



**Kirstin Sandaas**  
Chief Financial Operating Officer

Seattle Foundation saw record growth in 2018. We invested an unprecedented \$123.8 million in grants in the community and received a high of \$128.6 million in gifts for future investment. We achieved these results to advance our mission against the backdrop of a challenging year in the financial markets.

Markets closed out the year in a volatile state as prices fell, with significant declines that failed to spare even companies with strong operating results. For the quarter, the Standard & Poors 500 Index lost -13.5%, while smaller U.S. stocks in the Russell 2000 dropped -20.2%. Non-U.S. developed equities (MSCI EAFE) fell -12.5% while emerging market equities (MSCI EM) lost -7.5%. Because of this difficult quarter, all major equity indices ended the year negative: S&P 500 (-4.4%), Russell 2000 (-11.0%), MSCI EAFE (-13.8%) and MSCI EM (-14.6%). This is the first time since the 2008 Global Financial Crisis that all four broad equity indices finished the year down.

While some economic indicators were mixed, global growth remained positive for the year and domestic corporate earnings proved to be a bright spot, even excluding the impact of tax cuts. Despite these positive undercurrents, stock markets pulled back on growing concern over future growth. Rising interest rates (a result of the Federal Reserve normalizing monetary policy), combined with political uncertainty across the world from trade wars, Brexit and more, weighed on markets.

Economic data outside the U.S., while not as strong as in 2017, was broadly positive. In the Eurozone, GDP growth across the 19 members grew at an annualized rate of 1.6%, and unemployment continued to decline. In Japan, economic growth rebounded during the last months of the year as consumer spending increased. Monetary policy within Europe and Japan remains stimulative, in stark contrast to the Federal Reserve, which raised rates four times in 2018. Although the Bank of China maintained its stable outlook for GDP growth in 2019, there were signs of an economic slowdown, as policies to curb credit growth, reforms and trade disputes with the U.S. impacted consumer and manufacturing activity.

Our largest investment option, the **Balanced Pool**, maintains a diversified portfolio that includes exposure to the equity markets described above, as well as more conservative asset classes such as U.S. Fixed Income. The fourth quarter provided no area of safety, reducing all institutional portfolios. For the year the Balanced Pool lost -6.9%. While absolute results were negative, we delivered strong execution in a difficult market environment. The Balanced Pool exceeded its target benchmark over the three, five, seven and 10-year periods. Much of this success is attributable to active management of equities and strong performance in alternative areas.

Our **Socially Responsible Investment Pool**, designed to meet Environmental, Social, and Governance needs while also providing competitive economic returns, lost -9.5% on the year. Our **Intermediate Pool**, designed to meet the expectations of donors with a grantmaking horizon in the three to seven year range, lost -1.7% last year. The Foundation's **Short-Term Pool**, which is intended to preserve capital for donors with very short grantmaking horizons, gained 1.7% for 2018.

The Foundation's entirely passive **Index Pool** is down -6.9% over the past 12 months. Our **Growth Pool**, with more than 80% of the portfolio in equities, lost -8.3% for the latest 12 months.

In 2018, Seattle Foundation established significant new fund relationships, including 10 Family Foundations and new Corporate Foundations for F5 Networks and the Center Art Foundation for the Chihuly Garden and Glass. We also attracted new organizational support for our pooled funding efforts from national leaders like the Ford Foundation, Bloomberg Philanthropies and Hilton Foundation.

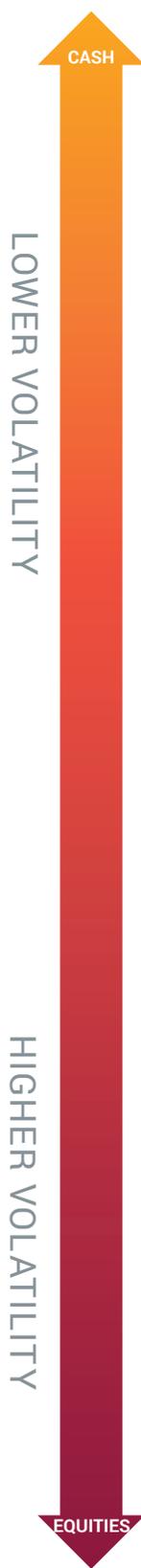
We welcomed a dynamic new leader who will deepen our impact with the arrival of Kris Hermanns, our Chief Impact Officer, who formerly led Pride Foundation. We also welcomed new members of our Board of Trustees, Colleen Echohawk, Executive Director of Chief Seattle Club, and Kelley Hall, Senior Vice President, Chief Accounting Officer and Treasurer at Nordstrom, Inc.

We are thankful for the opportunity to support you in creating powerful, rewarding philanthropy to make King County a stronger, more vibrant community for all.

Sincerely,



Kirstin Sandaas, Chief Financial Operating Officer



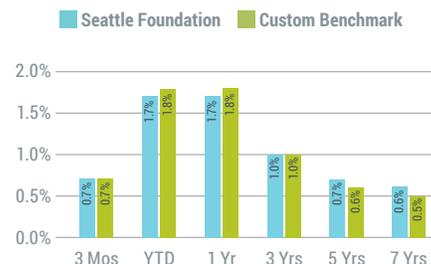
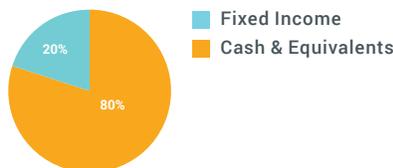
Investment Pool

Target Asset Allocation

Performance

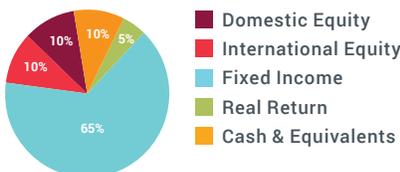
**Short-Term Pool**

0-2 year giving horizon



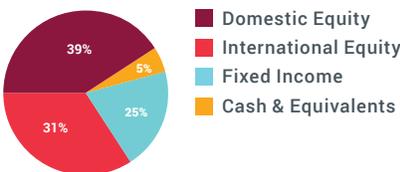
**Intermediate Pool**

3-7 year giving horizon



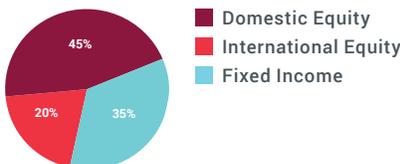
**Index Pool**

10+ year giving horizon



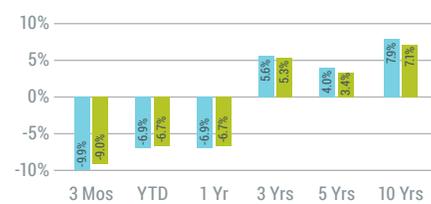
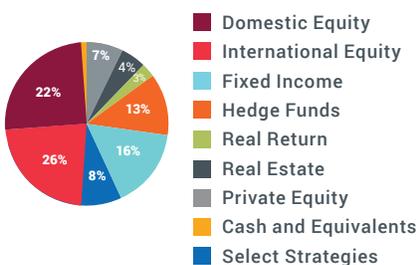
**Socially Responsible Investment Pool**

10+ year giving horizon



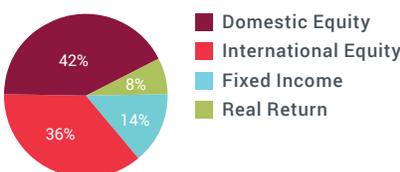
**Balanced Pool**

10+ year giving horizon



**Growth Pool**

10+ year giving horizon



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 **Sovern Group**, a venture capital company focused on bringing technology innovations to the healthcare arena. Prior experience includes co-managing partner of Maverson 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.

### Stanley B. McCammon

Mr. McCammon is President & CEO of **Joshua Green Corporation** (JGC), a private investment company holding a diversified portfolio, and is a trustee of the Joshua Green Foundation. Prior to joining JGC, he was President of Orca Bay Capital Corporation, CEO of Orca Bay Sports & Entertainment and co-founder in Orca Bay Partners. Mr. McCammon is a graduate of the University of Nebraska School of Business, and the University of Nebraska and New York University law schools, holding J.D. and LL.M. degrees.

### Mary Pugh

With over 33 years of institutional portfolio management and investment experience, Ms. Pugh is the founder, CEO and Chief Investment Officer of **Pugh Capital Management** with over \$3.5 billion in assets under management. She recently completed nine years of board service to Seattle Foundation where she was Chair of the Investment Committee. Ms. Pugh received a B.A. in economics from Yale University.

### Daniel Regis

Mr. Regis is currently the General Partner of **Regis Investments, LP**. Prior experience includes Chairman of the Advisory Board for Fluke Venture Partners, Managing Director of Digital Partners and President of Kirlan Venture Capital, Inc. and Managing Partner of its venture funds. Mr. Regis also spent more than 30 years with Price Waterhouse LLP, including Managing Partner of the Seattle and Northwest Group of offices. Mr. Regis received a B.S. from Seattle University.

### Garth Reistad

Mr. Reistad is the Deputy Chief Investment Officer at the **University of Washington**, where he has over 20 years of experience. Prior to joining the University, he worked at Bank of America in San Francisco. Mr. Reistad received an M.A. in Economics from Columbia University. He serves on the Investment Committee for Seattle University.

### Allyson Tucker

Ms. Tucker is the Senior Investment Officer of Risk Management and Asset Allocation with the **Washington State Investment Board** (WSIB), one of the nation's largest institutional investors, currently managing over \$110 billion comprised of defined benefit and defined contribution retirement funds, deferred compensation funds, insurance and other funds. Ms. Tucker received a B.A. in accounting from the University of Washington.