Although rising interest rates are pressuring the markets and volatility is on the rise, growth was strong across all financial segments in the third quarter of 2018. Seattle Foundation's investment offerings are designed to address different risk tolerance levels and grantmaking timelines, and we are pleased to share third quarter performance results for our investment pools and market perspective as we bring this year to a close.

Through September, we witnessed continued growth globally, with core inflation remaining relatively controlled and GDP growth above 4% in the U.S. Our unemployment rate dropped to 3.7%, a low last seen in 1969. The Standard & Poors 500 gained 7.7% during the third quarter while smaller company equities, as measured on the Russell 2000, gained 3.6%. A fundamental market concern in 2018 has been interest rates, with the Federal Reserve raising its discount rate three times this year and expectations that it will do so four more times between now and the end of 2019. These actions put pressure on fixed-income markets and significant pressure on equity prices moving forward. The market has reacted with increased volatility and as of this writing, a market sell-off to start the fourth quarter.

The European Union continues to yield positive GDP growth and reduced unemployment, with indicators of an expansive economy. Japan, which has seen sluggish and often negative growth for decades, has recently produced consistent positive growth. The exception has been emerging markets, with China and other emerging countries suffering tremendous losses. Emerging equities, as measured by the MSCI EM, fell -1.1% in the quarter and are down -7.7% YTD. The U.S. imposed a 10% tariff on an additional $200 billion of Chinese goods, sparking Chinese retaliatory tariffs on $50 billion of U.S. goods. Despite trade progress with Mexico, Canada and the European Union, it appears the standoff with China may last for some time, creating disruption and uncertainty in equity markets.

Our Balanced Pool, the investment choice for most of our philanthropists, maintains a diversified portfolio with exposure to equity markets as well as more conservative asset classes such as U.S. fixed income. Although we saw mixed results in global equities, the Balanced Pool was able to deliver a 2.2% quarterly gain and is up 7.3% over the latest 12-month period (net of investment management fees), in comparison with 5.3% for the 60/40 benchmark (60% global equities/40% Barclays aggregate). The Balanced Pool has also exceeded its target benchmark over the one, three, five, seven and 10-year periods. Much of this success is attributable to active management in equities, as well as strong performance in alternative areas.

Our Socially Responsible Pool, designed to meet Environmental, Social and Governance needs while providing competitive economic returns, gained 2.4% for the quarter and is up 4.8% over the past 12 months. Our Intermediate-Term Pool, designed to meet the expectations of donors with a grantmaking horizon in the two to seven year range, gained 0.8% this quarter and 2.1% for the past year. The Short-Term Pool, which is intended to preserve capital for donors with very short grantmaking horizons, gained an additional 0.4% on the quarter and 1.1% for the past 12 months.

The Foundation's Index Pool, which is entirely passive, gained 2.6% for the quarter and is up 5.9% over the past 12 months. Our Growth Pool, which is invested more than 80% in equities, gained 2.4% this quarter and 6.6% for the latest 12 months.

I'm delighted to share that in October, Seattle Foundation was recognized as the 2018 Nonprofit of the Year at Seattle Business Magazine's Community Impact Awards. The judges selected Seattle Foundation because of our commitment to and investment in advancing equity and opportunity. President and CEO Tony Mestres accepted this award on behalf of the philanthropic partners with whom we work every day and said we must address the deep racial and economic disparities in our community to create the society that all of our residents deserve.

On Nov. 1, we shared results, market perspective and our new investment manager diversity policy at our annual Investment Briefing. If you would like to receive a copy of the presentation by Brian Crawford of Colonial Consulting, please contact your philanthropic advisor.

This is the busiest time of year for grantmaking, as well as financial and tax planning. Our team is always available to help you and provide timely, strategic advice to support the organizations and causes that matter to you. Please note that the last day for grant recommendations this year is December 9.

As the year comes to a close, we are thankful for your partnership and the generosity you invest in making our community stronger and more vibrant for all. We wish you happy holidays.

Sincerely,

Kirstin Sandaas, Chief Financial Operating Officer
Seattle Foundation returns are net of investment management fees. Returns are not net of fees for investment consulting and custodial services. Individual fund performance may vary due to the timing of contributions and grants. The Balanced Pool has a number of private asset investments that periodically provide valuation updates too late to be reflected in this report.
Investment Philosophy and Strategy

Effective stewardship of assets is key to Seattle Foundation’s ability to fulfill its mission of igniting powerful and rewarding philanthropy to make Greater Seattle a stronger, more vibrant community for all. Reflecting the infinite life of a community foundation, we take a long-term approach to our investment management to maximize the philanthropic resources available over time to meet community needs. Our long-term return objective is to generate annual returns of 4.5% plus inflation over a full market cycle of 10+ years through prudent management of a diversified portfolio.

We are oriented towards a total-return approach to investing, which aims to blend income and capital appreciation to address the challenge of preserving long-term purchasing power while dealing with unanticipated inflation. This approach to investment management is consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as implemented by Washington State.

As a prudent steward, the Foundation has the following main priorities for our Balanced Pool: **maximize total return and protect principal**. In addition to the Balanced Pool, the Foundation offers five other pools for philanthropists with different investment interests (Socially Responsible Investment and Index), risk profiles (Growth) and giving horizons (Intermediate and Short-Term). Outside management for funds larger than $750,000 is also available.

Investment Committee

The Investment Committee, a standing committee of the Board of Trustees, is charged with overseeing the investment activities of the Foundation. This includes advising the Board of Trustees on the investment policy, asset allocation strategies to meet the return objectives, and monitoring portfolio performance. The committee consists of 10 members selected for their investment expertise and judgment.

Steve Hill, **CHAIR, BOARD MEMBER**
Mr. Hill is the former director of the Department of Retirement Systems and Health Care Authority and former Senior Vice President of Human Resources at Weyerhaeuser. His investment committee experience includes service on the Washington State Investment Board, Consumer Reports (Finance Chair), Washington State University Endowment, and the Weyerhaeuser Pension committee. Mr. Hill received a B.S. from the University of California at Berkeley and an MBA from the University of California at Los Angeles.

Debra Somberg, **BOARD MEMBER**
Ms. Somberg is the managing partner at Sovem Group, a venture capital company focused on bringing technology innovations to the healthcare arena. Prior experience includes co-managing partner of Maveron LLC, founding partner of Thomas Weisel Partners, Senior Managing Director of Montgomery Securities, and positions at Goldman Sachs and McKinsey & Co. She graduated Phi Beta Kappa from Stanford University and has an MBA from Harvard Business School.

Tom Alberg
Mr. Alberg is a co-founding member of Madrona Investment Group and currently serves as a director for several portfolio companies including Impinj, SNUPi and Mercent. Mr. Alberg received his undergraduate degree from Harvard College, graduating cum laude, and his law degree from Columbia Law School, where he was an editor of the Columbia Law Review.

Joseph Boateng
Mr. Boateng joined Casey Family Programs as its first Chief Investment Officer in 2007 and is responsible for overseeing the foundation’s $2.2 billion endowment. Before joining Casey, he was a member of the Johnson & Johnson Investment Committee, responsible for managing over $17 billion. Mr. Boateng received his MBA from University of California Los Angeles and is an alumnus of the Said Business School at Oxford.

Alan Heuberger
Mr. Heuberger is a portfolio manager with BMGI and currently oversees a number of investment areas including private assets and fixed income. He has served on various investment committees in the Greater Seattle area, including College Success Foundation, The Overlake School and YMCA of Greater Seattle. He received a B.A. in economics and mathematics from Claremont McKenna College and is a Chartered Financial Analyst.