

# **Butler Family Foundation Investment Committee**

## **Conference Call**

**February 27 2019 at 1:00 p.m. CT**

- I. Welcome
  - II. Approval of Minutes
  - III. Year in Review
  - IV. Portfolio and Performance Update
    - A. Portfolio Summary Statement
    - B. Overall Foundation Performance
    - C. Individual Manager Performance
    - D. Summary of Fees and Managers
  - V. Update on Potential Investments
  - VI. Review Investment Committee Charter
  - VII. Other Business
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### **Attachments:**

- a. Minutes of August 14<sup>th</sup> Investment Committee
- b. Year in Review - Charts
- c. Wells Fargo Portfolio Summary Statement
- d. Historical Portfolio Performance
- e. Individual Manager Performance
- f. Summary of Fees and Managers
- g. Revised Investment Committee Charter

**Call-in Number: 800-261-3225 (Access Code 5243817049)**

**MINUTES OF THE AUGUST 14, 2018  
INVESTMENT COMMITTEE MEETING  
OF THE  
PATRICK AND AIMEE BUTLER FAMILY FOUNDATION**

The Investment Committee meeting of the Patrick and Aimee Butler Family Foundation was held on Tuesday, August 14, 2018, at 3:00 p.m. Central Time via conference call.

The meeting was called to order by Patrick O'Brien, Chair of the Investment Committee. John K. Butler acted as recording Secretary of the meeting.

Upon call of the Secretary, the following Committee members were present: Brigid Butler and Patrick O'Brien. Also present was John Butler.

The Chair called for consideration of the minutes of the February 9, 2018 meeting of the Investment Committee. Upon motion duly made, seconded and unanimously carried, the minutes of the February 9, 2018 Investment Committee meeting were approved, ratified and confirmed.

The Chair called on Mr. John Butler, Chief Investment Officer, to review the current holdings of the portfolio and summarize any major changes since December 31, 2017. Mr. Butler began by reviewing the Wells Fargo Summary Statement. Mr. Butler then reviewed Individual Manager performance and any asset allocations. Mr. Butler highlighted the status of two new investments made by the Foundation during the first half of the year, the Templeton Global Total Return Fund and the Vanguard Small-Cap Index Fund. Both of these funds have been previously discussed by the Committee. Finally, Mr. Butler reviewed the overall performance for 2017 of the Foundation versus the Council on Foundations peer group. The Butler Family Foundation returned 12% versus 15% for the peer group.

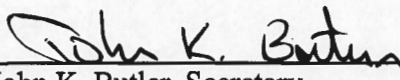
The Committee next reviewed the Investment Policy Statement. The current statement was adopted by the Board of Trustees on October 21, 2017, and the Investment Committee Charter notes that it will be reviewed by the Committee each year at the August meeting. Mr. Butler recommended a number of minor changes to clarify the various asset classes used by the Foundation. After review and discussion, it was decided to recommend that these changes be approved by the Board of Trustees at the Fall meeting.

Mr. Butler then provided the Committee with an update on several of the limited partnerships held by the Foundation. During the first half of the year, the Foundation received notice that Northstar Mezzanine Partners III had successfully exited its remaining portfolio investment and they will begin the process of a final distribution. It is expected that the final net IRR of the Fund will be 11%. Mr. Butler also mentioned that Northstar Capital will be launching a Fund VII later in the year. Given the Foundations long history with Northstar, it will certainly look closely at investing in the Fund. Mr. Butler next provided the Committee with an update of the Equilibrium Wastewater Opportunity Fund. The Fund has called about 30% of the Foundation's total capital commitment (\$3 million) to date, and expects the remaining capital will be called will be called in 2018 and 2019. Although it is still very early in the process, it appears the Fund's returns are tracking ahead of original expectations.

Mr. Butler then discussed the topic of "Does Value Investing still work"? He began by noting that the Foundation's equity portfolio has a bias toward value stocks, which tend to be more defensive and have generally outperformed over the long-term. However, during any time period over the past ten years growth stocks have outperformed value stocks by a wide margin, with the outperformance driven primarily by several well-known technology stocks. Mr. Butler explained that this is not that unusual in a long bull market, and that we must wait for a correction to be able to evaluate whether value investing has indeed become less effective. So the recommendation is to stay the course.

The next Committee meeting will be in February, 2019. The meeting will be scheduled in January and materials for the meeting will be sent one week prior to the meeting.

The meeting adjourned at 3:45 p.m. Central Time.

  
John K. Butler, Secretary

ATTEST:   
Patrick O'Brien, Committee Chair

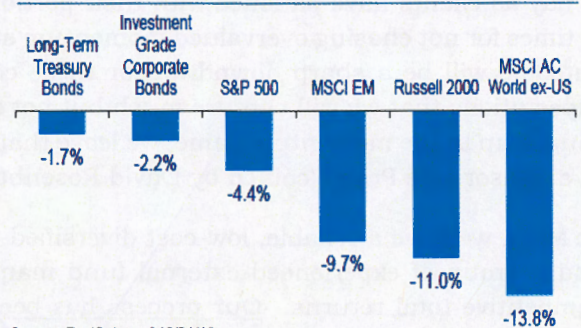
as the S&P 500 index fell 13.5% between October and December. At one point we had our first official 20% bear market retracement of this long bull market as panic set in.

In December, the widespread use of computer algorithms and high frequency trading exasperated the down move in the markets very quickly. It is estimated that 80% of daily market volume is run by algorithms. Real institutional investors did little selling, but down markets tend to feed on themselves resulting in the swift and sharp corrections, see 2-year chart below. Tax loss selling late in the year furthered the downtrend. This led to the worst December for the market since the Great Depression as the typical Santa Claus rally didn't materialize. On Christmas Eve the S&P 500 was down 3% and on December 26th it was up 3%, capping off the wild volatility of the fourth quarter. It was a rare year where equities and fixed income were both negative, which is typically not the case as the two asset classes are usually uncorrelated, see performance below.

CHART 1: S&P 500



2018 Total Returns by Asset Class



In total, the S&P 500 fell 4.4% for the year, with U.S. small cap stocks and international markets faring even worse. The smaller-cap Russell 2000 fell 11% and international markets were down 13%. A perfect storm of trade wars, interest rate hikes, and government shutdown threats caused many to flee the equity markets. Diversification really helped clients this year and softened the blow of volatility. While 2018 was not a banner year for equities, the internally-managed MFO equity portfolio outperformed the S&P 500 Index by approximately 1%. Our fixed income pool was positive in most accounts and the hedge fund pool was modestly negative, with both outperforming equities.

## 2019 Market Outlook

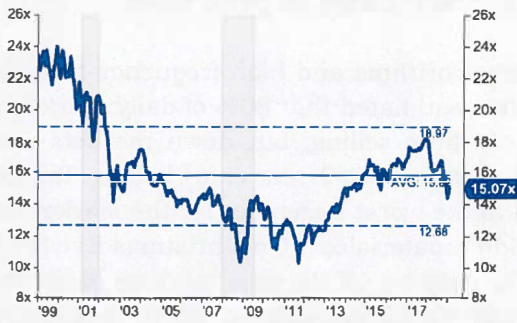
### Markets head for grim year-end as Trump fights over border wall

● S&P suffers week-long rout ● Oil hits 15-month low ● Fear of US government shutdown

Looking forward, we do not think 2019 gets any easier from a portfolio management point of view. As typically happens during a down market, headlines scream for panic as the bears come out of the woodwork and pretty soon everyone is expecting an immediate recession. The reality is that the real economy does not move that fast and the valuations of high-quality companies do not change that much. While it is true that everything is slowing off of record growth and earnings, it is nowhere near the sharp declines we witnessed. The good news is that after Christmas markets calmed down and have regained about half their losses. Earnings are being reset from expectations that got too high and stock prices have adjusted accordingly. Earnings for 2019 are still expected to grow at least 5%, so things are not as dire as the business headlines may read.

Going forward, valuations are much more reasonable after the sell-off, particularly considering that inflation/interest rates are still very low. The current forward P/E is well below past medians (see below).

S&P 500: Forward P/E (NTM)



Source: FactSet as of 1/14/2019

S&P 500 P/E (1960 - 2016)

Inflation	Average	Median
0-2%	29.33	24.24
2-3%	21.02	18.81
3-4%	19.55	18.35
4-5%	15.80	16.43
5-6%	15.44	15.60

Source: BotA Merrill Lynch US Equity Strategy, BLS, Standard & Poor's

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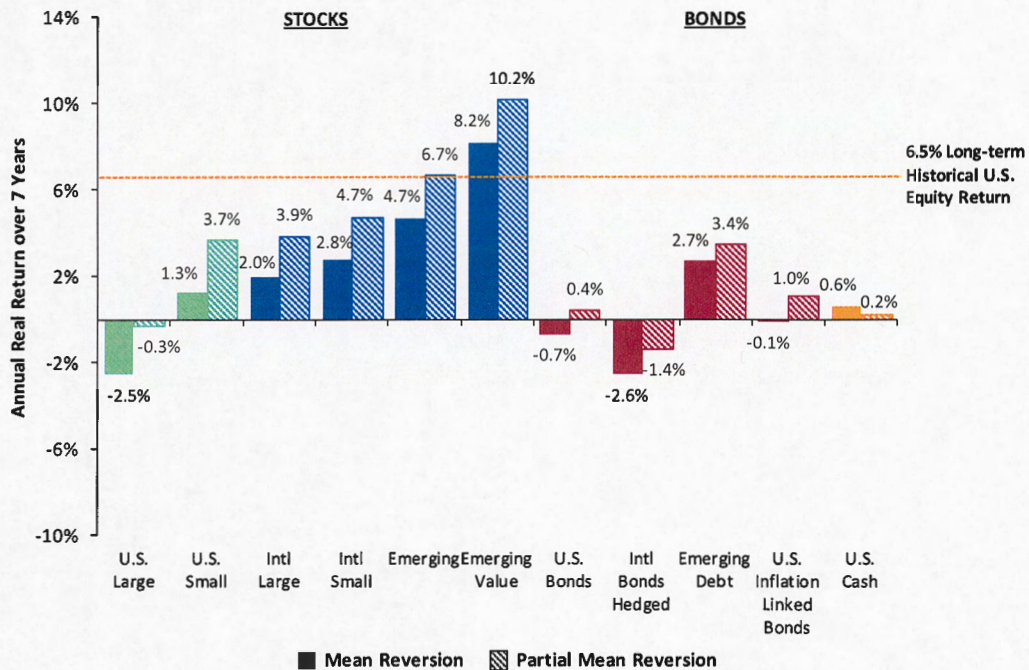
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## Putting Together a Portfolio

Our asset allocation process doesn't directly focus on analysts' expectations. As analysts have historically done a lousy job of forecasting, we generally ignore their forecasts and instead assume that things will gradually wend their way to normalcy. It should not come as a surprise, however, that our forecasts line up quite similarly to the "inverse of expectations" ordering. Our December forecasts (Exhibit 3) show both the partial mean reversion and full mean reversion scenarios.

Exhibit 3: 7-Year Asset Class Real Return Forecasts\*



As of 12/31/18

Source: GMO

\*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

While the U.S. looks better on our data than it has in a while, it still has a forecast meaningfully below cash in either scenario. But non-U.S. developed equities are a good deal better than cash, and emerging equities even better, at about fair value versus history. We believe combining those reasonable valuations with value spreads much wider than average means there is suddenly a fairly wide array of cheap stocks to buy. The attractiveness of credit is also on the rise, with emerging debt looking a bit cheap on our data and U.S. corporate high yield at approximately fair value as of year-end.<sup>7</sup> Even cash itself has a higher yield than any time since January 2008. It is the first time since 2009 that we have seen such a wide swath of assets this attractively priced.

<sup>7</sup>This is true on year-end data. The rally in the first part of January has pushed high yield back above fair value, although emerging debt still looks fair.



FD433  
SUMMARY STATEMENT  
OF INVESTMENT HOLDINGS  
BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLER FAMILY FOUNDATION  
CONSOLIDATED ACCOUNT  
BASE CURRENCY: USD

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AS OF DECEMBER 31, 2018

	<u>COST</u>	<u>MARKET VALUE</u>	<u>ACCRUED INCOME</u>	<u>%GAIN (LOSS)</u>	<u>% MKT</u>	<u>ESTIMATED ANNUAL INCOME</u>	<u>CURRENT YIELD</u>
SETTLED CASH	(0.02)	(0.02)	0.00	.0	.0	0.00	.00
RECEIVABLES	136,573.20	136,573.20		.0	.1		
PAYABLES	(145,697.50)	(145,697.50)		.0	(.1)		
NET CASH	<u>(9,124.32)</u>	<u>(9,124.32)</u>		.0	.0		
CASH EQUIVALENTS							
US TREASURY BILLS	224,843.97	224,843.97	56.74	.0	.2	0.00	.00
SHORT TERM FUNDS	11,148,160.49	11,148,160.49	18,480.48	.0	11.2	233,609.87	2.10
CASH EQUIVALENTS	<u>11,373,004.46</u>	<u>11,373,004.46</u>	<u>18,537.22</u>	.0	11.4	<u>233,609.87</u>	<u>2.05</u>
FIXED INCOME							
GOVERNMENT AND AGENCIES	5,890,718.62	5,777,451.37	21,743.53	(1.9)	5.8	257,434.63	4.46
BOND FUNDS	4,833,533.22	4,745,453.61	1,933.73	(1.8)	4.8	200,333.37	4.22
MUNICIPAL BONDS	1,897,860.20	1,908,032.39	21,532.92	.5	1.9	83,997.62	4.40
CORPORATE BONDS AND NOTES	3,443,191.41	3,356,602.14	32,214.72	(2.5)	3.4	137,826.19	4.11
ASSET-BACKED SECURITIES	925,265.79	924,420.08	2,742.41	(.1)	.9	38,435.03	4.16
COLLATERALIZED MTG-BACKED	192,069.36	183,298.43	751.46	(4.6)	.2	9,017.56	4.92
FIXED INCOME	<u>17,182,638.60</u>	<u>16,895,258.02</u>	<u>80,918.77</u>	<u>(1.7)</u>	<u>17.0</u>	<u>727,044.40</u>	<u>4.30</u>
PREFERRED STOCK							
PREFERRED STOCK MISC	124,000.00	115,300.00	0.00	(7.0)	.1	6,095.00	5.29
PREFERRED STOCK	<u>124,000.00</u>	<u>115,300.00</u>	<u>0.00</u>	<u>(7.0)</u>	<u>.1</u>	<u>6,095.00</u>	<u>5.29</u>
COMMON STOCK							
HEALTH CARE	2,404,987.28	5,045,110.00	10,170.00	109.8	5.1	142,080.00	2.82
FINANCIALS	3,044,768.29	5,490,778.64	9,250.00	80.3	5.5	193,448.76	3.52
CONSUMER STAPLES	2,008,039.63	2,993,400.00	0.00	49.1	3.0	100,490.00	3.36
CONSUMER DISCRETIONARY	422,676.74	1,731,460.00	0.00	309.6	1.7	49,320.00	2.85
MATERIALS	640,676.28	1,322,250.00	2,760.00	106.4	1.3	12,540.00	.95
ENERGY	1,426,594.76	2,007,220.00	0.00	40.7	2.0	35,040.00	1.75
INFORMATION TECHNOLOGY	2,122,780.96	4,590,170.00	0.00	116.2	4.6	125,920.00	2.74
INDUSTRIALS	3,273,949.53	4,976,640.00	500.00	52.0	5.0	142,320.00	2.86
TELECOMMUNICATION SERVICE	597,175.30	1,011,960.00	0.00	69.5	1.0	43,380.00	4.29
ADR'S	2,546,783.06	2,745,360.00	13,500.00	7.8	2.8	115,000.00	4.19
COMMON STOCK	<u>18,488,431.83</u>	<u>31,914,348.64</u>	<u>36,180.00</u>	<u>72.6</u>	<u>32.1</u>	<u>959,538.76</u>	<u>3.01</u>



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EQUITY FUNDS							
MUTUAL EQUITY FUNDS	8,398,554.49	6,406,937.36	937.21	(23.7)	6.4	138,580.13	2.16
EQUITY FUNDS	<u>8,398,554.49</u>	<u>6,406,937.36</u>	<u>937.21</u>	<u>(23.7)</u>	<u>6.4</u>	<u>138,580.13</u>	<u>2.16</u>
MISCELLANEOUS							
OTHER MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
MISCELLANEOUS	<u>360.00</u>	<u>360.00</u>	<u>0.00</u>	<u>.0</u>	<u>.0</u>	<u>0.00</u>	<u>.00</u>
VENTURE/LMTD PART/CLS HLD							
VENTURE CAPITAL	29,758,330.63	32,714,450.12	0.00	9.9	32.9	0.00	.00
VENTURE/LMTD PART/CLS HLD	<u>29,758,330.63</u>	<u>32,714,450.12</u>	<u>0.00</u>	<u>9.9</u>	<u>32.9</u>	<u>0.00</u>	<u>.00</u>
NET ASSETS	<u>85,316,195.69</u>	<u>99,410,534.28</u>	<u>136,573.20</u>	<u>16.5</u>	<u>100.0</u>	<u>2,064,868.16</u>	<u>2.08</u>



## Patrick and Aimee Butler Family Foundation - Historical Portfolio Performance

	Butler Family Foundation					Foundation Average					Market Benchmark (65/35)				
	YR	TOTAL	5-YR	10-YR	ITD	YR	TOTAL	5-YR	10-YR	ITD	YR	TOTAL	5-YR	10-YR	ITD
2000	12.8%	12.8%			12.8%	3.1%	3.1%			3.1%	-1.5%	-1.5%			-1.5%
2001	4.9%	18.3%			8.7%	-2.1%	0.9%			0.5%	-5.1%	-6.5%			-3.3%
2002	-1.0%	17.1%			5.3%	-5.7%	-4.8%			-1.6%	-9.9%	-15.8%			-5.5%
2003	16.6%	36.5%			8.1%	12.5%	7.1%			1.7%	19.5%	0.6%			0.2%
2004	11.6%	52.3%	8.8%		8.8%	11.4%	19.3%	3.6%		3.6%	7.9%	8.6%	1.7%		1.7%
2005	4.7%	59.4%	7.2%		8.1%	8.2%	29.1%	4.6%		4.4%	4.0%	12.9%	2.8%		2.1%
2006	12.7%	79.7%	8.7%		8.7%	13.7%	46.8%	7.8%		5.6%	11.7%	26.2%	6.2%		3.4%
2007	6.3%	91.0%	10.3%		8.4%	10.3%	61.9%	11.2%		6.2%	6.2%	34.0%	9.7%		3.7%
2008	-21.2%	50.5%	2.0%		4.6%	-25.9%	19.9%	2.3%		2.0%	-22.1%	4.4%	0.7%		0.5%
2009	16.1%	74.7%	2.8%	5.7%	5.7%	20.5%	44.5%	3.9%	3.8%	3.8%	18.8%	24.0%	2.7%	2.2%	2.2%
2010	11.6%	94.9%	4.1%	5.6%	6.3%	12.5%	62.6%	4.7%	4.7%	4.5%	12.1%	39.0%	4.2%	3.5%	3.0%
2011	1.7%	98.1%	2.0%	5.3%	5.9%	-0.7%	61.5%	1.9%	4.8%	4.1%	4.4%	45.1%	2.8%	4.5%	3.2%
2012	12.6%	123.2%	3.2%	6.7%	6.4%	12.0%	80.8%	2.2%	6.6%	4.7%	12.3%	63.0%	4.0%	6.8%	3.8%
2013	18.6%	164.6%	12.0%	6.8%	7.2%	15.6%	109.1%	11.8%	6.9%	5.4%	20.4%	96.2%	13.5%	6.9%	4.9%
2014	5.0%	177.9%	9.7%	6.2%	7.1%	6.1%	121.8%	8.9%	6.4%	5.5%	11.0%	117.8%	11.9%	7.2%	5.3%
2015	0.7%	179.7%	7.5%	5.8%	6.6%	0.0%	121.8%	6.4%	5.6%	5.1%	0.9%	119.8%	9.6%	6.9%	5.0%
2016	9.5%	206.3%	9.1%	5.5%	6.8%	6.4%	136.0%	7.9%	4.9%	5.2%	8.8%	139.1%	10.5%	6.6%	5.3%
2017	12.0%	243.1%	9.0%	6.0%	7.1%	15.0%	171.4%	8.5%	5.3%	5.7%	15.4%	175.9%	11.1%	7.5%	5.8%
2018	-4.3%	228.3%	4.4%	8.1%	6.5%	-6.0%	155.1%	4.1%	7.8%	5.0%	-2.9%	167.9%	6.4%	9.9%	5.3%

All returns are net of fees

Any returns in italic are estimates

## Patrick and Aimee Butler Family Foundation - Individual Manager Performance

<u>Asset Class</u>	<u>Allocation - December 31, 2018</u>				<u>Performance Data - December 31, 2018</u>			
	<u>Assets</u>	<u>Wgt</u>	<u>Target</u>	<u>Range</u>	<u>1 YR</u>	<u>5 YR</u>	<u>ITD</u>	<u>Incep. Date</u>
<b>Cash</b>	\$10.9	11%	5%	0-10%	1.6%	0.5%	NA	NA
<b>Fixed Income</b>								
Sit Investment Assoc.	\$14.6	15%	15%	10-20%	0.0%	3.5%	3.2%	12/31/2011
<i>Barclays Aggregate</i>					0.0%	2.5%	2.1%	
<b>U.S. Equities</b>	\$34.7	35%	45%	40-50%				
Vanguard Small-Cap Index Fund	\$2.8	3%			-9.3%	0.0%	NA	3/31/2018
Large-Cap Value (Internal)	\$31.9	32%			-5.0%	6.2%	7.7%	12/31/1999
<i>S&amp;P 500</i>					-4.4%	8.5%	4.9%	
<b>International Equities</b>								
Mondrian Investment Group	\$24.3	24%	20%	15-25%	-12.0%	1.2%	5.1%	6/30/2004
<i>MSCI All-Country World</i>					-14.2%	0.7%	4.2%	
<b>Alternative Investments</b>								
Miscellaneous	\$14.9	15%	15%	10-20%	0.3%	1.4%	NA	NA
<i>HFRI FOF Composite</i>					-4.1%	2.3%	NA	
<b>Total Foundation</b>	\$99	100%	100%		-4.3%	4.3%	6.4%	

### Notes:

Mondarian fund was changed from International Equity Fund to All Countries World in January 2012  
 Performance for Alternative Investments is an estimate due to manager changes and time lags

## Patrick & Aimee Butler Family Foundation

### Summary of Fees, Managers and Custodians - December 31, 2018

<u>Asset Class</u>	<u>SMA or Fund</u>	<u>Custodian</u>	<u>Manager</u>	<u>Assets</u>	<u>Fee</u>	<u>Est. Costs</u>
<u>Cash</u>						
Stock Account	SMA	Wells Fargo	Internal	\$2.5	0	\$0
Misc. Account	SMA	Wells Fargo	Internal	\$8.4	0	\$0
<u>Fixed Income</u>						
Sit Investment	SMA	Wells Fargo	Sit Investment	\$14.6	32	\$47
<u>Equities</u>						
Domestic - Large Value	SMA	Wells Fargo	Internal	\$31.9	0	\$0
Domestic - Small Cap	Fund	JP Morgan	Vanguard	\$2.8	5	\$1
International	Fund	JP Morgan	Mondrian	\$24.3	67	\$163
<u>Alternatives</u>						
Debt Partnerships	Fund	Wells/US Bank	Northstar	\$4.1	200	\$82
Global Fixed Income	Fund	BNY Mellon	Templeton	\$3.0	110	\$33
Infrastructure Part.	Fund	Real Asset - NA	Morgan Stanley	\$0.7	200	\$14
Global Real Estate	Fund	Real Asset - NA	Morgan Stanley	\$2.1	200	\$42
Commodities Fund	Fund	State Street Bank	Invesco	\$3.4	115	\$39
Wasterwater Opp.	Fund	Real Asset - NA	Equilibrium Cap.	\$1.5	200	\$30
Gateway Partnership (KBP)	Fund	Real Asset - NA	Moran & Cos.	\$0.1	100	\$1
				\$99		
<b>Estimated Investment Fees (Direct &amp; Imbedded)</b>						\$452
<b>Custodial Costs</b>						\$42
<b>Internal Investment Costs</b>						\$85
<b>Estimated Total Investment Costs</b>						\$579
<b>Percent of Assets</b>						58 bp
<b>Average for Foundations</b>						90-120 bp

**Notes:**

SMA is separately managed account

All SMA custodied at Wells Fargo

Fees are stated in basis points (1/100 of 1%)

# Patrick & Aimee Butler Family Foundation

## Investment Committee ~~Overview~~ Charter

### Purpose of the Investment Committee:

The following are the general duties and responsibilities of the Butler Family Foundation's Investment Committee:

- Oversee the general performance of the Chief Investment Officer and ensure that the Foundation is adhering to its investment policy and legally mandated guidelines.
- Review the Investment Policy for Board following the end of the second quarter and adjust as needed. Present the new policy to the Board for approval.
- At each scheduled Investment Committee meeting the Committee will meet with the Chief Investment Officer to review and assess the Foundation's investment strategy and overall performance. In addition, the Committee will review individual manager performance as well as any changes or potential changes in investment managers.

### Reporting Responsibilities of the Investment Committee:

The Investment Committee serves as an advisory committee to the Board of Trustees of the Butler Family Foundation. The Committee is charged with reporting on a timely basis all findings, activities and recommendations of the Committee to the Board of Trustees. The Investment Committee will make a formal report to the Board at each regularly scheduled board meeting.

### Membership of the Committee:

- **Number of Members:** The Investment Committee will have no fewer than three and no more than five members. One member will be the Treasurer of the Foundation, who serves ex officio.
- **Criteria for Membership:** Membership will be open to ~~Board members of the Butler Family Foundation and~~ all members of the Butler family over the age of 25. Non-family members may be added if approved by the Investment Committee and the Board. All eligible family members will receive an application prior to the fall Board meeting.
- **Selection of Members:** The selection of members will be made by the Board as a whole and new members added at the Fall Board meeting.
- **Term of Office:** Committee members will be asked to serve for a three year term. Terms are renewable. The initial term of service began on June 1, 2014
- **Committee Leadership:** The Committee will select a Chair every two years (starting 2014) who will provide leadership at committee meetings and be responsible for all communications with the Board of Trustees. The Chair will also work with the Chief Investment officer to determine if additional committee meetings are required.