and correlation for major asset classes. While the assumptions are for a long-term horizon, which we define as at least 10 years, Angeles updates these assumptions annually, with our most recent review completed in January 2015.

Relative to Angeles' 2014 capital market assumptions, in 2015 we have modestly reduced expected returns for global equities, hedge funds, and global real estate by 25 basis points due to a reduction in future long term inflation expectation to 2.0% annualized. Expected returns for core fixed income also fell from 2.75% to 2.5% to reflect broad declines in bond yields versus a year ago. Risk (volatility) assumptions for hedge funds were reduced by 1% to bring expectations in line with historical results. All other return and risk assumptions remain unchanged.

A summary of our expected returns and risk for major asset classes appears in the table below.

**Table 3**  
**Angeles' Projected Long Term (>10 years)**  
**Asset Class Return and Risk Assumptions as of January 2015**  
**(Net of Fees and Transactions Costs)**

	Expected Return	Expected Risk
Global Equity	7.25%	17.0%
Absolute Return	6.25%	8.0%
Global Real Estate Securities	5.75%	19.0%
Core Fixed Income	2.50%	5.0%
<i>Inflation</i>	<i>2.0%</i>	

**A principle goal of HAF's investment policy is to preserve the inflation-adjusted purchasing power of its assets after spending and inflation.** In recognition of the possibility of lower prospective returns, HAF has sought to contain spending to 4.0% in the last several years. In 2014 HAF withdrew \$3.0 million from the Long Term Investment Pool for grants and operations, which is approximately 3.7% of its average market value during the year.

Angeles' return expectations for HAF's Total Fund, including manager excess returns relative to benchmarks, are illustrated in the table below (**Table 4**). These return expectations reflect a full market cycle; in the short-term, excess returns achieved by managers in aggregate can vary from this amount both in a positive and negative direction.

Based on these long term capital market assumptions for future returns and HAF's current policy targets for the Long Term Investment Pool, we estimate that the expected return of the HAF Long Term Investment Pool will be 6.2% not taking into account any excess returns, and 6.7% with excess returns. **With spending of 4% of assets on grants, plus 2% inflation, the Long Term Pool's**



expected returns based on its current asset allocation policy would allow HAF to maintain the purchasing power of its assets over the long term (more than 10 years).

**Table 4**  
**Asset Allocation for the HAF Long Term Investment Pools<sup>1</sup>**

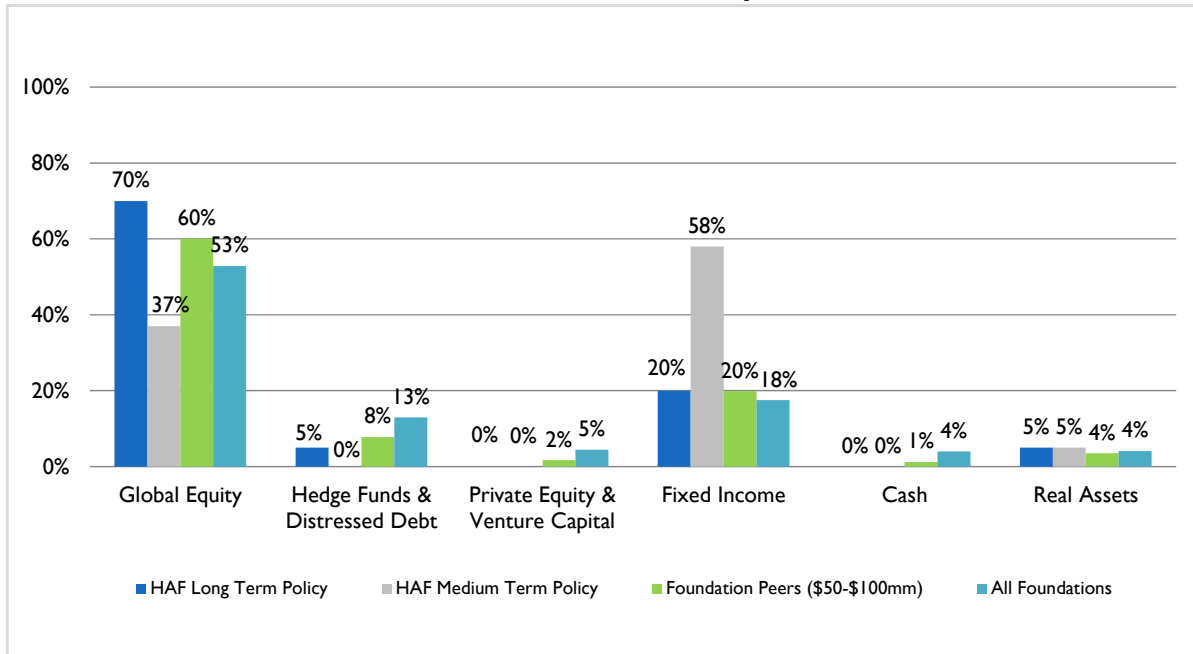
	<b>Long Term Pool</b>
<b>Global Equity</b>	<b>70%</b>
<b>Absolute Return</b>	<b>5%</b>
<b>Global REITs</b>	<b>5%</b>
<b>Fixed Income</b>	<b>20%</b>
Expected Return	6.2
Expected Excess Return	0.6
<i>Expected Return Incl. Manager Excess Returns</i>	6.7
Expected Risk	13.1
Sharpe Ratio	0.32
<i>Probability of a Loss:</i>	
1-Year	33%
5-Years	18%
10-Years	11%
<i>2 Standard Deviation Event</i>	
<i>Very Bad Scenario**</i>	-22.3

\*\* Very Bad Scenario assumes that correlations across asset classes go to 1 and each class experiences a two standard deviation negative event.

In comparison to similarly sized Community Foundation peers (\$50-\$100mm), HAF's Long Term investment policy allocations are overweight global equity, real assets, and fixed income, while underweight alternative asset classes, including hedge funds and private equity. This comparison can be seen in **Figure 2** below.

<sup>1</sup> The Total Fund's expected excess return from manager outperformance is a weighted sum of the underlying asset class composites' excess returns. Global equity's expected excess return is 0.5%, absolute return's expected excess return is 2.0%, core fixed income's expected excess return is 0.5%, and REITs' excess return expectation is 0% (given DFA's passively managed approach in its REIT portfolios).

**Figure 2**  
**HAF Asset Allocation vs. Community Foundation Peers<sup>2</sup>**



**Expenses:**

Fees charged by the Humboldt Area Foundation’s managers were all well below the median for mutual funds in each of their respective peer groups, as demonstrated in **Figure 3** below. **Six of the twelve funds held by HAF’s Long Term Pool reported fees in the bottom 5<sup>th</sup> percentile of all fees for managers in their peer groups.** Vanguard’s S&P Index fund (the Vanguard Institutional Index) had the lowest fee among all HAF managers with an expense ratio of 4 basis points (bps) (0.04%), followed closely by the Vanguard Total Bond Market Index’s 7 basis point (0.07%) expense ratio.

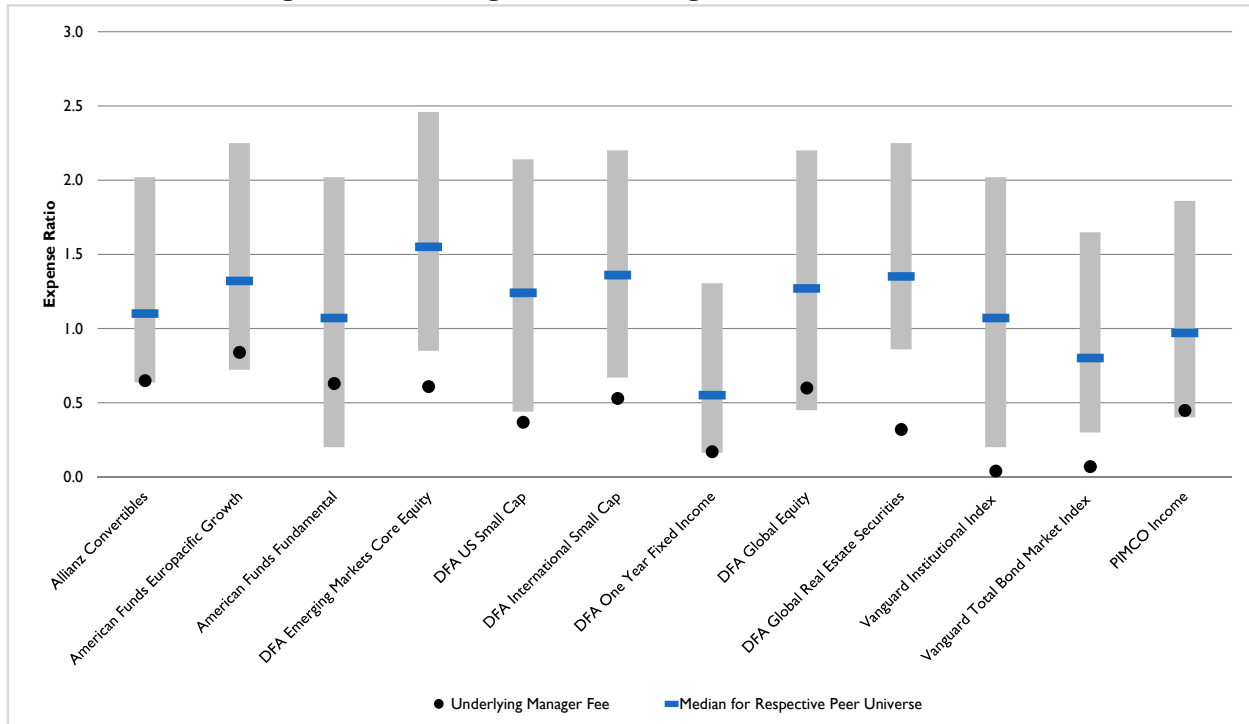
DFA funds reported low expenses as well, ranging from 17 bps (DFA One-Year Fixed Income) to 61 bps (DFA Emerging Markets Core Equity). American Funds imposed some of the higher fees in the portfolio, but in comparison to their respective peers, remained significantly below the median. Allianz Convertibles and PIMCO Income Fund carried lower fees to rank among the bottom 5<sup>th</sup> percentile within their respective peer groups.

**Based on the approved target asset allocation and fund fees as of 12/31/14, the weighted fee for investment management services for the Foundation was 55 basis points (0.55%) per annum for the Long Term Investment Pool.** The manager fees are netted from the performance of the mutual funds in which HAF invests, and are not paid out-of-pocket by the Foundation.

Premier Financial Group earns a fee from HAF for custody of all funds held (except American Funds, Hedge Funds, and Local Investing funds) and performance measurement for the plan, which amounts to an administrative charge to the fund of was 20 basis points (0.2%) on average assets in 2014. The Foundation also pays a consulting fee to Angeles Investment Advisors which in 2014 was 9.5 basis points.

<sup>2</sup> Source: Council on Foundations, 2014, based on 169 Community Foundation participants that provided asset allocation information. HAF information is based on asset allocation targets for the Long Term Investment Pool.

**Figure 3**  
**Manager Fee Rankings: HAF Managers versus Peer Universes**



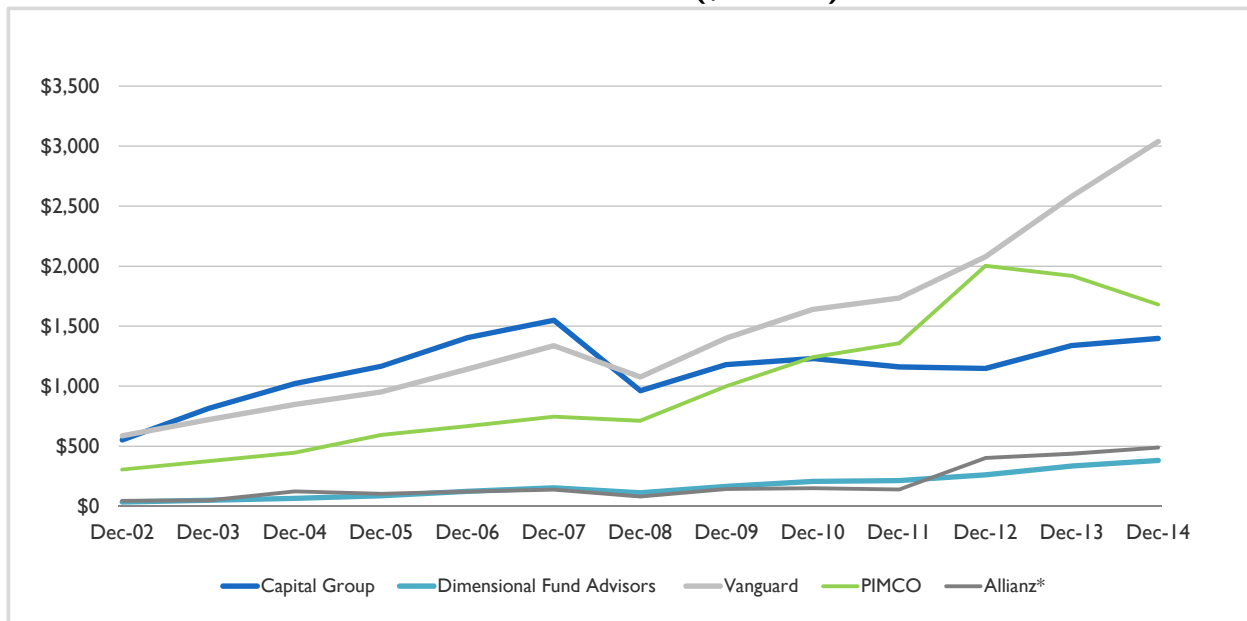
Source: Morningstar Direct as of December 2014. Each black circle represents the listed manager's net expense ratio. The horizontal gray bars represent fees for the 95th and 5th percentile fee within each respective manager universe.

## INVESTMENT MANAGER OVERVIEW

All five of the investment management firms used by HAF — Allianz, American Funds (Capital Group), Dimensional Fund Advisors (DFA), PIMCO, and Vanguard Group — remain solid, stable and highly-regarded organizations.

Dimensional Fund Advisors (DFA), Vanguard, and Allianz all reached new peaks in assets under management during 2014. Both PIMCO and American Funds shed assets during 2014. PIMCO's peak occurred after the first quarter of 2013 and the firm subsequently saw outflows as a result of bond market weakness; outflows continued in 2014 due to performance concerns and accelerated by year end with significant outflows as a result of the departure of Bill Gross, firm founder and former portfolio manager of its flagship fund, the PIMCO Total Return fund. Capital Group (of which American Funds is a subsidiary) saw 2% outflows from its family of mutual funds over the trailing year and remains 11% below its 2007 peak in assets. With more than \$1 trillion in assets each, both firms have a substantial cushion of assets, but continued losses in assets bear continued scrutiny.

**Figure 4**  
**Firm Asset Growth (\$ Billions)**



Assets in Billions	Assets at 12/31/2002	Assets at 12/31/2014	Min Asset Level	Date	Max Asset Level	Date
Capital Group	\$552	\$1,398	\$542	3/31/2003	\$1,585	9/30/2007
Dimensional Fund Advisors	\$35	\$381	\$32	3/31/2003	\$381	12/31/2014
Vanguard	\$585	\$3,039	\$585	12/31/2002	\$3,039	12/31/2014
PIMCO	\$305	\$1,680	\$305	12/31/2002	\$2,044	3/31/2013
Allianz*	\$45	\$488	\$40	3/31/2003	\$511	6/30/2014

Source: eVestment Alliance and Capital Group

\*Allianz Global Investors Capital was built from the integration of three registered investment advisory affiliates, Oppenheimer Capital (founded 1969), Nicholas-Applegate Capital Management (1984) and NFJ Investment Group (1989). The assets for 2010 and forward reflect the combined assets of AGI Capital and NFJ Investment Group. Prior period assets are the combined assets of Nicholas-Applegate, Oppenheimer Capital and NFJ Investment Group. Firm assets as of 9/30/14.

The following table lists the top 10 mutual fund families in the US as of the end of 2014. Vanguard and American Funds remain in the top 5, with PIMCO as the 6<sup>th</sup> largest, DFA as the 8<sup>th</sup> largest, and Allianz as the 55<sup>th</sup> largest.

**Table 5**  
**Largest US Mutual Fund Families – 12/31/14**

<b>Rank</b>	<b>Fund Family</b>	<b>Total Net Assets (\$ Billions)</b>
<b>1</b>	<b>Vanguard</b>	<b>2247.4</b>
2	Fidelity Investments	1246.3
<b>3</b>	<b>American Funds</b>	<b>1167.2</b>
4	T. Rowe Price	457.9
5	Franklin Templeton Investments	444.5
<b>6</b>	<b>PIMCO</b>	<b>378.3</b>
7	JPMorgan	257.6
<b>8</b>	<b>Dimensional Fund Advisors</b>	<b>249.7</b>
9	BlackRock	215.7
10	OppenheimerFunds	197.5
<b>55</b>	<b>Allianz Funds</b>	<b>35.3</b>

Source: Morningstar Direct as of 12/31/2014

Note: Assets represent US open-ended funds, excluding money market funds, fund-of-funds, and ETFs.

## CAPITAL GROUP

Capital Group is the consolidated entity that manages the firm’s mutual funds (American Funds) as well as institutional portfolios. The firm remains a privately-owned enterprise headquartered in Los Angeles. Capital Group is one of the country’s oldest financial services organizations and has been managing portfolios for over 80 years.

The firm takes a unique approach to managing portfolios, with each fund managed by a team of experienced portfolio managers with individual autonomy and accountability. Portfolio assets are divided into portions and assigned to portfolio managers who have discretion to manage the funds using their own investment approach, within the objectives and constraints of the fund. Each fund also has a Principal Investment Officer who oversees the fund from an administrative perspective and acts as a coordinator among the fund’s managers. This results in a portfolio of highest conviction ideas with added diversification, and increases the firm’s ability to handle a large asset base. Newer portfolio managers are brought into funds while the more senior managers are still in the prime of their careers, making for smooth transitions over multiple years as personnel turnover occurs.

112 portfolio managers at Capital Group are supported by 149 equity and 32 fixed income research analysts located in 13 offices across the globe. In addition, analysts manage a portion of each fund in a “research portfolio.” The analyst role can be a life-time career option at Capital and analysts typically have well over a decade of experience. The ability to manage money in the research portfolio is a key

attraction for many analysts of working at the firm. We believe Capital's global research capabilities are the primary competitive advantage of the firm.

Capital Group had \$1.4 trillion in assets as of December 31, 2014, with \$1.2 trillion in equities and \$200 billion in fixed income. The firm saw net outflows of \$12 billion in 2014 (<1% of firm assets under management), which slowed from \$39 billion (2.7% of assets) of outflows in 2013. The firm believes the slowdown in outflows reflects investors becoming more comfortable with equity markets overall and better relative performance. Despite the outflows, the firm's asset base grew by \$60 billion in 2014 on account of market performance.

Capital Group had a few notable personnel changes in 2014. The firm's Management Committee, which consists of eight individuals who are responsible for firm governance and strategic direction, had two additions and one departure. The firm added Martin Romo and Brad Vogt to the committee, both of whom have more than 20 years' experience at Capital. Shaw Wagener stepped down from the committee to spend more time on investments. Capital also made a significant addition to its fixed income team. The firm hired Mike Gitlin to become its new Head of Fixed Income, a post that was previously shared by a fixed income management committee. Gitlin was previously the head of fixed income at T. Rowe Price, another leading mutual fund family.

Angeles continues to believe that Capital Group is a sound organization staffed with talented and experienced investment professionals, a truly global orientation with a unique management process that enables it to effectively handle the sizable assets under management.

### **DIMENSIONAL FUND ADVISORS (DFA)**

Founded in 1981, DFA is a privately-held corporation headquartered in Austin, Texas with other offices located across the globe, including Santa Monica, CA, Vancouver, Toronto, London, Amsterdam, Berlin, Tokyo, Singapore and Sydney. Austin has replaced Santa Monica as the firm's official headquarters and will house the majority of the firm's future growth. Current headcount at the firm is about 835, with approximately 508 in Austin and 104 in Santa Monica. Both offices have full capabilities in terms of trading and portfolio management and are designed to be interchangeable in the event of a disaster.

Quantitative research is a specialty of the firm and has been applied to the development of innovative techniques to construct portfolios that they believe will outperform. Since the firm's inception, prominent academicians and authors of many seminal finance articles, including 2013 Nobel Prize winner, Eugene Fama, and Kenneth French, have served as directors of the firm and members of its investment committee. Recent research studies have shown that "direct profits" scaled by book value capture a return premium (excess returns); at the end of 2014, they have fully implemented this as a third dimension, along with company size and relative value, to their existing strategies.

The firm also benefits from its experienced and deep trading capabilities, which make trading a source of value added for the firm rather than a portfolio cost.

Dimensional's assets rose to \$381 billion in 2014, up from \$335 billion at December 31, 2013, which is another peak in assets. The firm has seen client interest and growth across their strategies, particularly in core equity and fixed income strategies, where they have a long history of managing assets. DFA continues to manage assets exclusively for institutional investors and the clients of registered financial advisors.

DFA is continuing its process of a well-planned succession, with co-founder, Chairman and co-CEO of Dimensional, David Booth, expected to step down in the next few years. This decision was announced

in December 2010. In December 2009, Eduardo Repetto, then Head of Research, was given the co-CEO title, a role he will take full ownership of upon Booth's departure. Repetto has been with DFA for 12 years and has served as CIO, a role he will continue in, for the past seven years. At the same time, DFA also announced that Gerard O'Reilly had been appointed Head of Research, replacing Repetto. In April 2014, the firm announced that O'Reilly was being elevated to Co-CIO alongside Repetto, while also retaining his role as Head of Research. O'Reilly joined DFA in 2004 as a member of the Research team after obtaining his PhD from California Institute of Technology.

DFA demonstrated it is capable of a smooth transition of a founder with the retirement in 2005 of Rex Sinquefeld, DFA's other co-founder, as well as his wife, Jeanne Sinquefeld, who had supervised the firm's trading operations since 1983. Angeles believes that the firm has again created an appropriate level of continuity and re-assignment of responsibilities over time. Sinquefeld retains his ownership in the firm currently, and the same is expected to be the case when David Booth steps away. Today, the two own less than 50% of the business and are continually diluted by employees' additional ownership; overall, 70% of the firm is held by employees and directors, while the remainder is held by "friends of the firm" not engaged with the company.

Angeles maintains a positive view of DFA's well-communicated and gradual approach to implementing generational changes at the firm. We believe DFA is a solid organization whose research-driven investment approach and expertise in low-cost trading has produced strong investment results over time. The firm's tenured investment professionals, diverse product offerings and measured business growth provide a solid foundation in continuing to serve clients' investment needs.

### **VANGUARD GROUP**

Vanguard was launched in 1975, but the firm's heritage extends back to 1929 with the inception of the Wellington Fund, one of the first balanced mutual funds and one of the longest-operating funds of any kind. Over the decades, Vanguard has evolved into one of the world's largest investment management companies, with \$3.0 trillion in assets under management at year end 2014. With \$195 billion in net flows, Vanguard was the largest recipient of fund flows in the industry last year. The mutual fund company has over 14,000 employees across 15 offices globally, though most (~10,000) are based out of the firm's corporate headquarters in suburban Philadelphia, PA.

The firm has cultivated a reputation in the investment industry as a low-cost, well-governed fund family. Vanguard has a unique mutual ownership structure in which shareholders essentially own the management company. This helps keep costs low and avoids conflicts of interest between fund managers and shareholders. Vanguard manages many of its fund offerings itself, particularly its index funds, but most of its actively managed funds are sub-advised by external firms.

Bill McNabb remains CEO, having taken over for a retiring Jack Brennan in December 2009. He is only the third CEO in the company's 39-year history, illustrating Vanguard's stability and continuity.

HAF has experience with Vanguard through its investment in the Total Bond Market Index Fund, as well as some previously owned funds held in HAF's Medium Term Pool. Vanguard introduced the first index mutual fund for individual investors in 1976 and has established a strong business of passive fund management through the use of low-cost index funds.

The Fixed Income Group is responsible for passively managed index portfolios, such as the Total Bond Market Index Fund, as well as actively managed strategies. Kenneth E. Volpert is the global head of Fixed Income Indexing and has direct oversight responsibility for all taxable bond index funds managed

by the Fixed Income Group. He has managed investment portfolios since 1982 and has been with Vanguard since 1992.

We believe Vanguard is a strong organization and a solid choice for HAF in offering market exposures at low cost.

### **PACIFIC INVESTMENT MANAGEMENT COMPANY (PIMCO)**

PIMCO was founded in Newport Beach, California in 1971. PIMCO started as a subsidiary of Pacific Life Insurance Company to manage separate accounts for institutional clients. Today, PIMCO's global client base is served from offices Newport Beach, New York, Amsterdam, Singapore, Tokyo, London, Sydney, Munich, Zurich, Toronto, Hong Kong, Milan, and Rio de Janeiro.

In 2000, PIMCO was acquired by Allianz SE, a large global financial services company based in Germany. Allianz, owner of PIMCO, has subsidiaries throughout the world, including insurance companies, investment managers and SEC registered broker-dealers and investment advisors. PIMCO is operationally autonomous from its parent and has no direct interaction with the foreign affiliates.

In 2011, the establishment of Allianz Asset Management (AAM,) the new holding company structure for Allianz's asset management business, was announced. AAM is comprised of two distinct global asset management entities: PIMCO and Allianz Global Investors (AGI). PIMCO also took over the retail distribution of its funds in the US from Allianz, launching its own broker dealer, PIMCO Investments, LLC. PIMCO continues to operate under its single and distinct investment platform, as it has throughout its history.

PIMCO managed \$1.7 trillion in mostly fixed income assets at the end of 2014. PIMCO believes it benefits from its size by allowing the firm to commit more resources to research than smaller firms can afford and giving them greater access to dealer research and analytics in return for the ability to trade with PIMCO. As one of the largest bond managers in the US, PIMCO is able to leverage its size to keep transaction costs as low as possible.

2014 was a notably tumultuous period for PIMCO. In March 2014 the firm's CEO and co-Chief Investment Officer, Mohamed El-Erian resigned from the firm; he remains an advisor to PIMCO's parent, Allianz. El-Erian had widely been considered the heir apparent to Gross, but El-Erian had relatively few direct portfolio responsibilities, and the impact of his leaving was contained.

An even more momentous departure occurred on September 26 when Bill Gross, co-founder and CIO of PIMCO, resigned. This announcement came as a surprise given Gross' stature at the firm and in the industry, notwithstanding reports from various media outlets during the year about growing internal dissension. The loss of Gross instigated significant asset outflows during the fourth quarter of 2014, particularly from the PIMCO Total Return Fund, which Gross managed. Gross' departure has led to significant organizational changes. Doug Hodge will continue in his role as CEO. Additionally, PIMCO named Dan Ivascyn as Group CIO who will be supported by five other CIOs: Andrew Balls, CIO of Global Fixed Income; Mark Kiesel, CIO of Global Credit; Virginie Maisonneuve, CIO of Global Equities; Scott Mather, CIO of US Core Strategies; and Mihir Worah, CIO of Real Return and Asset Allocation. Also, Mather, Kiesel and Worah were named co-Portfolio Managers of Total Return. In November, it was announced that Marc Seidner would be returning to PIMCO as CIO of Non-traditional Strategies; Seidner had previously departed in January 2014 to join Grantham, Mayo, Van Otterloo & Company (GMO).



Ivascyn will remain a Portfolio Manager on the PIMCO Income fund, and will continue to manage the fund along with Portfolio Manager Alfred Murata; both Ivascyn and Murata were named 2013 US Fixed Income Fund Managers of the Year by Morningstar. Murata has 15 years of investment experience and holds both a Ph.D. and J.D. from Stanford University. We do not expect Gross' departure to have any direct impact on the PIMCO Income fund, and despite being a named Portfolio Manager for Unconstrained Bond, Ivascyn operates in a support capacity to Marc Seidner who is the lead Portfolio Manager on that fund. We are closely monitoring the situation, especially the increased management responsibilities of Ivascyn, as well as any additional personnel turnover and significant loss of assets.

### **ALLIANZ GLOBAL INVESTORS CAPITAL**

Allianz Global Investors Capital (AGI Capital) was launched in 2009 to provide a wide range of investment solutions in equity, fixed income and alternative strategies. The firm combined the services from three Allianz Global Investors affiliates, NFJ Investment Group (founded in 1989), Nicholas-Applegate (founded in 1984) and Oppenheimer Capital (founded in 1969), with long-term, successful investment management and service histories. The deliberate design of their organizational structure expanded their capabilities across all non-investment related firm functions while maintaining autonomy for their investment teams and processes. AGI Capital is owned by the same parent as PIMCO, Allianz, but the two entities are completely separate. The firm manages \$488 billion in assets globally, including \$96 billion in the US.

The Convertibles strategy is managed in San Diego, CA by an experienced senior team led by Doug Forsyth, Justin Kass, Brit Stickney and Michael Yee, who have worked together for over a decade, including at their predecessor firm, Nicholas-Applegate. This group leads the Income & Growth team that manages \$33.4 billion across Convertibles, High Yield and Collateralized Debt Obligations (CDOs). The philosophy and process were originally developed by Forsyth and the Convertibles product continues to be a well-resourced focus of the firm. The core PM group is supported by a team of seven analysts who perform research as generalists. All four PMs also share in the research efforts, enabling cross-checking and verification of investment ideas. The convertibles team leverages resources from the 25+ equity analysts at Allianz as well. All decision making is team-based, leveraging fundamental company research from the entire team. As of 12/31/14, the team managed over \$11.2 billion in its Convertible strategy, second to the \$15.5 billion in their High Yield strategy. The Convertibles strategy is AGI Capital's 5th largest product and the mutual fund was closed to new investors on January 15, 2014, a step Angeles views as positive because it is likely to protect excess return capabilities.

## TOTAL FUND PERFORMANCE REVIEW

The Humboldt Area Foundation's Long Term Investment Pool returned 4.8% in 2014, underperforming the Policy Index return of 5.1%. The Policy Index is composed of index returns weighted by HAF asset allocation targets. This positive return was generated primarily from equity markets as well as real estate investment trusts (REITs).

HAF outperformed the median return of community foundations (based on Council on Foundations (COF) data), which reported a median net of fees return for all community foundations of 4.4% in 2014. Versus its similarly-sized peer community foundations (\$50-99.9 million in assets), HAF also outperformed the median return of 4.6% in 2014. We believe HAF's higher allocation to fixed income and real assets versus peers in HAF's portfolio was responsible for the relative outperformance versus other foundations in 2014.

Over the trailing three years (annualized), HAF outperformed the median peer community foundation. The median peer over this three-year period returned 10.8%, versus 12.1% for HAF. The median similarly sized peer (\$50-99.9 million) returned 11.0% during this period.

Effective January 1, 2014, The Foundation's Policy Index is a blended benchmark consisting of asset class index returns weighted according to the Foundation's approved target allocations as specified below:

- 70% MSCI All Country World Investable Market Index (global equity)
- 20% Barclays Aggregate Bond Index (US fixed income)
- 5% S&P Global REIT Index (global real estate securities)
- 5% HFRI Fund of Funds Composite Index (absolute return)

Global equity, which consists of the consolidated returns of the US equity and international equity composites, underperformed its blended benchmark. Additionally, fixed income also underperformed the benchmark for the year. Relative manager performance in 2014 within real estate securities added value to overall performance as the asset class surpassed its benchmark.

2014 performance for the Foundation's Total Fund is shown below in **Table 6**. Returns for individual asset classes, along with their respective benchmarks, are also displayed.

**Table 6 –  
Historical Total Fund and Asset Class Performance  
As of December 31, 2014  
(Annualized, Net of Fees)**

	% of Fund	Annualized					Since Fund Inception <sup>^</sup>	Inception Date
		1 Year	3 Year	5 Year	7 Year	10 Year		
<b>Total Fund</b>	<b>100%</b>	<b>4.8</b>	<b>12.1</b>	<b>8.7</b>	<b>3.7</b>	<b>5.6</b>	<b>6.2</b>	<b>12/31/2003</b>
Policy Index <sup>1</sup>		5.1	11.6	9.0	4.3	5.9	6.5	
<b>Global Equity<sup>2</sup></b>	<b>69.8%</b>	<b>3.6</b>	<b>15.4</b>	<b>10.1</b>	<b>4.0</b>	<b>6.6</b>	<b>7.4</b>	<b>12/31/2003</b>
Global Equity Blended Index <sup>3</sup>		3.8	14.4	9.9	3.5	5.9	6.6	
<b>Fixed Income</b>	<b>19.9%</b>	<b>5.7</b>	<b>3.8</b>	<b>5.2</b>	<b>3.0</b>	<b>3.3</b>	<b>3.6</b>	<b>12/31/2003</b>
Fixed Income Blended Index <sup>4</sup>		6.0	3.2	4.8	5.0	4.9	4.9	
<b>Real Estate Securities</b>	<b>5.0%</b>	<b>22.7</b>	<b>15.6</b>	<b>14.0</b>	<b>6.1</b>	<b>6.5</b>	<b>8.6</b>	<b>12/31/2003</b>
Real Estate Blended Index <sup>5</sup>		21.5	15.1	13.4	5.9	6.6	8.9	
<b>Absolute Return</b>	<b>5.0%</b>	<b>5.4</b>	--	--	--	--	<b>5.4</b>	<b>12/31/2013</b>
HFRI Fund of Funds Index		3.3	--	--	--	--	3.3	
<b>Total Cash</b>	<b>0.2%</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>1.4</b>	<b>1.4</b>	<b>12/31/2003</b>
90-day T-Bills		0.0	0.1	0.1	0.3	1.5	1.4	

	% of Fund	Calendar Years										
		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Total Fund</b>	<b>100%</b>	<b>4.8</b>	<b>18.1</b>	<b>13.7</b>	<b>-5.2</b>	<b>13.7</b>	<b>28.9</b>	<b>-33.9</b>	<b>5.7</b>	<b>15.4</b>	<b>9.0</b>	<b>13.2</b>
Policy Index <sup>1</sup>		5.1	15.7	14.4	-2.8	13.8	29.1	-32.3	6.6	15.5	7.1	12.3
<b>Global Equity<sup>2</sup></b>	<b>69.8%</b>	<b>3.6</b>	<b>25.9</b>	<b>17.7</b>	<b>-8.9</b>	<b>15.5</b>	<b>36.6</b>	<b>-40.2</b>	<b>9.0</b>	<b>17.2</b>	<b>13.0</b>	<b>15.8</b>
Global Equity Blended Index <sup>3</sup>		3.8	23.6	16.8	-6.9	14.9	35.9	-41.7	8.4	18.4	8.5	14.0
<b>Fixed Income</b>	<b>19.9%</b>	<b>5.7</b>	<b>1.3</b>	<b>4.6</b>	<b>7.3</b>	<b>7.5</b>	<b>11.2</b>	<b>-14.2</b>	<b>3.2</b>	<b>6.8</b>	<b>2.2</b>	<b>6.5</b>
Fixed Income Blended Index <sup>4</sup>		6.0	-1.8	5.5	7.4	7.2	8.6	2.4	6.5	5.0	2.7	5.0
<b>Real Estate Securities</b>	<b>5.0%</b>	<b>22.7</b>	<b>1.8</b>	<b>23.5</b>	<b>0.8</b>	<b>23.7</b>	<b>32.2</b>	<b>-40.5</b>	<b>-18.7</b>	<b>35.3</b>	<b>13.2</b>	<b>32.1</b>
Real Estate Blended Index <sup>5</sup>		21.5	1.7	23.2	0.1	22.7	34.4	-40.6	-17.9	35.9	14.1	34.8
<b>Absolute Return</b>	<b>5.0%</b>	<b>5.4</b>	--	--	--	--	--	--	--	--	--	--
HFRI Fund of Funds Index		3.3	--	--	--	--	--	--	--	--	--	--
<b>Total Cash</b>	<b>0.2%</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>2.0</b>	<b>4.8</b>	<b>4.8</b>	<b>3.0</b>	<b>1.2</b>
90-day T-Bills		0.0	0.0	0.1	0.1	0.1	0.2	1.8	4.7	4.8	3.0	1.2

<sup>1</sup> Effective January 1, 2014, the Policy Index = 70% MSCI All Country World Investable Market Index, 20% Barclays Aggregate Index, 5% HFRI Fund of Funds Composite Index, and 5% S&P Global REIT Index. From April 1, 2013 to December 31, 2013, the Policy Index = 70% MSCI All Country World Investable Market Index, 25% Barclays Aggregate Index, and 5% S&P Global REIT Index. From August 1, 2012 to March 31, 2013, the Policy Index = 70% MSCI All Country World Investable Market Index, 25% Barclays Universal Index, and 5% S&P Global REIT Index. From June 1, 2008 to July 31, 2012, the Policy Index = 35% Russell 3000 Index, 35% MSCI All Country World Ex US Investable Market Index, 25% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index) and 5% Blended REIT Index. The Blended REIT Index consists of 50% Wilshire REIT Index and 50% S&P/Citi Global Ex US REIT Broad Market Index. From June 1, 2006 to May 31, 2008, the policy index consists of 50% Russell 3000 Index, 20% MSCI ACWI Ex-US Index, 25% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index), and 5% DJ Wilshire REIT Index. Prior to June 1, 2006, the policy index consists of 50% Russell 3000 Index, 15% MSCI ACWI Ex-US Index, 30% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index), and 5% DJ Wilshire REIT Index.

<sup>2</sup> Historical performance of the Global Equity composite is based on the consolidated weighted returns of the US Equity and International Equity composites.

<sup>3</sup> Effective August 1, 2012, the Global Equity Blended Index consists of 100% MSCI All Country World Investable Market Index. Prior to August 1, 2012, the blended benchmark is calculated based on the weighted returns of the US Equity Benchmark and the International Equity Benchmark. From June 1, 2008 to August 1, 2012, the blended index consists of 50% Russell 3000 Index and 50% MSCI All Country World Ex US Investable Market Index. From June 1, 2006 to May 31, 2008, the blended index consists of 71.4% Russell 3000 Index and 28.6% MSCI ACWI Ex-US Index. Prior to June 1, 2006, the blended index consists of 76.9% Russell 3000 Index and 23.1% MSCI ACWI Ex-US Index.

<sup>4</sup> Effective April 1, 2013, the Fixed Income Blended Index consists of 100% Barclays Aggregate Index. Prior to April 1, 2013, the blended benchmark consisted of 100% Barclays Universal Index.

<sup>5</sup> Real Estate Securities benchmark is a custom blended benchmark: Effective August 1, 2012, the benchmark consists of 100% S&P Global REIT Index. From June 1, 2008 to July 31, 2012, the benchmark consists of 50% DJ Wilshire RE Securities and 50% S&P/Citi Global US RE Index. Prior to 6/1/08, the benchmark consists of 100% DJ Wilshire RE Secs.

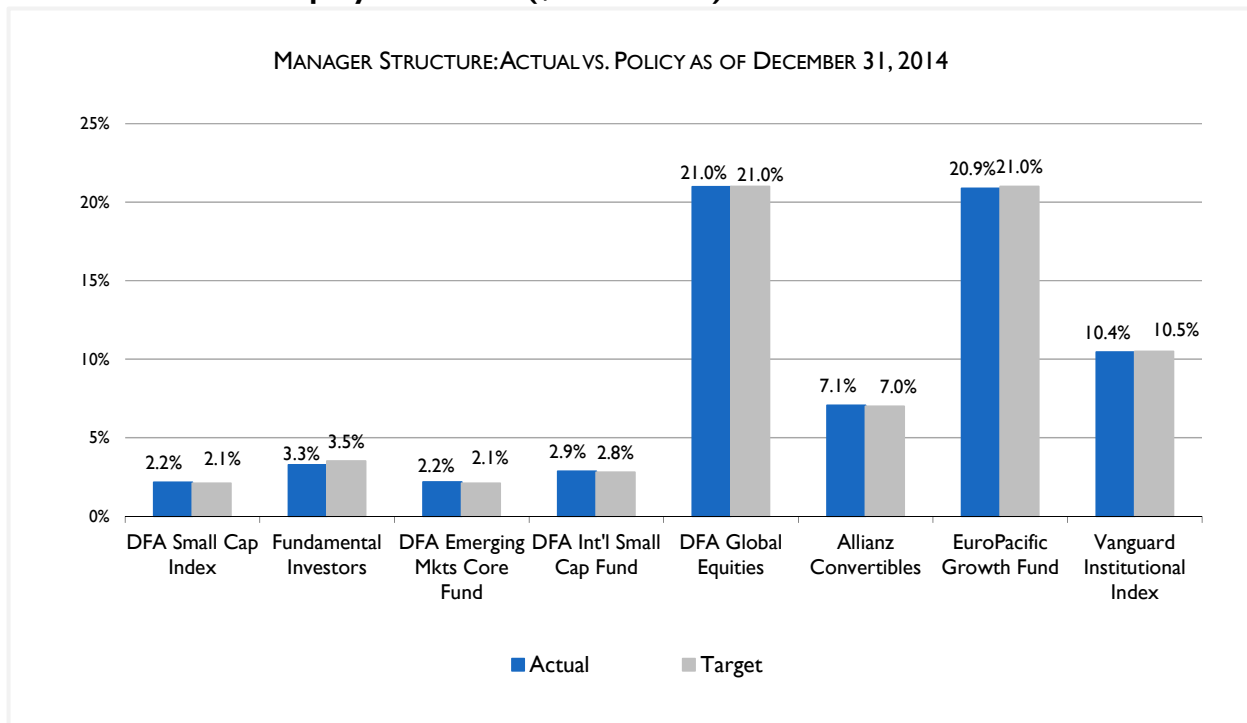
<sup>^</sup>Returns are annualized for periods greater than a year.

## GLOBAL EQUITY REVIEW

HAF's \$59.9 million global equity portfolio is invested in eight mutual funds, and is well diversified across investment styles, geography, and market capitalization. **Collectively, HAF's equities slightly lagged their benchmark in 2014.** The Foundation's total global equity composite gained 3.6% during 2014, falling 0.2% shy of the global equity benchmark's 3.8% return.

**Figure 5** displays the global equity portfolio's composition at the end of December 2014 versus HAF's global equity policy targets. At year-end, HAF was in line with all the targets for each segment.

**Figure 5**  
**Global Equity Allocation (\$59.9 million) – Percent of Total Assets**



HAF's performance in 2014 relative to the global index reflects the portfolio's significant exposure to index funds. DFA's Global Equities fund performed especially well, returning 4.6% against its benchmark's 3.8% gain. The American Funds EuroPacific Growth Fund also outperformed for the trailing year, returning -2.6% versus -3.9% for its benchmark. Additionally, DFA's Emerging Markets Core Equity Fund finished over 120 basis points ahead of the MSCI Emerging Markets Index (-0.9% versus -2.2%).

**Table 7**  
**Global Equity Performance as of December 31, 2014**  
**(Annualized, Net of Fees)**

	% of Fund	Annualized					Since Fund	Inception				
		1 Year	3 Year	5 Year	7 Year	10 Year	Inception <sup>^</sup>	Date				
<b>Global Equity<sup>2</sup></b>	<b>69.8%</b>	<b>3.6</b>	<b>15.4</b>	<b>10.1</b>	<b>4.0</b>	<b>6.6</b>	<b>7.4</b>	<b>12/31/2003</b>				
<i>Global Equity Blended Index<sup>3</sup></i>		3.8	14.4	9.9	3.5	5.9	6.6					
DFA Small Cap Index	<b>2.2%</b>	<b>4.4</b>	<b>20.7</b>	<b>17.4</b>	<b>9.9</b>	<b>8.8</b>	<b>9.3</b>	<b>1/31/2004</b>				
<i>Russell 2000 Index</i>		4.9	19.2	15.5	8.2	7.8	8.3					
Fundamental Investors	<b>3.3%</b>	<b>9.0</b>	<b>18.8</b>	<b>13.4</b>	<b>6.1</b>	<b>8.6</b>	<b>7.7</b>	<b>6/30/2006</b>				
<i>S&amp;P 500 Index</i>		13.7	20.4	15.5	7.3	7.7	8.1					
DFA Emerging Markets Core Fund*	<b>2.2%</b>	<b>-0.9</b>	<b>5.1</b>	<b>2.7</b>	<b>0.7</b>	<b>0.0</b>	<b>10.9</b>	<b>12/31/2003</b>				
<i>MSCI Emerging Mkts</i>		-2.2	4.0	1.8	-1.3	8.4	9.9					
DFA Int'l Small Cap Fund	<b>2.9%</b>	<b>-6.3</b>	<b>12.4</b>	<b>8.3</b>	<b>2.5</b>	<b>6.7</b>	<b>13.9</b>	<b>7/31/2012</b>				
<i>MSCI ACWI ex-US Small Cap Index</i>		-5.3	11.8	7.9	2.0	5.9	13.0					
DFA Global Equities	<b>21.0%</b>	<b>4.6</b>	<b>16.9</b>	<b>12.0</b>	<b>5.2</b>	<b>7.1</b>	<b>18.1</b>	<b>7/31/2012</b>				
<i>MSCI ACWI IMI Index</i>		3.8	14.3	9.5	3.1	6.4	14.8					
Allianz Convertibles	<b>7.1%</b>	<b>6.7</b>	<b>14.5</b>	<b>12.2</b>	<b>8.2</b>	<b>9.4</b>	<b>16.0</b>	<b>7/31/2012</b>				
<i>BofA ML US All Conv</i>		9.4	16.3	11.7	7.6	7.1	17.1					
EuroPacific Growth Fund	<b>20.9%</b>	<b>-2.6</b>	<b>11.7</b>	<b>5.7</b>	<b>1.2</b>	<b>6.7</b>	<b>7.7</b>	<b>1/31/2004</b>				
<i>MSCI ACWI ex-US Index</i>		-3.9	9.0	4.4	-0.6	5.1	6.4					
Vanguard Institutional Index	<b>10.4%</b>	<b>13.7</b>	<b>20.4</b>	<b>15.4</b>	<b>7.3</b>	<b>7.7</b>	<b>11.7</b>	<b>3/31/2014</b>				
<i>S&amp;P 500 Index</i>		13.7	20.4	15.5	7.3	7.7	11.7					
		Calendar Years										
	% of Fund	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Global Equity<sup>2</sup></b>	<b>69.8%</b>	<b>3.6</b>	<b>25.9</b>	<b>17.7</b>	<b>-8.9</b>	<b>15.5</b>	<b>36.6</b>	<b>-40.2</b>	<b>9.0</b>	<b>17.2</b>	<b>13.0</b>	<b>15.8</b>
<i>Global Equity Blended Index<sup>3</sup></i>		3.8	23.6	16.8	-6.9	14.9	35.9	-41.7	8.4	18.4	8.5	14.0
DFA Small Cap Index	<b>2.2%</b>	<b>4.4</b>	<b>42.2</b>	<b>18.4</b>	<b>-3.1</b>	<b>30.7</b>	<b>36.3</b>	<b>-36.0</b>	<b>-3.1</b>	<b>16.6</b>	<b>6.1</b>	<b>17.9</b>
<i>Russell 2000 Index</i>		4.9	38.8	16.3	-4.2	26.9	27.2	-33.8	-1.6	18.4	4.6	18.3
Fundamental Investors	<b>3.3%</b>	<b>9.0</b>	<b>31.5</b>	<b>17.1</b>	<b>-1.9</b>	<b>14.1</b>	<b>33.4</b>	<b>-39.7</b>	<b>13.6</b>	<b>19.2</b>	<b>11.7</b>	<b>13.9</b>
<i>S&amp;P 500 Index</i>		13.7	32.4	16.0	2.1	15.1	26.5	-37.0	5.5	15.8	4.9	10.9
DFA Emerging Markets Core Fund*	<b>2.2%</b>	<b>-0.9</b>	<b>-2.6</b>	<b>20.5</b>	<b>-20.6</b>	<b>23.6</b>	<b>83.6</b>	<b>-50.7</b>	<b>37.5</b>	<b>30.9</b>	<b>29.9</b>	<b>29.9</b>
<i>MSCI Emerging Mkts</i>		-2.2	-2.6	18.2	-18.4	18.9	78.5	-53.3	39.4	32.1	34.0	25.6
DFA Int'l Small Cap Fund	<b>2.9%</b>	<b>-6.3</b>	<b>27.4</b>	<b>18.9</b>	<b>-15.3</b>	<b>23.9</b>	<b>42.0</b>	<b>-43.9</b>	<b>5.7</b>	<b>24.9</b>	<b>22.0</b>	<b>30.9</b>
<i>MSCI ACWI ex-US Small Cap Index</i>		-5.3	25.6	17.5	-15.8	24.5	50.8	-48.0	3.3	19.5	25.0	29.4
DFA Global Equities	<b>21.0%</b>	<b>4.6</b>	<b>29.1</b>	<b>18.2</b>	<b>-7.4</b>	<b>19.4</b>	<b>34.5</b>	<b>-40.0</b>	<b>4.4</b>	<b>20.5</b>	<b>11.0</b>	<b>19.0</b>
<i>MSCI ACWI IMI Index</i>		3.8	23.6	16.4	-7.9	14.3	36.4	-42.3	11.2	20.9	11.6	16.4
Allianz Convertibles	<b>7.1%</b>	<b>6.7</b>	<b>25.6</b>	<b>12.0</b>	<b>-2.3</b>	<b>21.2</b>	<b>37.7</b>	<b>-28.8</b>	<b>16.2</b>	<b>12.9</b>	<b>7.2</b>	<b>12.0</b>
<i>BofA ML US All Conv</i>		9.4	24.9	15.0	-5.2	16.8	49.1	-35.7	4.5	12.8	1.0	9.6
EuroPacific Growth Fund	<b>20.9%</b>	<b>-2.6</b>	<b>20.2</b>	<b>19.2</b>	<b>-13.6</b>	<b>9.4</b>	<b>39.1</b>	<b>-40.5</b>	<b>19.0</b>	<b>21.9</b>	<b>21.1</b>	<b>19.7</b>
<i>MSCI ACWI ex-US Index</i>		-3.9	15.3	16.8	-13.7	11.2	41.4	-45.5	16.7	26.7	16.6	20.9
Vanguard Institutional Index	<b>10.4%</b>	<b>13.7</b>	<b>32.3</b>	<b>16.0</b>	<b>2.1</b>	<b>15.0</b>	<b>26.6</b>	<b>-37.0</b>	<b>5.5</b>	<b>15.8</b>	<b>4.9</b>	<b>10.9</b>
<i>S&amp;P 500 Index</i>		13.7	32.4	16.0	2.1	15.1	26.5	-37.0	5.5	15.8	4.9	10.9

Note: Performance displayed above reflects historical returns since fund inception. Some funds include extended performance based on oldest share class, adjusted for fees.

<sup>2</sup> Historical performance of the Global Equity composite is based on the consolidated weighted returns of the US Equity and International Equity composites.

<sup>3</sup> Effective August 1, 2012, the Global Equity Blended Index consists of 100% MSCI All Country World Investable Market Index. Prior to August 1, 2012, the blended benchmark is calculated based on the weighted returns of the US Equity Benchmark and the International Equity Benchmark. From June 1, 2008 to August 1, 2012, the blended index consists of 50% Russell 3000 Index and 50% MSCI All Country World Ex US Investable Market Index. From June 1, 2006 to May 31, 2008, the blended index consists of 71.4% Russell 3000 Index and 28.6% MSCI ACWI Ex-US Index. Prior to June 1, 2006, the blended index consists of 76.9% Russell 3000 Index and 23.1% MSCI ACWI Ex-US Index.

<sup>^</sup> Returns are annualized for periods greater than a year.

\* Prior to April 1, 2008 the portfolio was based off returns from DFA Emerging Markets (DFEMX). Since April 1, 2008, the portfolio has been based off performance from DFA Emerging Markets Core Equity (DFCEX).

## Allianz Global Investors – US Convertible Bonds

**Overview:** Allianz’s convertibles team follows a disciplined, fundamental bottom-up research process, which facilitates the early identification of convertibles issuers demonstrating the ability to improve their fundamental characteristics.

The team will initially screen the broader equity universe on quantitative characteristics in search of industry and issuer themes and trends that affect the convertible universe. The emphasis is on companies exhibiting positive fundamental change and momentum will typically lead them to growth industries that are seeing increased revenue, margin expansion, cash flow increases, new products, etc.

The process then moves to deep, fundamental credit research, relying heavily on the team’s “Upgrade Alert Model.” Using scenario analysis and conservative forecasts, they project financial statements out 5 years on a pro-forma basis, generating over 60 operating statistics. Their quantitative model will then make use of hand-keyed financial statement metrics to generate an internal credit quality rating based on eight ratings factors, similar to those used in S&P and other ratings agencies. The companies/issues selected for the portfolio exceed minimum fundamental metrics, exhibit the highest visibility of future expected operating performance and are often candidates for ratings upgrades. Relative value and liquidity then determine the timeliness of the trade. Macro factors are assessed at the individual issuer level.

Investment decisions are made through team consensus, though Forsyth is accountable for final decisions. Portfolios are well diversified, owning 70 to 100 equally-weighted issues to avoid specific security risk. Issues have at least \$200 million outstanding and they seek equity market caps over \$500 million to ensure proper liquidity. This is a pure US convertible strategy that will not deviate from its core universe to generate yield or return; it invests in US dollar-denominated issues only, limits international exposure and enforces a 90-day limit for equity holdings from forced convertible conversions.

HAF invested in Allianz’s US Convertibles strategy in July 2012.

**Performance:** Allianz’s US Convertibles strategy returned 6.7% net of fees in 2014, underperforming the 9.4% return of the BofA ML US All Convertibles Index. The team noted that the year was difficult because there was a wide dispersion in returns between equity-sensitive, balanced, and bond-like convertibles; equity-sensitive collectively returned 17.9% whereas bond-like returned 2.7%. Selection in Transportation, Financials and Consumer Discretionary contributed to performance, while Technology, Health Care and Utilities detracted. Macro factors (e.g. global central bank policy) continue to concern the team, though they will continue to construct the portfolio from the bottom-up. They believe fundamentals generally look good, and new issuance should outpace redemptions in 2015, the first time since the 2007-2008 Financial Crisis.

**Conclusion:** This is a well-diversified, risk-controlled portfolio that employs deep credit modeling and fundamental research. Despite a poor 2014, longer term performance is impressive versus the index and peers. The Allianz team expects that its balanced convertible portfolio will participate in 70-80% of market gains while only experiencing 40-50% of market declines over time. The portfolio’s bond orientation and income provide a cushion during falling markets and serves to dampen volatility in the equity portfolio.

## American Funds – Fundamental Investors Fund (Large Capitalization Core)

**Overview:** The Fundamental Investors Fund is a large capitalization fund with a dual growth and income objective, managed against the S&P 500. The team uses fundamental analysis to target undervalued and overlooked opportunities with the potential for growth in sales, earnings and dividends. While there is a dividend focus, the fund aims to achieve long-term growth of capital over yield. The process favors companies with strong balance sheets, high quality products, and leading market share. The fund is able to invest up to 35% of assets outside the US and up to 5% in debt securities rated BB+/Ba1 or below.

The firm added two portfolio managers to Fundamental Investors in 2014, Mark Casey and Gregory Johnson. Casey and Johnson have worked at Capital Group for 14 and 21 years, respectively. Adding two portfolio managers was part of a generational transition, following the retirement of portfolio manager James Drasdo in 2013. The seven portfolio managers on the team have a median of 23 years' investment experience and 21 years with Capital Group. Dina Perry remains the Principal Investment Officer of the fund.

As of December 31, 2014 the fund had \$71 billion in assets under management, up from \$68 billion the prior year. Outflows from the fund were relatively modest in 2014, at \$2.2 billion (3% of assets).

HAF invested in American Funds' Fundamental Investors strategy in June 2006.

**Performance:** Fundamental Investors earned 9.0% net of fees for the year versus the S&P 500's gain of 13.7%. The main reasons for underperformance included the fund's allocation to international stocks, poor stock selection, and cash drag. Non-US holdings were 11% of the portfolio at year-end, which significantly underperformed the US market in 2014. Some of the larger detractors included Amazon, Boeing, Airbus, and Philip Morris. Over the course of the year, the fund added to consumer staples, information technology and financials while trimming energy, materials, and telecom.

**Conclusion:** Fundamental Investors' bottom-up, fundamental approach to stock selection is a good complement to the quantitative, quasi-passive funds managed by Dimensional Fund Advisors. Angeles believes the more opportunistic nature of the fund, including the ability to invest globally, is a distinguishing feature relative to large growth and income mandates. The fund also mitigates security-specific risk by investing across 160 holdings. Over the long term, the team has been able to add value with this wider mandate.

### **American Funds – EuroPacific Growth Fund (Core International Equity)**

**Overview:** The EuroPacific Growth Fund provides core international equity exposure by investing in non-US companies of all sizes. Typically, at least 80% of assets are invested in companies domiciled in Europe and the Pacific Basin. The portfolio is well diversified across regions and sectors, with approximately 260 securities.

There was one addition and one departure from the portfolio management team in 2014. The firm added Lawrence Kymisis as a portfolio manager, with 12 years at Capital Group. In mid-2014, Robert Lovelace stepped down from portfolio management duties on the fund to shift his focus to other funds. The fund is now managed by nine portfolio managers, with a median of 21 years' investment experience and 21 years with Capital Group. Carl Kawaja is the Principal Investment Officer of the fund.

The EuroPacific Growth Fund ended 2014 with \$121 billion in assets, down from \$123 billion the prior year. The decline in assets was due to its negative performance, as the fund received \$900 million in net



flows for the year. EuroPacific Growth is the second largest fund behind Growth Fund of America at American Funds.

HAF invested in American Funds' EuroPacific Growth strategy in January 2004.

**Performance:** The EuroPacific Growth Fund declined -2.6% net of fees in 2014, outperforming the MSCI ACWI ex-US Index return of -3.9%. The fund outperformed mostly from sector selection, benefiting from an underweight to energy and overweight to information technology and health care. Top individual contributors included Novo Nordisk, Associated British Foods, and Indian banks.

At the end of 2014, the fund had approximately 22% invested in emerging markets, up from 20% the year prior. The fund has made significant additions to India due to attractive opportunities following the election of Prime Minister Modi. The fund has also seen its cash position rise to 11.8% from 6.6% last year; the team has been finding less compelling investments in the market today given a slowing growth environment.

**Conclusion:** While we have been monitoring the fund's large asset base, our concerns have been tempered by the fund's continued strong performance and the expansion of the management team over the last few years. Despite its size, the fund has outperformed its benchmark in each of the last four years and over longer term periods. Angeles remains confident in EuroPacific's team and long-term, fundamental, bottom-up approach.

## DFA – US Small Capitalization Fund

**Overview:** This fund provides US small capitalization core exposure and is managed to exceed the performance of the Russell 2000 Index of small capitalization companies. The portfolio invests in securities with market capitalizations within the smallest 10% of the market universe or smaller than the 1,000<sup>th</sup> largest US Company, whichever produces the higher market cap break. Once companies have met the market cap and book-to-market requirements, DFA will apply their exclusion criteria to arrive at their investable universe. These criteria include eliminating ADRs or foreign stocks, REITs, recent IPOs, regulated utilities and stocks in severe financial distress, as well as applying liquidity filters and momentum screens. More recently, DFA has moved to exclude small cap stocks with extreme growth characteristics. DFA's proprietary research going back to 1979 has shown that strategies that exclude these securities would have earned measurable improvement in long-term performance.

Due to the reduced liquidity of small capitalization stocks, trading costs are often the largest component of the overall implementation cost of small cap strategies. DFA uses its competitive advantage as one of the largest small cap equity managers and its network of brokers to mitigate these costs. DFA's trading strategy focuses on minimizing turnover in the portfolio by using buy, hold and sell ranges, and excluding securities that lack sufficient liquidity. They also take advantage of momentum, and do not move too quickly to buy stocks that are falling or sell stocks that are rising in price and valuation. DFA utilizes block trades for over half of their purchases in an effort to keep transaction costs down as well. This method of efficient implementation has been a source of added value and is a distinguishing trait of DFA.

As of December 31, 2014 the fund had \$16.1 billion in assets under management, up from \$14.1 billion the prior year. Net inflows for the fund in 2014 were \$1.4 billion.

HAF invested in DFA's US Small Capitalization strategy in January 2004.

**Performance:** US Small Capitalization returned 4.4% net of fees, underperforming the 4.9% return of the Russell 2000 Index. The largest detractor from relative performance for the year was having no exposure to REITs, which performed well as interest rates moderated throughout the year. REITs are explicitly excluded from the buy universe, and small-cap REITs were the highest returning sector in the index (8% weight). The next largest detractor from relative performance was Health Care, and in particular low profitability biotechnology names, which performed well last year but are excluded based on Dimensional's criteria. For the year, small-cap underperformed large-cap names while small value underperformed small growth.

**Conclusion:** Angeles recommends retaining this small cap fund. While this is HAF's smallest allocation in the equity sleeve at 2.2% of the total portfolio (3.2% of equities), it is an important diversification tool. The strategy's broad exposure to 2,092 companies seeks to resemble the universe of small cap stocks and we believe the manager's disciplined, price-conscious, and well-executed approach should continue to add value.

### **DFA – International Small Cap Equity Fund**

**Overview:** This fund provides international small capitalization core exposure and is a quantitative strategy that invests in the universe of small cap stocks in non-US developed markets. The strategy focuses on companies that have market capitalization in the bottom 10-15% of each country's total stock market universe (but above \$50 million). Country weights are determined by region and are designed to reflect the current small company market capitalization of each region, relative to the entire international small company universe. Countries within a region and issues within a country are also market-weighted. The portfolio currently invests in companies in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Portugal, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom. As of December 31, 2014, the portfolio's top country allocations were to Japan (23%), the UK (23%), and Canada (9%).

As of December 31, 2014 the fund had \$13.8 billion in assets under management, up from \$11 billion the prior year. Net inflows for the fund in 2014 were modest at \$178 million.

HAF invested in DFA's International Small Cap strategy in July 2012.

**Performance:** International Small Cap returned -6.3% net of fees, underperforming the -5.4% return of the MSCI World ex-US Small Cap Index. The largest detractor from relative performance for the year was having no exposure to REITs, which performed well as interest rates moderated throughout the year. REITs are explicitly excluded from the buy universe, and small-cap REITs were the highest returning sector in the index (6% weight). For the year, small-cap underperformed large-cap names while small value underperformed small growth.

**Conclusion:** The fund provides solid exposure to the international small cap space at a reasonable expense of 0.54%. The portfolio has outperformed the MSCI All Country World Index ex-US Small Cap Index return net of fees over the trailing 3-, 5- and 7-year history. This fund provides a good complement to the EuroPacific Growth fund managed by American Funds, which invests in companies with the largest market capitalizations and will include emerging markets holdings.

## DFA – Emerging Markets Core Equity Fund

**Overview:** DFA's Emerging Markets fund is quantitatively managed and will purchase a diversified basket of emerging markets issuers, with an increased exposure to small capitalization stocks and those it considers value stocks. DFA regularly reviews countries based on a set of qualitative and quantitative criteria in order to determine both the suitability of investments as well as the appropriate classification (developed or emerging). They will apply minimum criteria that include market liquidity, fair treatment of foreign investors, adequate regulation at the exchange level, and reasonable accounting standards. The Portfolio currently invests in companies in Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey. They will not invest in the locally traded shares of China or Russia, instead preferring to use depository receipts to gain exposure.

DFA's core emerging markets portfolio differs slightly from the country weights in the MSCI Emerging Markets Index, with individual country weights capped at 15%, an increase from the 12.5% limit in 2009. As of December 31, China, South Korea, and Taiwan were at the maximum allocation allowed. China will be systematically underweight in this portfolio given these constraints; its weight in the benchmark is 21.8%, while South Korea is 14.7%, and Taiwan is 12.6%. Individual position weightings are not to exceed 5% at time of purchase.

Turnover remains extremely low (at 1%) and the fund continues to stick with its smaller cap bias with a weighted average total market capitalization of \$30.8 billion versus the MSCI Emerging Market's average market capitalization of \$48.1 billion. The fund has had to increase its holdings to more than 3,900, nearly double the number in 2006, to maintain its liquidity restrictions.

As of December 31, 2014 the fund had \$19.5 billion in assets under management, up from \$16.9 billion the prior year. Net inflows for the fund in 2014 were \$2.4 billion.

HAF invested in DFA's EM strategy in January 2004.

**Performance:** Emerging Markets Core returned -0.9% net of fees versus, outperforming the -2.2% return of the MSCI Emerging Markets Index. An overweight to India and an underweight to Russia helped performance, while the underweight to China (due to the 15% country cap) detracted from performance. From a sector perspective, energy contributed the most due primarily to the portfolio's underweight. The next two top contributors were industrials and materials due to strong portfolio composition. For the year, small-cap outperformed large-cap while value underperformed growth.

**Conclusion:** The fund's preference for smaller capitalization stocks will lead to greater volatility, though thoughtful risk controls and diversification across regions and market capitalizations make this fund a solid option for emerging markets exposure. Angeles believes HAF's international composite will benefit from its exposure to this fund over a long-term horizon.

## DFA – Global Equity Portfolio

**Overview:** The DFA Global Equity Portfolio allocates its assets to a combination of underlying funds offered by DFA that invest in equities in the US, international and emerging markets. The strategy is fully diversified across over 12,000 securities and more than forty-four countries, minimizing the effect of any single company or country on investment results. While still designed to put greater emphasis on securities with higher expected returns—small cap and value—it also provides exposure to large

company stocks. As of 12/31/2014, the portfolio was overweight the US at 64% of the portfolio (versus 54% for the MSCI All Country World Index Investible Market Index).

As of December 31, 2014 the fund had \$3.9 billion in assets under management, down slightly from \$4.0 billion the prior year. Net inflows for the fund in 2014 were \$307 million. Please note that DFA went through a composite modification during Q3 2014 that moved some of the strategy assets into another composite.

HAF invested in DFA's Global Equity strategy in July 2012.

**Performance:** Global Equity returned 4.6% net of fees versus, outperforming the 3.8% return of the MSCI All Country World Index Investible Market Index. The strongest contributors were consumer discretionary, financials, industrials, and technology, allocations to which were either market-weight or overweight. The largest detractor by far was energy due to a 1% overweight and poor portfolio composition. From a regional perspective, underweights to the UK, Europe and Japan helped in aggregate; after accounting for portfolio composition and interaction effect, total excess return was 0.9%. The overweight to the US and Canada helped returns, but was offset by poor portfolio composition. For the year, small-cap underperformed large-cap while value underperformed growth.

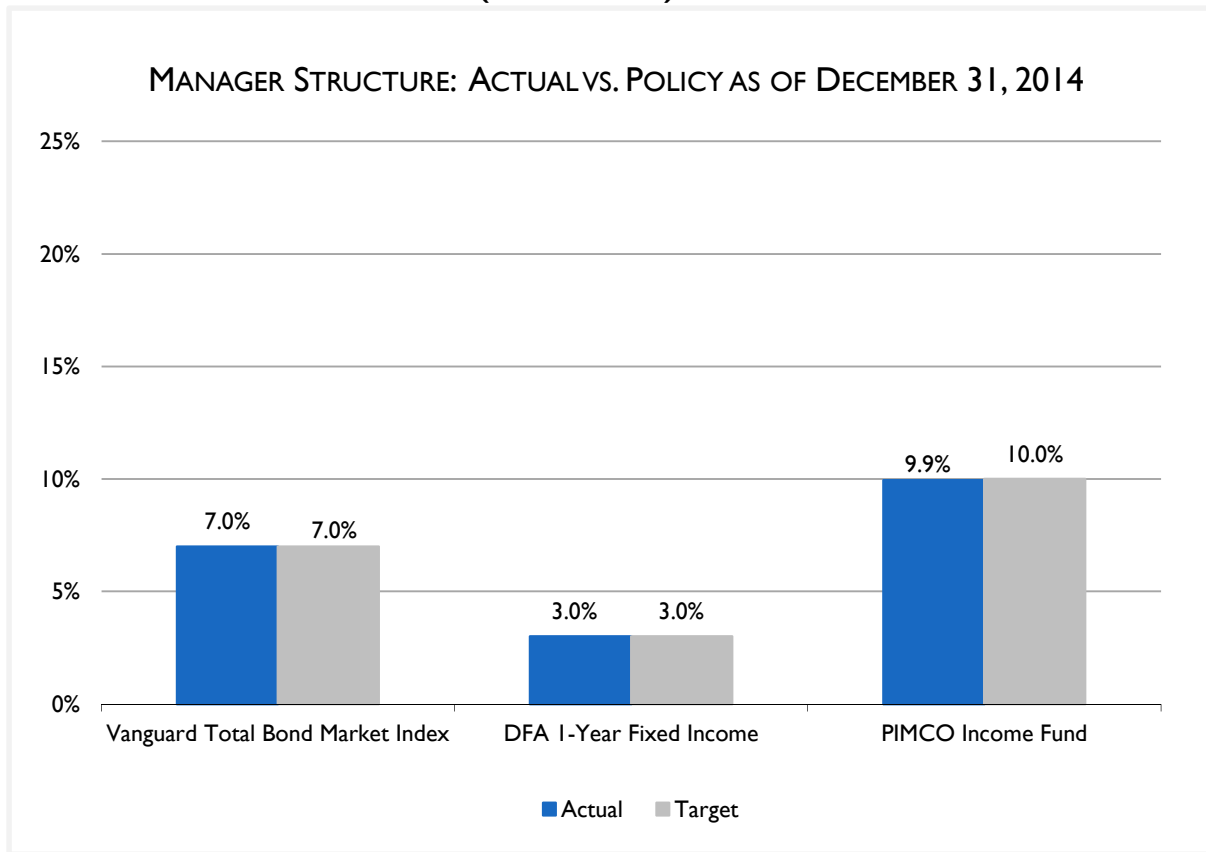
**Conclusion:** This is a highly diversified (12,000+ holdings) global fund whose value and small capitalization tilts act as an important counter-balance to EuroPacific's actively managed growth style. This is the largest holding in the equity sleeve at 30.1%, or 21.0% of the total portfolio.

## FIXED INCOME REVIEW

As of December 31, 2014, the Foundation's fixed income portfolio consisted of the Vanguard Total Bond Market Index Fund (investment grade US bonds), the PIMCO Income Fund (opportunistic bonds), and the DFA One-Year Fixed Income Fund. The portfolio offers exposure to a range of mortgage and credit sectors while offering significant diversification. Considered together, the bond holdings slightly underperformed the index.

At the end of the year, the fixed income allocations were in line with their targets.

**Figure 6**  
**Fixed Income Allocation (\$17.1 million) – as a Percent of Total Assets**



**Table 8**  
**Fixed Income Fund Performance as of December 31, 2014**  
**(Annualized, Net of Fees)**

	% of Fund	Annualized					Since Fund	Inception				
		1 Year	3 Year	5 Year	7 Year	10 Year	Inception <sup>^</sup>	Date				
<b>Fixed Income</b>	<b>19.9%</b>	<b>5.7</b>	<b>3.8</b>	<b>5.2</b>	<b>3.0</b>	<b>3.3</b>	<b>3.6</b>	<b>12/31/2003</b>				
<i>Fixed Income Blended Index<sup>4</sup></i>		6.0	3.2	4.8	5.0	4.9	4.9					
Vanguard Total Bond Market Index	<b>7.0%</b>	<b>5.9</b>	<b>2.6</b>	<b>4.4</b>	<b>4.7</b>	<b>4.7</b>	<b>4.2</b>	<b>10/31/2009</b>				
<i>Barclays Aggregate Index</i>		6.0	2.7	4.4	4.8	4.7	4.2					
PIMCO Income Fund	<b>9.9%</b>	<b>7.2</b>	<b>11.1</b>	<b>11.9</b>	<b>10.3</b>	<b>--</b>	<b>6.0</b>	<b>12/31/2012</b>				
<i>Barclays Aggregate Index</i>		6.0	2.7	4.4	4.8	--	1.9					
DFA I-Year Fixed Income	<b>3.0%</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>1.3</b>	<b>2.1</b>	<b>2.0</b>	<b>12/1/2013</b>				
<i>BofA ML 6 Month Treasuries</i>		0.1	0.1	0.2	0.7	1.8	1.7					
	% of Fund	Calendar Years										
		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Fixed Income</b>	<b>19.9%</b>	<b>5.7</b>	<b>1.3</b>	<b>4.6</b>	<b>7.3</b>	<b>7.5</b>	<b>11.2</b>	<b>-14.2</b>	<b>3.2</b>	<b>6.8</b>	<b>2.2</b>	<b>6.5</b>
<i>Fixed Income Blended Index<sup>4</sup></i>		6.0	-1.8	5.5	7.4	7.2	8.6	2.4	6.5	5.0	2.7	5.0
Vanguard Total Bond Market Index	<b>7.0%</b>	<b>5.9</b>	<b>-2.1</b>	<b>4.2</b>	<b>7.7</b>	<b>6.6</b>	<b>6.1</b>	<b>5.2</b>	<b>7.0</b>	<b>4.4</b>	<b>2.5</b>	<b>4.4</b>
<i>Barclays Aggregate Index</i>		6.0	-2.0	4.2	7.8	6.5	5.9	5.2	7.0	4.3	2.4	4.3
PIMCO Income Fund	<b>9.9%</b>	<b>7.2</b>	<b>4.8</b>	<b>22.2</b>	<b>6.4</b>	<b>20.5</b>	<b>19.2</b>	<b>-5.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<i>Barclays Aggregate Index</i>		6.0	-2.0	4.2	7.8	6.5	5.9	5.2	7.0	4.3	2.4	4.3
DFA I-Year Fixed Income	<b>3.0%</b>	<b>0.3</b>	<b>0.3</b>	<b>0.9</b>	<b>0.6</b>	<b>1.2</b>	<b>1.9</b>	<b>4.0</b>	<b>5.2</b>	<b>4.8</b>	<b>2.3</b>	<b>0.9</b>
<i>BofA ML 6 Month Treasuries</i>		0.1	0.1	0.2	0.3	0.4	0.5	3.4	5.4	4.8	3.0	1.2

Note: Performance displayed above reflects historical returns since fund inception. Some funds include extended performance based on oldest share class, adjusted for fees. These tables reflect historical performance for the funds in which the Long Term Investment Pool invests, but HAF did not hold these funds for the entire period shown.

<sup>^</sup> Returns are annualized for periods greater than a year.

<sup>4</sup> The Blended Index is a blend of the Barclays Aggregate Index (which covers all investment grade dollar-denominated bonds) from 4/1/13-12/31/14 and the Universal Index (which includes investment grade and non-investment grade issues) prior to 4/1/13.

**The Foundation's fixed income composite returned 5.7% in 2014, underperforming the Blended Index's return of 6.0%.** The portfolio's largest individual holding – PIMCO Income Fund – returned 7.2% over the year to outperform its benchmark's 6.0% return. For 2014, Vanguard Total Bond Market Index returned 5.9% to slightly underperform its benchmark. The DFA I-Year Fixed Income fund, which was added at the end of 2013 to lower the bond portfolio's overall interest rate sensitivity, returned 0.3% during 2014 compared to 0.1% for its benchmark.

### Vanguard – Total Bond Market Index Fund (Core Fixed Income)

**Overview:** The Total Bond Index Fund is passively managed by Vanguard's Fixed Income Group. The fund tracks the Barclays Aggregate Bond Index, which represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—with maturities of more than 1 year.

The fund employs sampling techniques, meaning that it selects a range of securities that will keep the fund's characteristics in-line with those of its benchmark. Strict sampling controls are in place across all bond-index funds at Vanguard so that portfolios match key benchmark characteristics including maturity, duration, quality and sector weights. To maintain similarity, at least 80% of the fund's assets will be

invested in bonds that are also held in the Index. This approach is designed to avoid the inefficiencies and costs associated with fully replicating the Index. As of 12/31/14, the index fund held 7,038 securities versus 9,079 in the Index.

To mitigate risk, the team pays close attention to lower quality corporate bonds to avoid holding those that have the potential to be downgraded to junk. The portfolio leverages research and analysis done by Vanguard's credit group, underweighting BBB bonds that the investment grade team has concerns over, and slightly overweighting BBB bonds the credit research team views favorably. With the fund's average quality rating of AA, overall credit risk is minimal. US Government and agency securities constitute nearly 70% of the index's market value, and all securities are investment-grade.

The fund's average duration of 5.5 years and average maturity of 7.5 years is consistent with the index. The fund reported a 2.1% yield-to-maturity as of 12/31/14. Fees for this index fund are modest at 7 basis points, aided by Vanguard's Fixed Income Group's ability to cross security trades across Vanguard Bond funds (i.e., one bond fund buying what a second bond fund is selling) which reduces brokerage and market impact costs for the fund.

HAF invested in Vanguard's Total Bond Market Index strategy in October 2009.

**Performance:** Performance for the Total Bond Index Fund slightly trailed its benchmark, returning 5.9% net of fees versus 6.0% for the Barclays Aggregate Index. Any small deviation in the fund's performance versus that of its benchmark (whether positive or negative) is to be expected given that the fund uses a sampling approach and incurs management fees.

**Conclusion:** With an expense ratio of 7 basis points, this fund is a cost effective means of gaining diversified exposure to the broad bond market with a risk level that effectively matches that of the Barclays Capital Aggregate Bond Index. As a passively managed "index-matching" portfolio, the fund does not incur sector, credit or duration risks that are typically incurred by actively managed portfolios. The fund can be expected to deliver stable and consistent returns that are generally in-line with its benchmark, the Barclays Aggregate Index.

## **PIMCO – Income Fund (Opportunistic Fixed Income)**

**Overview:** The investment philosophy of PIMCO's Income strategy is to seek high, consistent dividend income through an emphasis on high quality and principal protection. The strategy's multi-sector approach helps portfolio managers seek out what they feel are the most efficient income-generating ideas in any given market climate, targeting multiple sources of income from a global investment universe.

PIMCO funds are managed in the context of the firm's outlook for the global economy and markets, but investment decisions and value-added come primarily from traditional bottom-up credit analysis. The firm's general approach to managing fixed income portfolios revolves around the principle of diversification. The firm believes that no single risk should dominate returns; they manage diversified strategies that rely on multiple sources of value. The firm seeks to add value through the use of "top down" strategies such as exposure to interest rates, duration, changing volatility, yield curve positioning and sector rotation. They also employ "bottom up" strategies involving analysis and selection of individual securities.

The Fund offers a unique advantage to investors due to its utilization of multiple sectors of the bond market in which no single sector or strategy should dominate. It invests strategically across all fixed income asset classes where it can find the best combination of income, relative value and risk-adjusted returns. This has historically led them to agency and non-agency mortgages, but the Fund over time has shifted to become increasingly diversified across corporates, high yield, bank loans, municipal bonds, non-US developed and emerging market bonds. The Fund will invest in below investment grade assets, but is constrained by the prospectus to no more than 50% of its total assets in securities rated below investment grade but rated at least Caa by one of the three main rating agencies. With a yield-to-maturity as of 12/31/14 at 4.9%, the Income Fund has a significant yield advantage versus the Barclay's US Aggregate Bond Index at 2.3%.

The Income Fund has been managed by Portfolio Manager Dan Ivascyn since its May 2007 inception. Ivascyn joined PIMCO in 1998 and is also the head of the mortgage credit portfolio management team, a lead portfolio manager for PIMCO's credit hedge fund and mortgage and asset-backed opportunistic strategies, and was recently named Group CIO as well as a member of its Investment Committee, which sets strategy for the firm. Ivascyn shares portfolio management responsibilities with Alfred Murata, who joined PIMCO in 2001.

HAF invested in the PIMCO Income strategy in December 2012.

**Performance:** The Income Fund rose 7.2% net of fees versus 6.0% for the Barclays Aggregate Index, with contributions from Australian duration, non-agency MBS, security selection in select credits in Financials and Industrials, and small short currency positions to the euro and yen. Emerging markets debt exposure, particularly Russia, was the biggest detractor.

Longer-term performance has been outstanding, falling in the top decile over 1-, 3- and 5-year periods versus Morningstar's Multisector Bond Universe.

**Conclusion:** This strategy allows for access to PIMCO's "top down" views and value add through strategies such as exposure to interest rates, duration, changing volatility, yield curve positioning and sector rotation. The Income strategy is not managed to a specific benchmark, but rather is a go anywhere strategy in search of reliable income/yield. However, while the fund is going to seek out the highest possible income for shareholders, it will not sacrifice quality or principal stability to get there; long-term capital appreciation is a secondary objective. Angeles believes this is a great diversifier for HAF's fixed income portfolio that offers a significant boost to current income.

The departure of co-founder and CIO Bill Gross was a significant negative event for PIMCO, however Angeles does not expect any direct impact on the PIMCO Income Fund. Ivascyn and Murata continue to manage the fund, and Ivascyn has not taken on any additional primary portfolio management responsibilities. However, we continue to monitor the situation, including increased management responsibilities of Ivascyn, additional personnel turnover and loss of assets.

## DFA – One-Year Fixed Income Fund

**Overview:** Dimensional's approach to fixed income is to shift maturities for the highest expected return based on changes in the yield curve. They calculate expected returns for an entire matrix of possible strategies that include different maturity choices as well as different holding periods. Each cell in the matrix represents the expected return for a given strategy. As the shape of the yield curve changes, so too will the optimal strategy. When expected returns can be increased net of trading costs,



the portfolio maturity is shifted to the new optimal. The practical result is that maturities are shortened in flat or inverted yield curve environments and lengthened in upwardly sloped curves. In upwardly sloped curves, the highest expected total return is the result of the best combination of yield and steepest slope of the curve.

The One Year Fixed income Fund holds debt securities maturing within one year, but will occasionally invest in securities with up to a 2-year maturity to enhance returns (yield). The portfolio is diversified between corporate debt and commercial paper, with ratings above single-A.

HAF invested in the DFA's One Year Fixed Income Fund in December 2013.

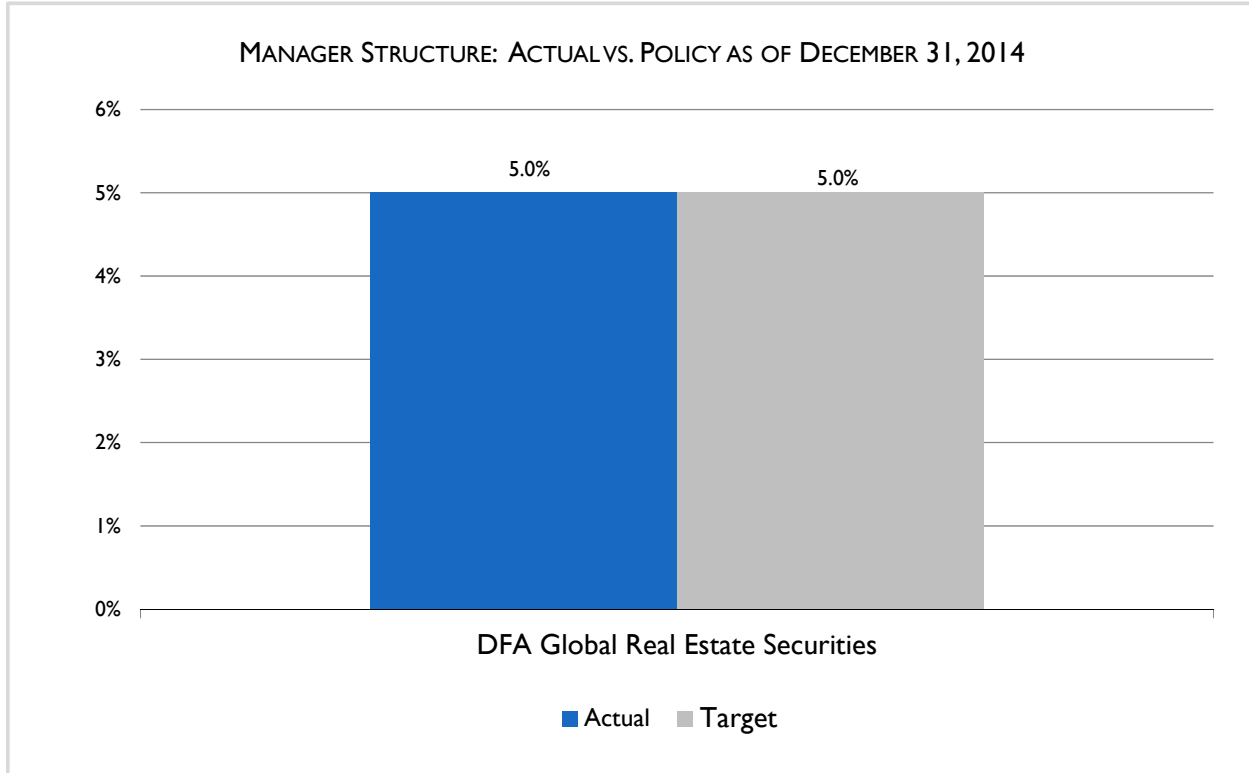
**Performance:** The One Year Fixed Income Fund rose 0.3% net of fees versus 0.1% for the Bank of America Merrill Lynch US Treasury Bill 6 Months Index. Throughout the year, the strategy remained at the long end of its duration and average maturity range (0.93 and 0.94, respectively) given positive term premiums and an upward-sloping yield curve at the short-end.

**Conclusion:** With duration of less than 1 year, the DFA One-Year Fixed Income fund is expected to reduce bond volatility and protect from potential losses due to rising interest rates.

## REAL ESTATE REVIEW

At the end of 2014, HAF had \$4.3 million, or approximately 5.0% of the Foundation's total assets, invested in real estate securities. The allocation matches HAF's 5% target.

**Figure 7**  
**Real Estate Allocation (\$4.3 Million) – as a percent of Total Assets**



The real estate composite posted strong gains and outperformed in 2014, returning 22.7% against the blended benchmark return of 21.5%. REITs significantly outperformed other public equities in 2014 as a steady economic recovery and lower interest rates benefitted this sector.

**Table 9**  
**REITs Performance as of December 31, 2014**  
**(Annualized, Net of Fees)**

	% of Fund	Annualized					Since Fund	Inception				
		1 Year	3 Year	5 Year	7 Year	10 Year	Inception <sup>^</sup>	Date				
<b>Real Estate Securities</b>	<b>5.0%</b>	<b>22.7</b>	<b>15.6</b>	<b>14.0</b>	<b>6.1</b>	<b>6.5</b>	<b>8.6</b>	<b>12/31/2003</b>				
Real Estate Blended Index <sup>5</sup>		21.5	15.1	13.4	5.9	6.6	8.9					
<b>DFA Global Real Estate Securities</b>	<b>5.0%</b>	<b>22.7</b>	<b>15.4</b>	<b>14.2</b>	--	--	<b>11.6</b>	<b>7/31/2012</b>				
S&P Global REIT Index		21.5	14.8	13.2	--	--	10.9					
	% of Fund	Calendar Years										
		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Real Estate Securities</b>	<b>5.0%</b>	<b>22.7</b>	<b>1.8</b>	<b>23.5</b>	<b>0.8</b>	<b>23.7</b>	<b>32.2</b>	<b>-40.5</b>	<b>-18.7</b>	<b>35.3</b>	<b>13.2</b>	<b>32.1</b>
Real Estate Blended Index <sup>5</sup>		21.5	1.7	23.2	0.1	22.7	34.4	-40.6	-17.9	35.9	14.1	34.8
<b>DFA Global Real Estate Securities</b>	<b>5.0%</b>	<b>22.7</b>	<b>1.8</b>	<b>23.2</b>	<b>1.8</b>	<b>23.8</b>	<b>32.7</b>	--	--	--	--	--
S&P Global REIT Index		21.5	1.7	22.4	0.6	22.1	31.7	--	--	--	--	--

Note: Some funds include extended performance based on oldest share class, adjusted for fees. Performance displayed above reflects historical returns since fund inception. Some funds include extended performance based on oldest share class, adjusted for fees.

<sup>^</sup> Returns are annualized for periods greater than a year.

<sup>5</sup> Real Estate Securities benchmark is a custom blended benchmark: Effective August 1, 2012, the benchmark consists of 100% S&P Global REIT Index. From June 1, 2008 to July 31, 2012, the benchmark consists of 50% DJ Wilshire RE Securities and 50% S&P/Citi Global US RE Index. Prior to 6/1/08, the benchmark consists of 100% DJ Wilshire RE Secs.

## DFA – Global Real Estate Securities Fund (Global REITs)

**Overview:** DFA's Global Real Estate Securities portfolio is designed to achieve long-term capital appreciation and invests passively in a broad range of US and non-US companies in the real estate industry with a focus on REITs. The portfolio primarily purchases shares of DFA's US Real Estate and International Real Estate Securities Portfolios, and also may invest directly in securities of companies in the real estate industry. The portfolio invests in both developed and emerging markets and is diversified across geography, property type, and capitalization. The fund currently is authorized to invest in the following countries: Australia, Belgium, Canada, China, France, Germany, Greece, Hong Kong, Japan, the Netherlands, New Zealand, Singapore, South Africa, Taiwan, the United Kingdom and the United States. Country weights are primarily determined by the aggregate market capitalization of the investable universe in each country and region. The country weighting methodology caps weightings at 30% (at time of purchase) to all countries except the US. Securities must pass quantitative and qualitative filters before becoming eligible for purchase into the strategy. The portfolio will not invest in mortgage REITs (given their tendency to behave more like fixed income securities than real estate), prison REITs, REITs in extreme financial difficulties, REITs involved in mergers or consolidation, or those that may be the subject of an acquisition.

As of December 31, 2014 the fund had \$3.6 billion in assets under management, up from \$2.1 billion the prior year. Net inflows for the fund in 2014 were \$800 million.

HAF invested in DFA's Global Real Estate strategy in July 2012.

**Performance:** DFA's Global Real Estate Fund returned 22.7% net of fees versus 21.5% for the S&P Global REIT Index. The largest contributors to performance included allocation and security selection

within diversified REITs and residential REITS. Detractors on a GIC REIT sector basis were de minimis. From a regional perspective, the largest contributor was portfolio composition in the US and Canada.

**Conclusion:** DFA's Global Real Estate Securities Fund is attractive for its diversification benefits, including exposure to properties across emerging markets. With 373 securities, the portfolio is well diversified across geography, size and REIT type. Expenses are low and turnover is minimal, keeping trading costs low.

## **ANGELES ABSOLUTE RETURN FUND**

**Overview:** The Angeles Absolute Return Fund LTD (AIA Fund) provides Angeles Investment Advisors' manager selection and structuring expertise in a fund-of-funds format, which allows investors to gain hedge fund exposure through an efficient and diversified structure. The goal of the AIA fund is to generate superior risk-adjusted returns with moderate volatility by investing in funds sponsored by historically successful managers pursuing a cross-section of absolute return strategies, mitigate losses in falling markets, exhibit relatively low correlation to traditional asset classes, and provide a range of exposure across sectors, regions, strategies, and managers.

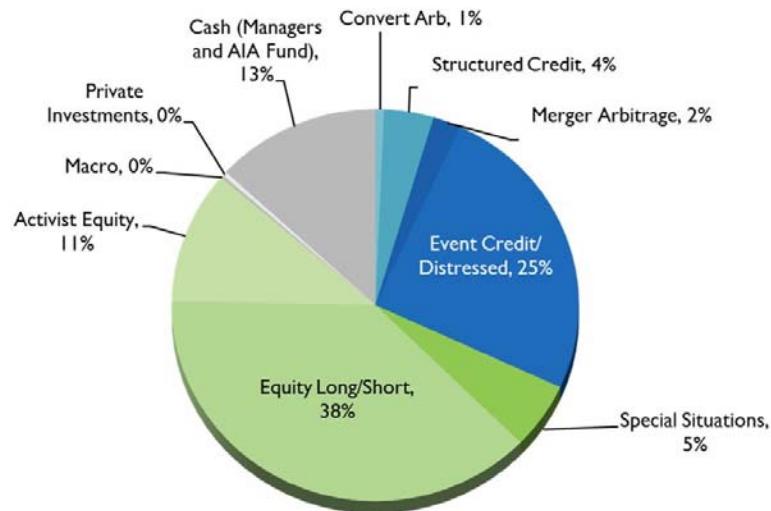
In HAF's first full year invested in the fund, it returned 5.4%, versus 3.3% for an index of hedge fund of funds. The fund is well diversified across strategies, and as of year-end, the underlying managers included 4 event driven/multi-strategy funds, 4 long/short equity funds, 2 activist equity funds, and 4 credit-focused funds, with the largest allocation to long/short equity managers. (A glossary of hedge fund investment terms is included as an exhibit in this report.) The fund is also globally diversified and a majority of managers maintain global approaches. Managers tend to employ low leverage, and in aggregate, the Angeles Fund has a leverage ratio of 1.0x (no leverage).

HAF invested in the Angeles Absolute Return Fund in on January 1, 2014.

**Table 10**  
**Manager Allocations as of 1/1/15**

Manager	Allocation as of 1/1/2015*	Strategy	Investment Focus
Manager A	7%	China Long/Short Equity	Invests in long/short equities (China) based on fundamental analysis.
Manager B	7%	US Long/Short Equity	Invests long/short, primarily in US equities, based on fundamental analysis.
Manager C	4%	Global Long/Short Equity	Invests in nine underlying long/short equity hedge funds.
Manager D	10%	Healthcare Long/Short Equity	Invests long/short in the global healthcare sector.
Manager E	4%	European Activist Equity	Concentrated activist equity strategy focused on investing in Europe.
Manager F	7%	Activist Equity	Concentrated activist equity strategy focused on the US and Europe.
Manager G	5%	US Credit/Distressed	Invests in US distressed companies (equity, debt, and other securities), primarily long-biased.
Manager H	8%	Global Credit/Distressed	Invests in event driven and distressed credit with a focus on complex and underfollowed situations.
Manager I	6%	Global Credit	Pursues long/short credit and event-driven opportunities.
Manager J	8%	US Long/Short Credit	Invests in corporate credit with a focus on underfollowed situations.
Manager K	10%	US Multi-strategy	Pursues a credit-oriented strategy focused on value and event-driven investments.
Manager L	6%	Global Multi-strategy	Manages a diversified multi-strategy portfolio focused on value and event-driven investments.
Manager M	8%	Global Multi-strategy	Invests opportunistically across the capital structure in companies that have either announced balance sheet events or are trading at price levels indicative of financial distress.
Manager N	4%	European Multi-strategy	Invests in event-driven opportunities across Europe in both credit and equity.

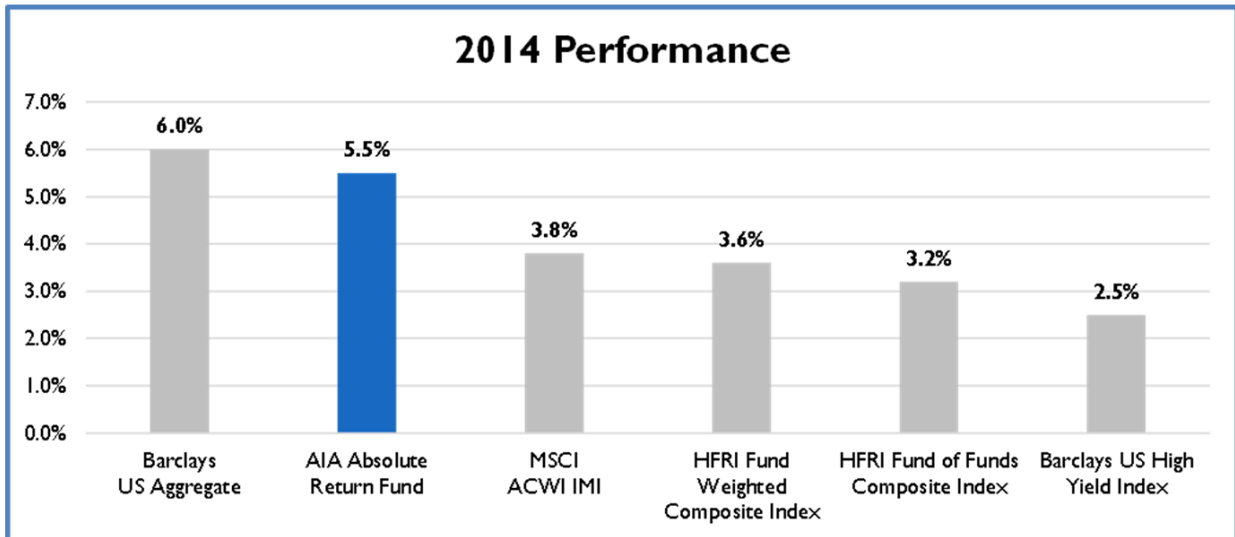
**Figure 8**  
**Strategy Allocations (% Long Exposure) as of 1/1/15**



**Performance:** The Angeles Absolute Return Fund returned 5.4% during 2014, outperforming the HFRI Fund of Funds Composite Index's 3.3% return, and placing the fund in the top quartile of a peer universe of 281 fund of funds. For the year, the fund's long / short equity managers were the top contributors to performance, adding 460 bps of absolute performance, followed by activist equity managers which added 70 bps. Macro was the only segment of the portfolio that detracted from performance. At the individual manager level, top performers included a global healthcare focused long/short equity fund, a China focused long/short equity fund, and a US focused long/short equity fund.

During 2014, the AIA Absolute Return Fund outperformed global equities (MSCI ACWI IMI Index), high yield bonds (Barclays High Yield Index), direct hedge funds (HFRI Fund Weighted Composite Index) and fund of funds (HFRI Fund of Funds Composite Index), while underperforming the Barclays US Aggregate Index.

Figure 9





**Exhibit I:  
Summary of Performance through  
December 31, 2014**

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HUMBOLDT AREA FOUNDATION  
2014 INVESTMENT PERFORMANCE REVIEW – LONG TERM POOL

As of December 31, 2014	Ticker	Market Value	% of Fund	Policy Target	1 Month	FYTD	1 Year	3 Yrs. (Annlzd)	5 Yrs. (Annlzd)	7 Yrs. (Annlzd)	10 Yrs. (Annlzd)	Expense Ratio*
<b>Global Equity</b>		<b>\$ 59,897,651</b>	<b>70%</b>	<b>70%</b>								
DFA Small Cap Index	DFSTX	\$ 1,849,881	2%	2%	2.3%	1.3%	4.4%	20.7%	17.4%	9.9%	8.8%	0.37
EuroPacific Growth Fund	AEPGX	\$ 17,916,509	21%	21%	-4.0%	-5.9%	-2.6%	11.7%	5.7%	1.2%	6.7%	0.84
DFA Emerging Mkts Core Fund <sup>^</sup>	DFCEX	\$ 1,865,347	2%	2%	-4.2%	-7.7%	-0.9%	5.1%	2.7%	0.7%	9.1%	0.61
Fundamental Investors	ANCFX	\$ 2,799,093	3%	4%	-0.6%	3.4%	9.0%	18.8%	13.4%	6.1%	--	0.63
DFA Int'l Small Cap Fund	DFISX	\$ 2,451,926	3%	3%	-1.3%	-12.3%	-6.3%	--	--	--	--	0.53
DFA Global Equities	DGEIX	\$ 18,004,597	21%	21%	-0.9%	-2.0%	4.6%	--	--	--	--	0.60
Allianz Convertibles	ANNPX	\$ 6,048,306	7%	7%	-1.2%	-1.1%	6.7%	--	--	--	--	0.65
Vanguard Institutional Index I	VINIX	\$ 8,961,992	10%	11%	-0.3%	6.1%	--	--	--	--	--	0.04
<b>MSCI ACWI IMI Index</b>					<b>-1.6%</b>	<b>-2.3%</b>	<b>3.8%</b>	<b>14.3%</b>	<b>9.5%</b>	<b>3.1%</b>	<b>6.7%</b>	
<b>Absolute Return</b>		<b>\$ 4,316,517</b>	<b>5%</b>	<b>5%</b>								
Angeles Absolute Return Fund**		\$ 4,316,517	5%	5%	-0.1%	0.6%	5.4%	--	--	--	--	1.50
<b>HFRI Fund of Funds Index (lagged 1 month)</b>					<b>0.3%</b>	<b>1.2%</b>	<b>3.3%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	
<b>Fixed Income</b>		<b>\$ 17,110,101</b>	<b>20%</b>	<b>20%</b>								
Vanguard Total Bond Market Index <sup>2</sup>	VBPIX	\$ 6,002,473	7%	7%	0.1%	1.9%	5.9%	2.6%	--	--	--	0.07
PIMCO Income Fund	PIMIX	\$ 8,529,971	10%	10%	-1.2%	0.7%	7.2%	--	--	--	--	0.45
DFA 1-Year Fixed Income	DFIHX	\$ 2,577,657	3%	3%	-0.2%	0.0%	0.3%	--	--	--	--	0.17
<b>Barclays Aggregate Index</b>					<b>0.1%</b>	<b>2.0%</b>	<b>6.0%</b>	<b>2.7%</b>	<b>--</b>	<b>--</b>	<b>--</b>	

<sup>2</sup>Vanguard Total Bond Market Index Fund (VBPIX) was added on October 9, 2009, in the amount of roughly \$5.2mm. Proceeds from the liquidation of the Bond Fund of America that were moved into the Vanguard GNMA Fund (\$4.8mm) were used to fund VBPIX.

Note: Market value data and Total Fund returns provided by Premier.

Fiscal Year is June 30.

\*Estimated average total fund fee based on individual fund audited expense ratio and target allocations. Expense ratio for Angeles Absolute Return Fund only includes administrative and management fees, but does not include variable performance fees. Administrative fees will vary each year.

Manager expense ratios are sourced from Morningstar and are based on Annual Reports provided by managers.

\*\*Market value and performance are as of December 31, 2014.

<sup>^</sup> Prior to April 1, 2008, performance was based off DFA Emerging Markets (DFEMX).

2014 INVESTMENT PERFORMANCE REVIEW – LONG TERM POOL

As of December 31, 2014	Ticker	Market Value	% of Fund	Policy Target	I Month	FYTD	I Year	3 Yrs. (Annlzd)	5 Yrs. (Annlzd)	7 Yrs. (Annlzd)	10 Yrs. (Annlzd)	Expense Ratio*
<b>Real Estate Securities</b>		\$ 4,298,498	5%	5%								
DFA Global Real Estate Securities	DFGEX	\$ 4,298,498	5%	5%	0.7%	5.7%	22.7%	--	--	--	--	0.32
<b>S&amp;P Global REIT Index</b>					<b>0.7%</b>	<b>5.2%</b>	<b>21.5%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	
<b>Cash</b>		\$ 158,332	0%	0%								
TDA - Cash Sweep Account	--	\$ 51,378	0%	0%	--	--	--	--	--	--	--	
TD Bank USA MMDA - Cash Reserve	--	\$ 106,954	0%	0%	--	--	--	--	--	--	--	
<b>90-Day T-Bills</b>					<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.3%</b>	<b>1.5%</b>	
<b>Total Fund</b>		\$ 85,781,099	100%	100%	<b>-1.3%</b>	<b>-1.0%</b>	<b>4.8%</b>	<b>12.1%</b>	<b>8.7%</b>	<b>3.7%</b>	<b>5.6%</b>	<b>0.55</b>
<b>Policy Benchmark</b>					<b>-1.1%</b>	<b>-0.9%</b>	<b>5.1%</b>	<b>11.6%</b>	<b>9.0%</b>	<b>4.3%</b>	<b>6.2%</b>	
Allianz & PIMCO Funds		\$ 14,578,277	17%	17%								
American Funds		\$ 20,715,602	24%	25%								
Angeles Absolute Return Fund		\$ 4,318,864	5%	5%								
DFA Funds		\$ 31,047,906	36%	36%								
Vanguard Funds		\$ 14,964,465	17%	18%								

Note: Market value data and Total Fund returns provided by Premier.

Fiscal Year is June 30.

\*Estimated average total fund fee based on individual fund audited expense ratio and target allocations. Manager expense ratios are sourced from Morningstar and are based on Annual Reports provided by managers.

Effective January 1, 2014, the Policy Benchmark = 70% MSCI ACWIMI, 20% Barclays Aggregate, 5% HFRI Fund of Funds Index, and 5% S&P Global REIT Index.

From April 1, 2013 to December 31, 2013, the Policy Benchmark = 70% MSCI ACWIMI, 25% Barclays Aggregate, and 5% S&P Global REIT Index.

From August 1, 2012 to March 31, 2013, the Policy Benchmark = 70% MSCI ACWIMI, 25% Barclays Universal, 5% S&P Global REIT Index.

From June 1, 2008 to July 31, 2012, the Policy Benchmark = 35% Russell 3000 Index, 35% MSCI All Country World Ex US Investable Market Index, 25% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index) and 5% Blended REIT Index.

From June 1, 2006 to May 31, 2008, the policy benchmark consists of 50% Russell 3000 Index, 20% MSCI ACWI Ex-US Index, 25% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index) and 5% DJ Wilshire US Select REIT Index.

Prior to June 1, 2006, the policy benchmark consists of 50% Russell 3000 Index, 15% MSCI ACWI Ex-US Index, 30% Barclays Capital Universal Index (formerly Lehman Brothers Universal Index), and 5% DJ Wilshire US Select REIT Index.

## **Exhibit 2: Fund Summary Table**

**Exhibit 2 – Fund Summary  
Table**

	<b>Ticker</b>	<b>Assets (MM) as of 12/31/14</b>	<b>Expense Ratio (bps)</b>	<b>Turnover</b>	<b>Number of Holdings</b>	<b>Morningstar Rating</b>
<b>Global Equity</b>						
DFA Small Cap Index	DFSTX	\$10,091.7	37	9%	2092	★★★★★
Fundamental Investors	ANCFX	\$73,163.0	63	34%	248	★★★★
DFA Emerging Mkts Core Fund	DFCEX	\$15,716.3	61	2%	3987	★★★★
DFA Int'l Small Cap Fund	DFISX	\$8,968.4	53	--	4114	★★★★
DFA Global Equities	DGEIX	\$4,109.0	31	--	11,842	★★★★★
Allianz Convertibles	ANNPX	\$2,561.5	65	94%	121	★★★★★★
EuroPacific Growth Fund	AEPGX	\$124,416.9	84	28%	468	★★★★
Vanguard Institutional Index	VINIX	\$184,730.5	4	5%	504	★★★★★
<b>Fixed Income</b>						
PIMCO Income Fund	PIMIX	\$41,145.5	45	251%	3748	★★★★★★
Vanguard Total Bond Market Index	VBTIX	\$141,127.0	7	72%	7038	★★★★
DFA 1-Year Fixed Income	DFIHX	\$8,547.5	17	72%	201	★★★★
<b>Real Estate Securities</b>						
DFA Global Real Estate Securities	DFGEX	\$3,736.7	32	--	373	★★★★★★

Source: Morningstar; Data as of 12/31/14. Morningstar expense ratios are based on Annual Reports provided by managers.

**Exhibit 3:  
Historical Fund Performance Through  
December 31, 2014**

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### American Funds Historical Fund Performance through December 31, 2014

Fund Name	Ticker	Net Assets		Annlzd Return				% Rank			
		\$MM	Exp Ratio	1 Yr	3 Yr	5 Yr	10 Yr	in Cat 1 Yr	in Cat 3 Yr	in Cat 5 Yr	in Cat 10 Yr
<b>Fundamental Investors Fund</b>	<b>ANCFX</b>	<b>\$73,163</b>	<b>0.63%</b>	<b>9.0</b>	<b>18.8</b>	<b>13.4</b>	<b>8.6</b>	<b>76</b>	<b>59</b>	<b>62</b>	<b>9</b>
Morningstar Large Blend Average			1.10%	10.7	18.6	13.5	6.7				
S&P 500 Index				13.7	20.4	15.5	7.7				
<b>EuroPacific Growth Fund</b>	<b>AEPGX</b>	<b>\$124,417</b>	<b>0.84%</b>	<b>-2.6</b>	<b>11.7</b>	<b>5.7</b>	<b>6.7</b>	<b>29</b>	<b>36</b>	<b>57</b>	<b>14</b>
Morningstar Foreign Large Blend Average			1.20%	-5.2	10.2	4.9	4.2				
MSCI ACWI ex-US Index				-3.9	9.0	4.4	5.1				

Performance rankings are as of 12/31/14 and rank manager's performance relative to peers. Provided by Morningstar; 1=Best, 100=Worst.

## Dimensional Fund Advisors Fund Performance through December 31, 2014

Fund Name	Ticker	Net Assets		Annlzd	Annlzd	Annlzd	Annlzd	Rank	Rank	Rank	Rank
		\$MM	Exp Ratio	Return	Return	Return	Return	in Cat	in Cat	in Cat	in Cat
				1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr
<b>DFA Global Real Estate</b>	<b>DFGEX</b>	<b>\$3,737</b>	<b>0.32%</b>	<b>22.7</b>	<b>15.4</b>	<b>14.2</b>	--	<b>1</b>	<b>30</b>	<b>1</b>	--
Morningstar Global Real Estate Average			1.43%	11.5	14.6	9.5	--				
S&P Global REIT Index				21.5	14.8	13.2	--				
<b>DFA U.S. Small Cap</b>	<b>DFSTX</b>	<b>\$10,092</b>	<b>0.37%</b>	<b>4.4</b>	<b>20.7</b>	<b>17.4</b>	<b>8.8</b>	<b>53</b>	<b>20</b>	<b>11</b>	<b>16</b>
Morningstar Small Blend Average			1.26%	3.8	18.1	14.6	7.2				
Russell 2000 Index				4.9	19.2	15.5	7.8				
<b>DFA Emerging Mkts Core Equities</b>	<b>DFCEX</b>	<b>\$15,716</b>	<b>0.61%</b>	<b>-0.9</b>	<b>5.1</b>	<b>2.7</b>	--	<b>29</b>	<b>40</b>	<b>35</b>	--
Morningstar Diversified Emerging Mkts Average			1.57%	-3.0	4.4	1.6	--				
MSCI Emerging Mkts Net Div				-2.2	4.0	1.8	--				
<b>DFA International Small Cap</b>	<b>DFISX</b>	<b>\$8,968</b>	<b>0.53%</b>	<b>-6.3</b>	<b>12.4</b>	<b>8.3</b>	<b>6.7</b>	<b>65</b>	<b>58</b>	<b>50</b>	<b>46</b>
Morningstar Foreign Small/Mid Blend Average			1.41%	-4.8	12.1	7.8	6.7				
MSCI ACWI Ex US Small Cap Index				-4.0	10.8	6.8	6.9				
<b>DFA Global Equities</b>	<b>DGEIX</b>	<b>\$4,109</b>	<b>0.31%</b>	<b>4.6</b>	<b>16.9</b>	<b>12.0</b>	<b>7.1</b>	<b>28</b>	<b>15</b>	<b>12</b>	<b>32</b>
Morningstar World Stock Average			1.31%	2.7	14.0	9.1	5.9				
MSCI ACWI IMI				3.8	14.3	9.5	6.4				
<b>DFA One-Year Fixed-Income I</b>	<b>DFIHX</b>	<b>\$8,547</b>	<b>0.17%</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>2.1</b>	<b>63</b>	<b>72</b>	<b>68</b>	<b>35</b>
Morningstar Ultrashort Bond			0.58%	0.3	0.9	1.1	1.3				
BofA ML 6 Month Treasuries				0.1	0.1	0.2	1.8				

Performance rankings are as of 12/31/14 and rank manager's performance relative to peers. Provided by Morningstar; 1=Best, 100=Worst.



### Vanguard Fund Performance through December 31, 2014

Fund Name	Ticker	Net Assets		Annlzd	Annlzd	Annlzd	Annlzd	Rank	Rank	Rank	Rank
		\$MM	Exp Ratio	Return	Return	Return	Return	in Cat	in Cat	in Cat	in Cat
				1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr
<b>Vanguard Total Bond Market Index Fund</b>	<b>VBPIX</b>	<b>\$141,127</b>	<b>0.07%</b>	<b>5.9</b>	<b>2.6</b>	<b>4.4</b>	<b>4.7</b>	<b>30</b>	<b>76</b>	<b>68</b>	<b>42</b>
Morningstar Intermediate-Term Bond Average			0.87%	5.1	3.5	4.8	4.2				
Barclays Aggregate Index				6.0	2.7	4.4	4.7				
<b>Vanguard Institutional Index</b>	<b>VINIX</b>	<b>\$184,731</b>	<b>0.04%</b>	<b>13.7</b>	<b>20.4</b>	<b>15.4</b>	<b>7.7</b>	<b>18</b>	<b>29</b>	<b>19</b>	<b>25</b>
Morningstar Large Blend Average			1.10%	10.7	18.6	13.5	6.7				
S&P 500 Index				13.7	20.4	15.5	7.7				

Performance rankings are as of 12/31/14 and rank manager's performance relative to peers. Provided by Morningstar; 1=Best, 100=Worst.

### Allianz and PIMCO Historical Fund Performance through December 31, 2014

Fund Name	Ticker	Net Assets		Annlzd	Annlzd	Annlzd	Annlzd	Rank	Rank	Rank	Rank
		\$MM	Exp Ratio	Return	Return	Return	Return	in Cat	in Cat	in Cat	in Cat
				1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr
<b>Allianz Convertibles Fund</b>	<b>ANNPX</b>	<b>\$2,561</b>	<b>0.65%</b>	<b>6.7</b>	<b>14.5</b>	<b>12.2</b>	<b>9.4</b>	<b>41</b>	<b>23</b>	<b>1</b>	<b>1</b>
Morningstar Convertibles Average			1.24%	6.2	12.7	9.7	6.4				
BofA ML All US Convertibles				9.4	16.3	11.7	7.1				
<b>PIMCO Income Fund</b>	<b>PIMIX</b>	<b>\$41,145</b>	<b>0.45%</b>	<b>7.2</b>	<b>11.1</b>	<b>11.9</b>	<b>--</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>--</b>
Morningstar Multisector Bond Average			1.04%	3.4	5.6	6.1	--				
Barclays Aggregate Index				6.0	2.7	4.4	--				

Performance rankings are as of 12/31/14 and rank manager's performance relative to peers. Provided by Morningstar; 1=Best, 100=Worst.

**Exhibit 4:**

**Glossary of  
Hedge Fund Investment Terms**

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## **Glossary of Hedge fund Investment Terms**

**Activist Equity Funds** - An activist fund adds value by accumulating shares in a public company and utilizing their equity stake to influence major changes in the company. Activist investors target companies which they believe can be managed more profitably by changing the company's corporate policy and financial structuring, replacing ineffective management, cost cutting, preventing an unfavorable merger or acquisition, or any other such operational changes. Such strategies tend to be long-biased (little or no short exposure) and highly concentrated (generally 5-15 holdings).

**Credit-Focused Funds** - Structured credit investments are created through the securitization of pools of assets such as bonds, loans, mortgages, consumer receivables, etc. These pools may be "sliced up" to create tranches with varying priorities on cash flows generated from the asset pool. The yield across the securitization will generally be higher for tranches having a lower priority to cash flows. This slicing of the pool creates tranches with varying degrees of leverage to defaults and delinquencies in the pool, and varying liquidity profiles.

**Event Driven/Multi-Strategy Funds** - The risk that the value of a security or other instrument will change due to an unexpected event, such as a takeover, a corporate restructuring, an unanticipated change or event in the market environment, a natural disaster or a change in the regulatory environment.

**Hedge Fund** - A hedge fund is a limited partnership in which the goal of the manager (the general partner) is to provide positive absolute returns through the application of opportunistic strategies. Such strategies include futures and options, leverage, short selling, and arbitrage. The investment rationale for hedge funds is that they have lower correlations with traditional public market portfolios, and produce high absolute returns with protection in weak markets and managed volatility. Protection in weak markets is achieved often through the use of hedging or short selling. Hedge funds had historically been the domain of wealthy individuals, but have more recently been increasingly being used in institutional portfolios, particularly among foundations and endowments. Hedge funds encompass a wide range of investment strategies, from conservative to very aggressive. Hedge funds typically are subject to a 1% to 2% management fee plus a performance fee in which they are paid 20% of any positive performance. These fees have been lucrative in recent periods, such that hedge fund managers are among the most highly paid managers in the investment industry. Hedge funds are generally "skill-based," and often draw some of the most talented money managers. Hedge fund portfolios are often not transparent, e.g., their strategies and holdings are not made available to investors. These strategies often rely on active trading, making them fairly tax-inefficient.

**Leverage** - In corporate finance, leverage is the use of borrowed funds to increase return on equity; leverage is often measured by the ratio of total debt to total equity. In investments, leverage refers to the use of borrowed money to cover part of a purchase or to gain market exposure in excess of cash on hand. If the cost of borrowing in such transactions is lower than the return of the investment, then returns are increased by leverage, and vice versa. Leverage is generally defined as the long market value divided by the net asset value of the fund (the capital). Hedge funds leverage the capital they invest by buying securities on margin and engaging in borrowing. The leverage ratio indicates the amount of leverage used by the fund as a percentage of the fund. For example, if the fund has \$1 million and borrows another \$1 million to bring the total dollars invested to \$2 million, then the leverage used is 200% or a leverage ratio of 2 to 1 (2X). Leverage has the effect of amplifying results to the investor. By itself, leverage does not necessarily mean higher risk, but leverage magnifies the effects of risks. Angeles defines portfolio leverage as the ratio of gross long market value to capital (equity).

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**Long/Short Equity Funds** - Long/short equity funds bet on stocks both appreciating and depreciating through long and short positions, respectively. As the fund's "net exposure" (gross long minus gross short exposure) increases, the fund's beta generally (sensitivity to equity markets) also increases. Managers are able to express directional views by adjusting the net long or short exposure of the portfolio. Despite being long biased, these funds generally display lower volatility than equity markets; net exposure is generally in the 40%-80% range.

**Hedging** - Hedging is any transaction that reduces the risk associated with an exposure in a portfolio. A common form of hedging within institutional portfolios is currency hedging, in which an international portfolio manager buys currency forwards (or options) to hedge against the risk of a fall in the currency in which non-dollar investments are denominated.