



Jane Repensek
SVP, Finance & Operations

2015 was a record-setting year of community impact for Seattle Foundation. Along with our community philanthropists, we invested nearly \$100 million into the region and hit \$1 billion in total investment since the Foundation was established 70 years ago. Philanthropists' gifts into the Foundation also neared \$100 million for 2015. Forty new community philanthropy funds, scholarship funds and nonprofit endowments were also established during the year by local families, businesses and nonprofits.

Turning to investment performance, 2015 was a year of volatility in the capital markets, which affected our portfolio returns. The S&P 500 suffered its first correction in nearly four years during the third calendar quarter. This correction was in large part due to growing concerns over China's economy (and its demand for commodities) and an increase in the global supply of oil. Commodity prices continued to fall, further extending the declines which began back in the second half of 2014. That said, within the US we continue to see signs of real wage growth improvement, jobs growth remains consistent, and overall GDP tracks modestly positive. Further, the Federal Reserve proceeded with a much anticipated decision to increase interest rates at its December meeting. This decision resulted in the 2-year US Treasury yield ending the year at its highest point since 2010.

In addition to our Balanced Pool impact of equities and fixed-income noted above, alternative investments added value to the portfolio as volatility increased and inefficiencies in the market continued. Despite these benefits, the overall negative impact of equity markets reduced portfolio results as the Balanced Pool lost 0.7% during 2015, bringing the annualized return to 8.9% over the past seven years. We should also note that execution of the strategy has been successful as the portfolio has outperformed its benchmark by 100 to 170 bps over the one, three, five and seven year periods.

In addition to our Balanced Pool, we offer other investment pools and will add to our menu of options in 2016. For 2015, our Socially Responsible Pool, designed to meet ESG (Environmental, Social and Governance) needs over a long-term horizon while also providing competitive economic returns, lost 7.2% for the year. Our Intermediate-Term Pool, designed to meet the expectations of philanthropists with a grant-making horizon in the two-to-seven-year range, lost 1.0%. Lastly, the Foundation manages a Short-Term pool for philanthropists with a very short grant-making horizon. This pool is intended to preserve capital as best as possible and gained 0.2% on the year.

Your thoughtful input shaped the new service, pricing and investment choices we will introduce in early 2016 and we will meet with philanthropists, professional advisors and nonprofit organizations about how this new framework will enable us to be a stronger partner for you or your clients going forward.

Seattle Foundation's mission is to ignite powerful and rewarding philanthropy and make Greater Seattle a stronger, more vibrant community for all. We unite passion and discipline to create lasting change, and we look forward to the positive community impact that we will generate through "The Heart and Science of Philanthropy" in 2016.

Sincerely,

Jane Repensek
Senior Vice President, Finance & Operations

Balanced Pool Performance Comparisons

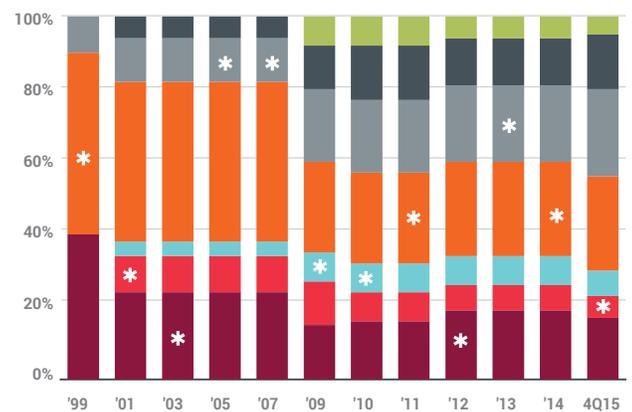
Performance is shown net of fees



2015 Q4 Annualized Rate of Return

1 YEAR	-0.7%
3 YEARS	6.4%
5 YEARS	6.0%
10 YEARS	5.0%

Balanced Pool Strategic Asset Allocation



Investment Philosophy

Effective stewardship of assets is key to Seattle Foundation's ability to fulfill its mission of fostering powerful and rewarding philanthropy to make King County 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 investment objective is to, over time, generate compound annual returns of 8% through prudent management of a diversified portfolio.

Investment Strategy

Seattle Foundation exercises prudent investment practices that are oriented towards a "total return" approach to investing, which aims for a total change in fund value over a given time period resulting not only from interest and dividend income, but from capital appreciation as well. This approach allows the Foundation to capture a portion of the historically higher returns in the equity and equity-like markets. Our total return 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:

1. Long-term annualized returns exceeding CPI + 4.5%
2. Protection of assets

In addition, the Foundation offers Intermediate-Term Pool, Short-Term Pool and socially responsible investment options, as well as outside management for funds larger than \$750,000.

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 retaining investment managers as needed to meet the objectives of the investment policy and monitoring the performance of those managers. The committee also advises the Board of Trustees on investment policies, including asset allocation. The committee consists of ten members, selected for their investment expertise and judgment. Three of these members also serve on the Board of Trustees.

Investment Pools

Seattle Foundation will help you select the investment strategy best matched to your giving plans and goals. Our **Balanced Pool** is a well-diversified portfolio reflecting a "total return" approach, focused on ensuring capital growth over the long term (over ten years). The **Intermediate-Term Pool** invests primarily in fixed-income securities, offering less volatility and lower returns to support a giving horizon of 3 to 7 years. The **Short-Term Pool** is for fundholders with a time frame of less than two years for distributing charitable funds. The **Socially Responsible Investment (SRI) Pool** is designed to achieve both economic returns and environmental, social and governance investing over a long-term giving horizon and invests largely in U.S. equities.

2016 Investment Committee

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