

# Community Foundation for Muskegon County

*Serving the Community Foundations of Muskegon,  
Mason, and Oceana Counties*

Portfolio review

December 12, 2016



# Agenda

- I. Vanguard's economic and investment outlook
- II. Portfolio summary
- III. Segregated accounts reporting
- IV. Risk/return analysis
- V. International

**Presented by:**

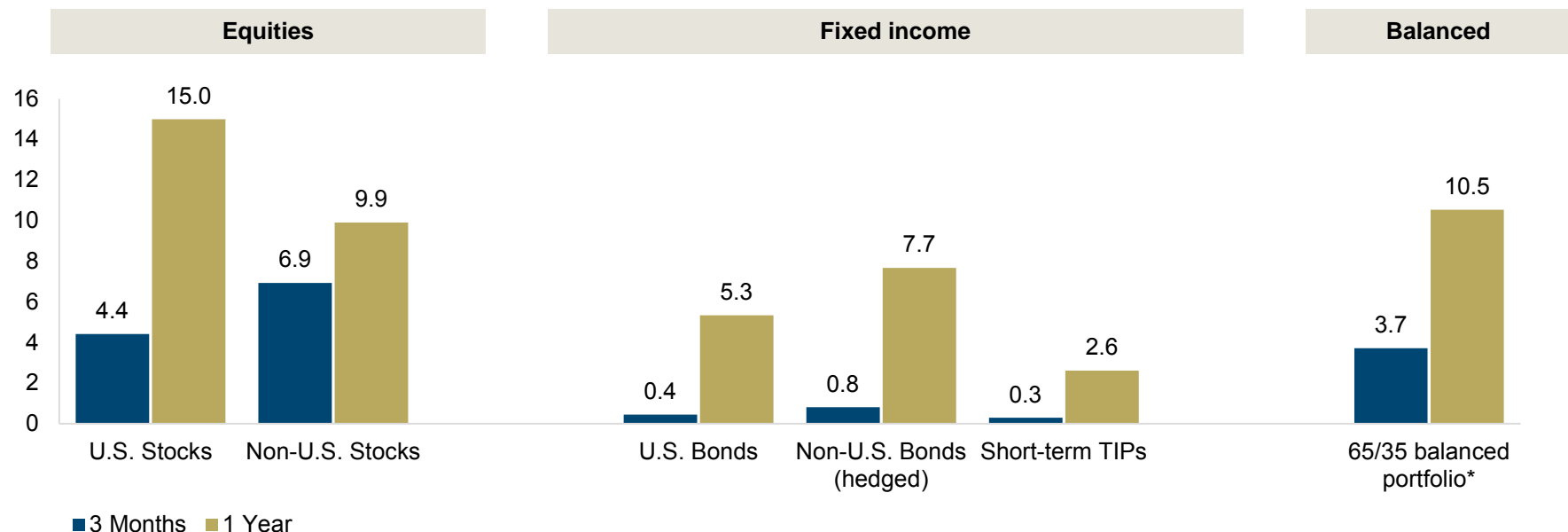
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Senior Investment Consultant  
Vanguard Institutional Advisory Services®

# Vanguard's economic and investment outlook

# Global financial markets post positive returns over the past 3 months

- Global equity market returns are strong over the last three and twelve months in spite of the uncertainty surrounding the Brexit vote, and global monetary policy
- Global fixed income had muted returns in the last quarter due to a slight increase in bond yields

## Global market returns as of September 30, 2016 (%)



Sources: Barclays, FTSE, MSCI, Russell, and Dow Jones.

US Stocks (CRSP US Total Market Index), Non-US Stocks (FTSE Global All-Cap ex-US Index), US Bonds (Barclays US Aggregate Float Adjusted Index), Non-US Bonds hedged (Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index hedged), Short-term TIPS (Barclays US 0-5 Year TIPS Index)

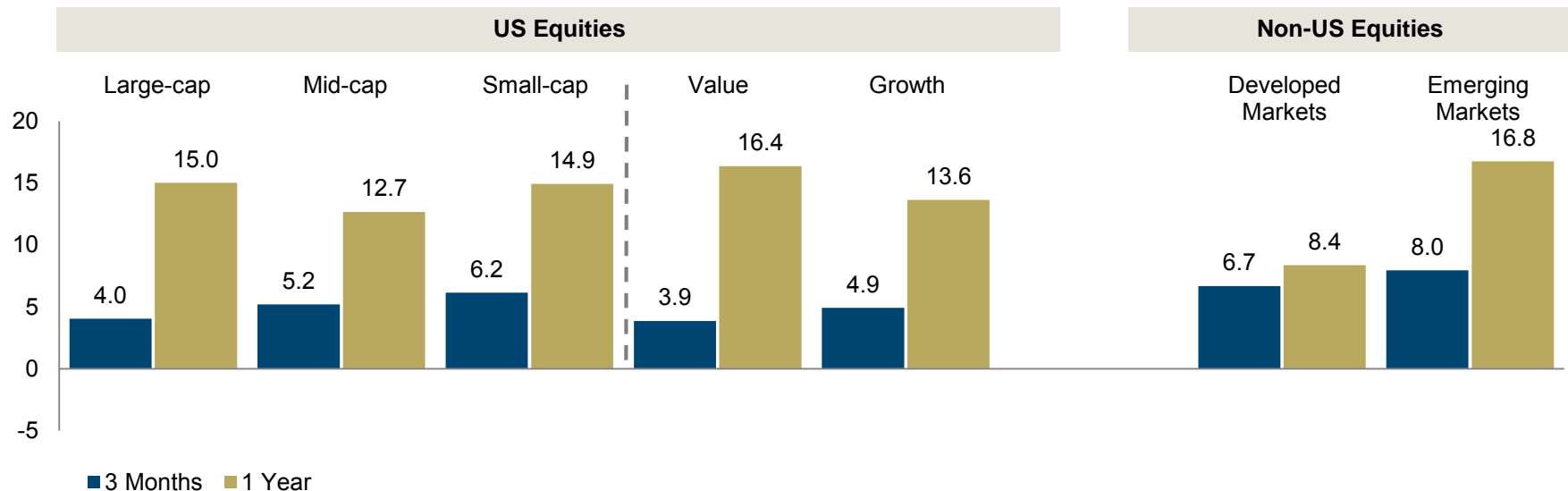
\*65/35 balanced portfolio Static Composite (39% U.S. stocks, 26% International stocks, and 24.5% Investment-grade U.S. bonds, 10.5% Investment-grade international bonds). Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

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# U.S. markets continue to demonstrate resiliency; international stocks rally

- The performance of U.S. large- and small-cap stocks has been nearly identical over the past year
- U.S. value stocks, led by traditionally defensive sectors, have outperformed growth stocks in the last 12 months despite the recent rally in IT and other growth oriented sectors
- Emerging markets have strongly reversed course as commodity and energy related sectors rallied in the last quarter

Global equity market returns as of September 30, 2016 (%)



Sources: Barclays, FTSE, MSCI, Russell, and Dow Jones.

Large-cap (CRSP US Large Cap Index), Mid-cap (CRSP US Mid Cap Index), Small-cap (CRSP US Small Cap Index); Value (Russell 3000 Value Index), Growth (Russell 3000 Growth Index); Developed markets (FTSE Developed All Cap ex-US Index), Emerging markets (FTSE Emerging Index)

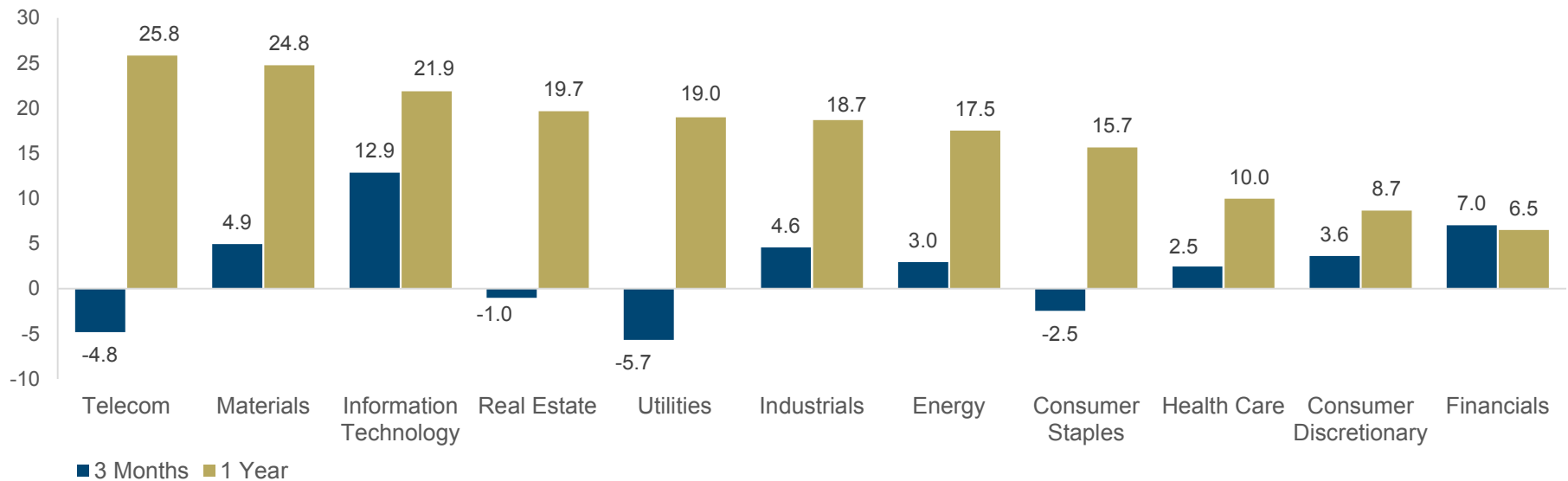
*Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.*

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# U.S. sector performance

- Nearly all sectors posted double-digit gains over the past 12 months, except for Consumer Discretionary and Financials
- Yield-oriented sectors such as Telecom, Real Estate, Utilities, and Consumer Staples fell over the last 3 months
- Information Technology has seen strong performance over the past 3 and 12 months

## U.S. equity sector returns as of September 30, 2016 (%)



Sources: FactSet and Vanguard.

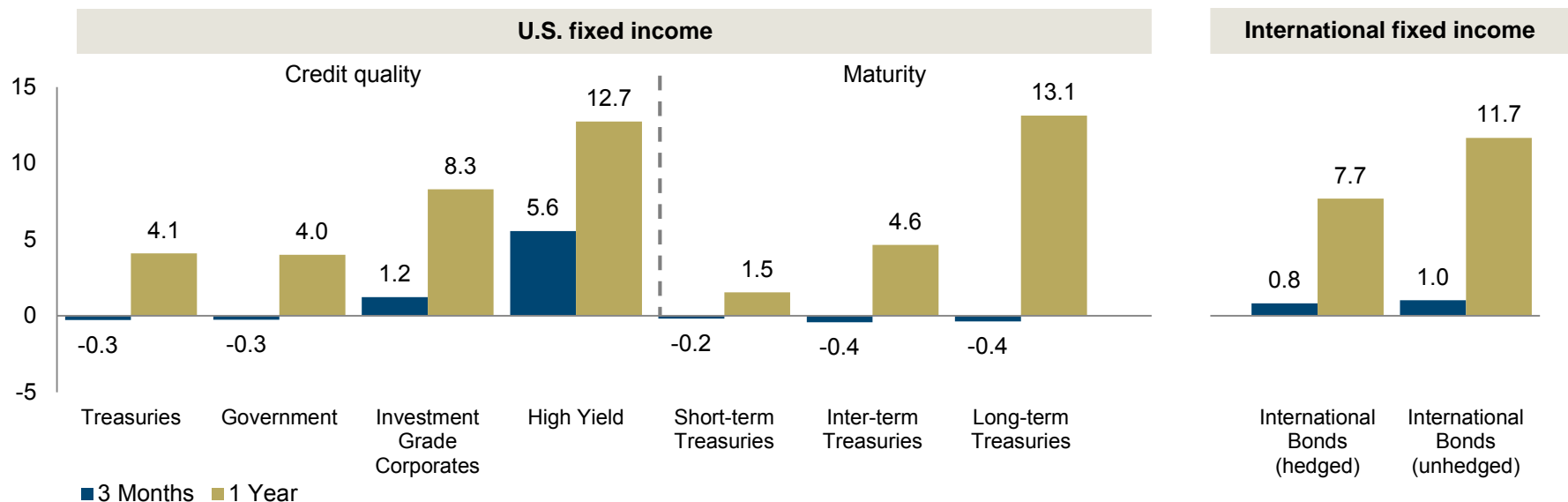
U.S. markets measured by CRSP US Total Market Index. *Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.*

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# Global bond rally pauses over the past 3 months

- Global bonds posted positive gains over the last 12 months as yields generally fell across the globe; however yields slightly increased over the last 3 months
- Credit outperformed as spreads tightened and High Yield continued to advance
- Non-U.S. bonds moved slightly higher over the last 3 months while U.S. Treasuries and Government bonds posted modest losses

## Global fixed income market returns as of September 30, 2016 (%)



Sources: Barclays, FTSE, MSCI, Russell, and Dow Jones.

Treasuries-Government-Investment Grade Corporates-High Yield (Barclays US Treasury/Government/Credit/Corporate High Yield Indices);

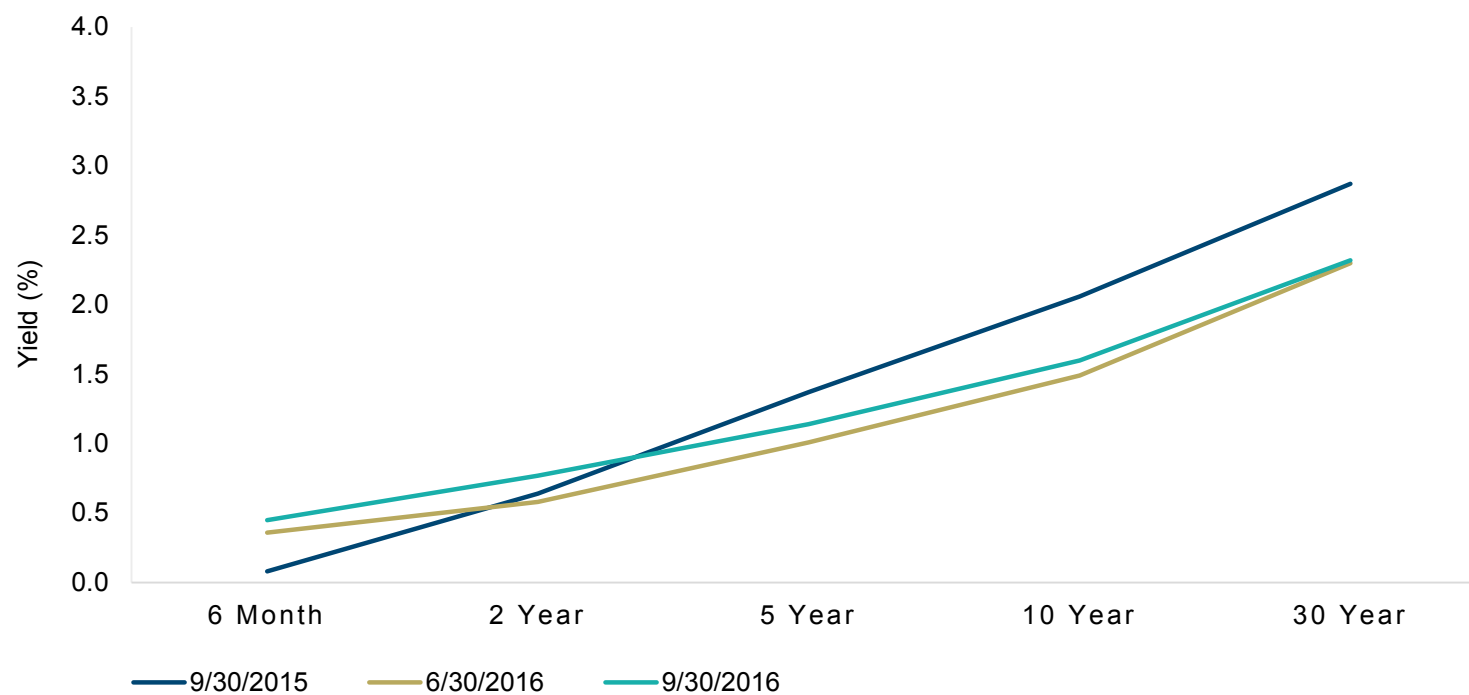
Short-Inter-Long-term Treasuries (Barclays US 1-5/5-10/Long Year Treasury Indices)

International Bonds Hedged (Barclays Global Aggregate ex-USD Float Adj. RIC Cap Index hedged) Unhedged (Barclays Global Aggregate ex-USD Index)

*Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.*

# U.S. Treasury Yield Curve

Yield (%) and Change (bps)	6 Month	2 Year	5 Year	10 Year	30 Year
● Current Yield (%)	0.45	0.77	1.14	1.60	2.32
● 3 Mo. Δ	9	19	13	11	2
● 12 Mo. Δ	37	13	(23)	(46)	(55)



Source: Barclays

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# Market leadership changes

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Long-Term	
LG	38.1	24.0	36.5	42.2	66.4	22.8	14.0	10.3	56.3	26.0	34.5	32.2	39.4	5.7	78.5	29.1	7.8	18.5	43.3	14.9	5.5	MV	11.6
LV	37.0	22.0	34.4	20.0	51.3	19.2	8.4	6.8	48.5	23.7	13.5	26.3	11.4	5.2	58.2	26.4	5.0	18.2	35.7	14.7	1.4	SV	10.0
MV	34.9	21.4	31.8	17.9	43.1	11.6	6.3	2.4	46.0	22.2	12.6	23.5	11.2	1.8	46.3	24.8	4.7	18.1	34.5	12.4	1.1	LG	9.8
MG	34.0	20.3	30.0	16.6	28.2	9.1	5.3	1.7	42.7	20.2	12.1	20.8	9.1	0.1	34.5	24.5	3.9	17.7	33.5	11.9	0.5	MG	9.8
SG	31.0	17.5	22.5	14.7	27.0	6.1	4.1	-1.4	38.6	15.7	8.0	20.2	8.7	-24.4	34.2	18.9	3.2	17.3	32.8	7.8	0.0	LV	8.9
SV	25.7	CMP	CMP	12.1	CMP	T-Bill	MV	Emg	MV	MG	LV	CMP	SG	HY	Intl	HY	T-Bill	HY	LV	CMP	MG	CMP	7.8
CMP	23.1	12.1	12.9	8.7	12.7	CPI	CPI	CMP	LV	SG	IB	SG	IG	SV	LG	LV	LV	MG	Intl	IG	Intl	SG	7.4
HY	19.2	11.4	12.8	5.1	4.7	-4.4	-2.4	-9.6	29.0	12.1	4.7	11.8	4.7	-34.9	23.9	15.1	-0.8	14.6	16.7	5.6	-1.1	HY	7.3
IG	18.5	11.3	10.9	5.1	2.7	-5.9	-6.6	-11.4	25.7	11.1	4.2	11.0	4.3	-38.4	21.2	11.6	-1.4	14.6	7.4	4.2	-1.4	IB	6.2
IB	17.3	6.0	9.7	1.9	2.4	-11.7	-9.2	-15.9	24.4	6.1	3.5	10.7	4.1	-38.5	20.6	7.8	-1.7	12.5	1.5	2.5	-3.1	IG	5.9
Intl	11.2	6.0	5.2	1.6	2.1	-14.2	-11.7	-20.9	4.1	5.3	3.5	4.8	2.0	-39.2	5.9	6.5	-2.9	6.5	1.2	0.8	-4.5	Emg	4.9
T-Bill	5.7	5.3	1.8	1.2	-0.1	-22.1	-12.7	-23.6	2.4	4.3	3.0	4.3	1.9	-43.4	4.4	3.3	-5.5	4.2	0.1	0.0	-4.8	Intl	4.7
CPI	2.5	3.6	1.7	-6.5	-0.8	-22.4	-20.2	-27.4	1.9	3.3	2.7	3.2	-1.4	-44.3	2.9	1.3	-12.1	2.0	-2.0	-2.2	-7.5	T-Bill	2.6
Emg	-5.2	3.3	-11.6	-25.3	-1.5	-30.6	-21.4	-30.3	1.1	1.2	2.4	2.5	-9.8	-53.3	0.2	0.1	-18.4	0.1	-2.6	-4.9	-14.9	CPI	2.2

LV	Value-oriented U.S.-based large-cap stocks (S&P 500/Citigroup Value)
MV	Value-oriented U.S. based mid-cap stocks (Russell Midcap Value)
LG	Growth-oriented U.S. based large-cap stocks (S&P 500/Citigroup Growth)
MG	Growth-oriented U.S. based mid-cap stocks (Russell Midcap Growth)
SV	Value-oriented U.S. based small-cap stocks (Russell 2000 Value)
SG	Growth-oriented U.S. based small-cap stocks (Russell 2000 Growth)
IG	Investment-grade U.S. bonds (Barclays Aggregate)
HY	High-yield U.S. bonds (Barclays High Yield)
Intl	International stocks from developed countries (MSCI EAFE)
Emg	International stocks from emerging countries (MSCI Emerging)
CPI	Measure of inflation (Consumer Price Index)
IB	Investment-grade international bonds
T-Bill	Short-term Treasury rates (Citigroup 3-Mo T-bill)
CMP	Static Composite (39% U.S. stocks*, 26% International stocks**, & 24.5% Investment-grade U.S. bonds†, 10.5% Investment-grade international bonds††)

Source: Vanguard. Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Last observation: December 31, 2015; long-term performance from December 31, 1994 through December 31, 2015.

\* U.S. stocks: Dow Jones Wilshire 5000 Index through April 22, 2005; MSCI US Broad Market Index thereafter.

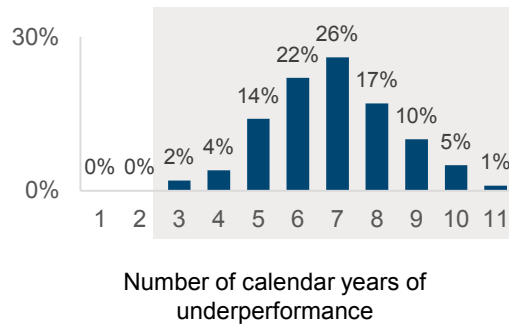
\*\* Consists of the Total International Composite Index through August 31, 2006; the MSCI EAFE + Emerging Markets Index through December 15, 2010; and the MSCI ACWI ex USA IMI Index thereafter.

† Barclays US Aggregate Bond Index through December 31, 2009; Barclays US Aggregate Float Adjusted Index thereafter.

†† Barclays Global Aggregate Ex USD Index (hedged).

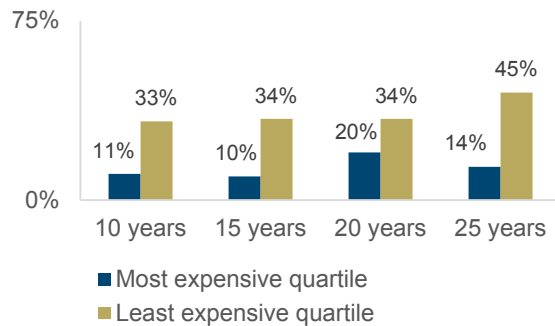
# Headwinds for active equity mutual fund managers

## Distribution of survived and outperformed funds 2000-2014



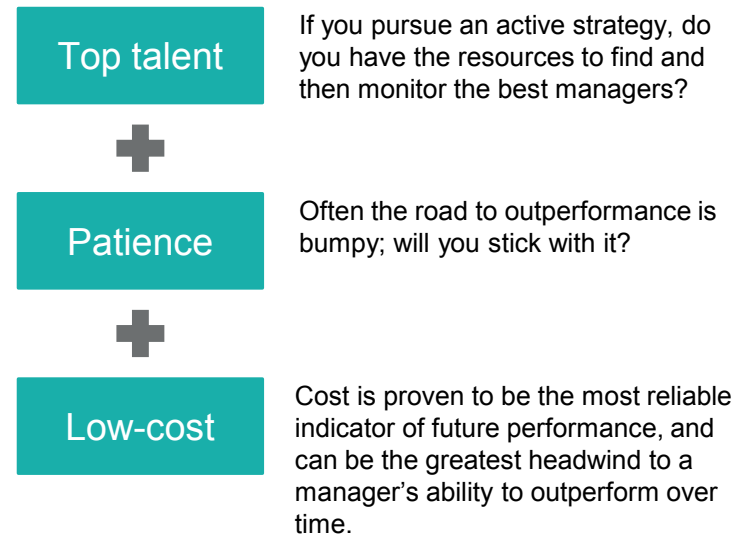
- Between 2000 and 2014, one-quarter of active funds survived and outperformed; and 98% of these funds had underperformed in at least 4 calendar years

## Percentage of actively managed funds that outperformed their benchmark



- Over various performance periods, a larger percentage of outperforming funds were lower-cost

## Keys to active management success:



Source: Vanguard calculations using data from Morningstar

Notes: Period ended December 31, 2014. Our analysis utilized expenses and fund returns for active equity funds available to U.S. investors that were alive at the start of each analysis period. The oldest and lowest cost single share class was used to represent a given fund where multiple shares classes existed. Their performance was compared with their prospectus benchmark. Funds which were merged or liquidated are considered underperformers for the purposes of this analysis. The following fund categories were included: small value, small growth, small blend, mid-cap value, mid-cap growth, mid-cap blend, large value, large growth, and large blend.

# Economic and market outlook

# Themes and outlook

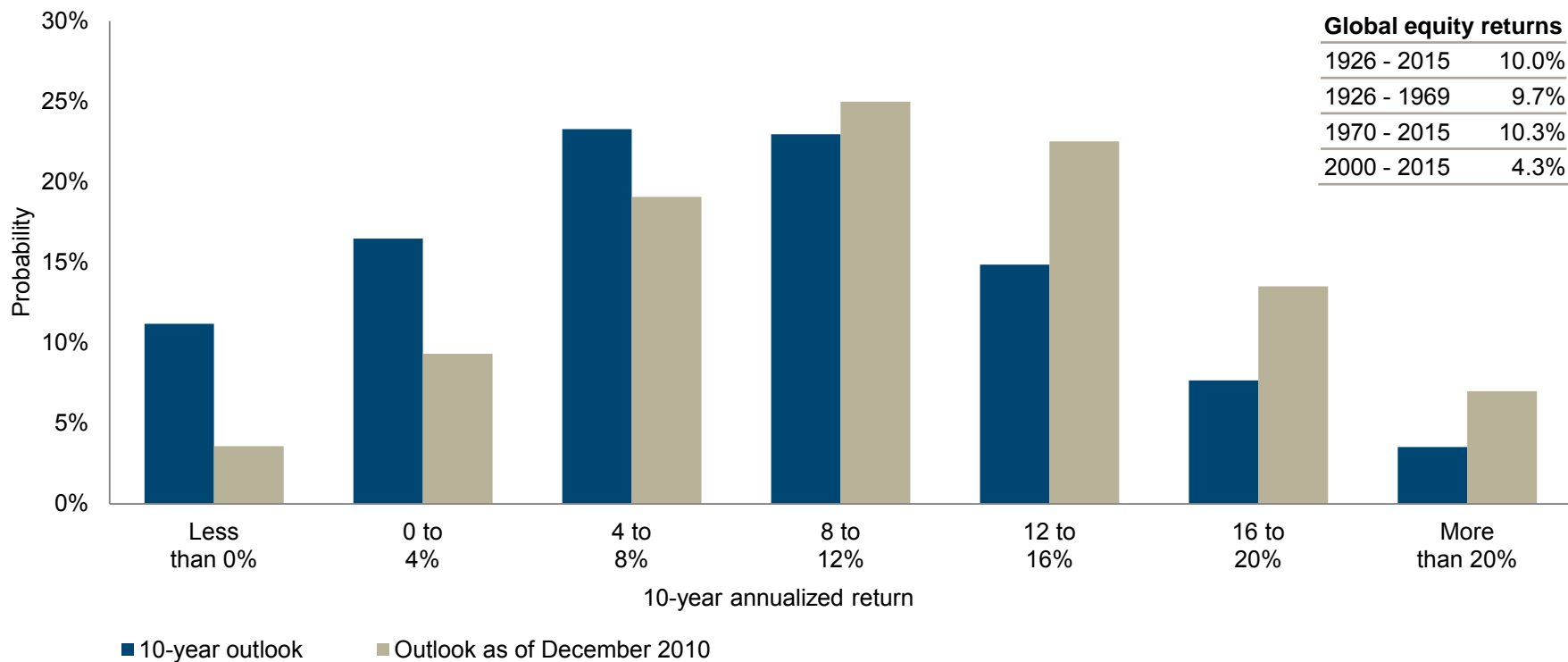
	Global	U.S.	Europe	Asia
<b>Growth</b>	<ul style="list-style-type: none"> <li>• <i>Frustratingly fragile</i></li> <li>• Downside cyclical risks, with “global recession scares” continuing in 2016. Few, if any, economies accelerate this year.</li> <li>• Low-growth world in the midst of <i>structural convergence</i>, not more dire secular stagnation.</li> </ul>	<ul style="list-style-type: none"> <li>• Growth should prove uneven but resilient despite presence of “recession scares.”</li> <li>• Our outlook is near consensus, slightly below 2%. Job growth should slow to 125-150k.</li> <li>• Service sector strength offsets continued manufacturing weakness</li> </ul>	<ul style="list-style-type: none"> <li>• Growth falling to around 1% in 2016 and picking up slightly to 1.2% in 2017</li> <li>• Heightened uncertainty, including regarding Brexit, weighing on sentiment</li> <li>• Slowdown in the speed of fiscal tightening a positive for growth</li> </ul>	<ul style="list-style-type: none"> <li>• China: permanently slower, but hard landing unlikely. Growth expected in the 6-7% range, with industrial data much weaker</li> <li>• Japan: magnitude of cyclical recovery limited by structural headwinds. No progress on Abenomics' "Third Arrow"</li> </ul>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>• Secular deflationary forces persist, though some headwinds are fading at the margin</li> <li>• Central banks will continue to struggle to meet 2% targets</li> </ul>	<ul style="list-style-type: none"> <li>• Downward pressure from dollar / oil prices abating. Core inflation should continue trending towards 2% target.</li> <li>• Certain measures of wage growth have been rising, while aggregate measures may be tempered by continued strong job gains.</li> </ul>	<ul style="list-style-type: none"> <li>• Inflation outlook improving on QE-induced Euro weakness.</li> </ul>	<ul style="list-style-type: none"> <li>• Japan: Abenomics goal of 2% put off, although additional easing not expected to boost falling inflation enough to hit target.</li> <li>• Monetary easing not having desired effect on nominal wage growth either.</li> </ul>
<b>Monetary policy &amp; interest rates</b>	<ul style="list-style-type: none"> <li>• Divergent monetary policies: ECB and BoJ may not raise rates this decade while easing likely by BoE following Brexit announcement. This will keep Fed anchored</li> <li>• We view low-rate environment as secular, not temporary</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Dovish tightening</i>, 1% could be high watermark in Fed funds rate over next 1-2 years.</li> <li>• 10Y Treasury may struggle to exceed 2%</li> </ul>	<ul style="list-style-type: none"> <li>• Further expansion or extension of QE program likely given Brexit induced uncertainty. While immediate action has not been as far reaching as expected, the Brexit negotiation process will be years long.</li> </ul>	<ul style="list-style-type: none"> <li>• PBoC: Further monetary easing likely. Monetary policy constrained by capital outflows</li> <li>• Japan: QQE will continue, although time will be taken to assess impacts of negative rates.</li> </ul>
	Balanced	Equities	Bonds	
<b>Asset returns (Global)</b>	<ul style="list-style-type: none"> <li>• A guarded view given global crosscurrents of low yields and equity valuations</li> <li>• Principles of portfolio construction remain unchanged</li> <li>• 10-year expected returns for balanced portfolios lower than historical averages, with shorter-term expectations even lower</li> </ul>	<ul style="list-style-type: none"> <li>• In spite of high valuations, long-term outlook is not bearish when adjusted for the low-rate environment. This, of course, does not preclude a bear market</li> <li>• Outlook for global equity risk premium remains decent over long run</li> </ul>	<ul style="list-style-type: none"> <li>• Treasury yields may struggle to rise significantly unless inflation dynamics change; we still see credit risk (i.e., recession) as higher than duration risk (i.e., rapid rise in interest rates)</li> <li>• Bond returns likely to be muted; central tendency of 1.5–3% nominal annualized over 10 years</li> </ul>	

Source: Vanguard.

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# Projected global equity ten-year return outlook

VCMM-simulated distribution of expected average annualized nominal return of global equity market as of December 2010 and June 2016



**IMPORTANT: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for global equity returns in USD. Simulations are as of June 30, 2016. Results from the model may vary with each use and over time. For more information, please see the important information slide.**

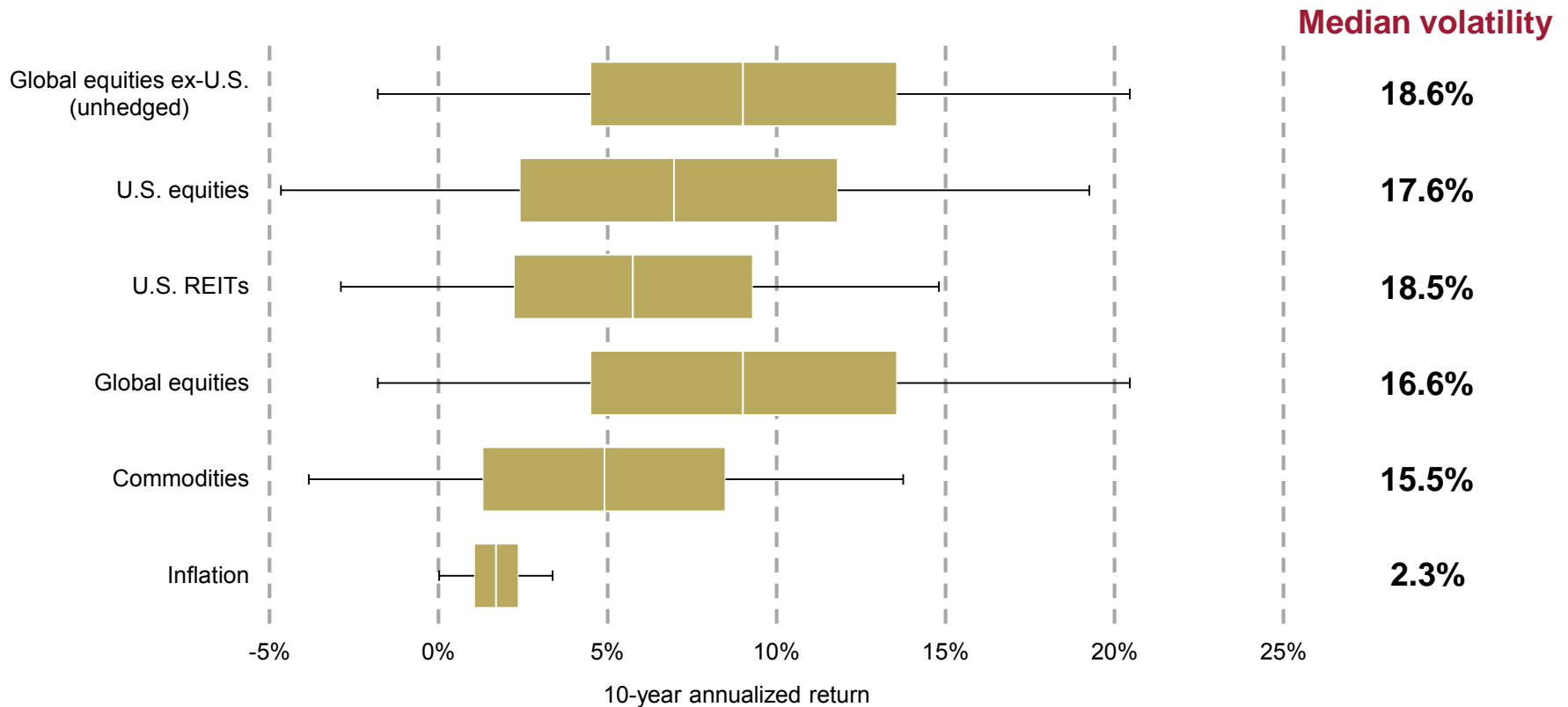
Sources: Vanguard.

Notes: Figure displays projected range of potential returns for portfolios of 60% U.S./40% ex-U.S. equities unhedged in USD, rebalanced annually. For details on benchmarks used for historical returns, see "Indexes used in our historical calculations," on page 5 of *Vanguard's economic and investment outlook* (Davis et. al 2015).

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# Equity market ten-year return outlook: Setting reasonable expectations, being aware of widely dispersed potential returns

## Return outlook as of June 2016



**IMPORTANT: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for USD denominated asset class returns. Simulations are as of June 30, 2016. Results from the model may vary with each use and over time. For more information, please see the important information slide.**

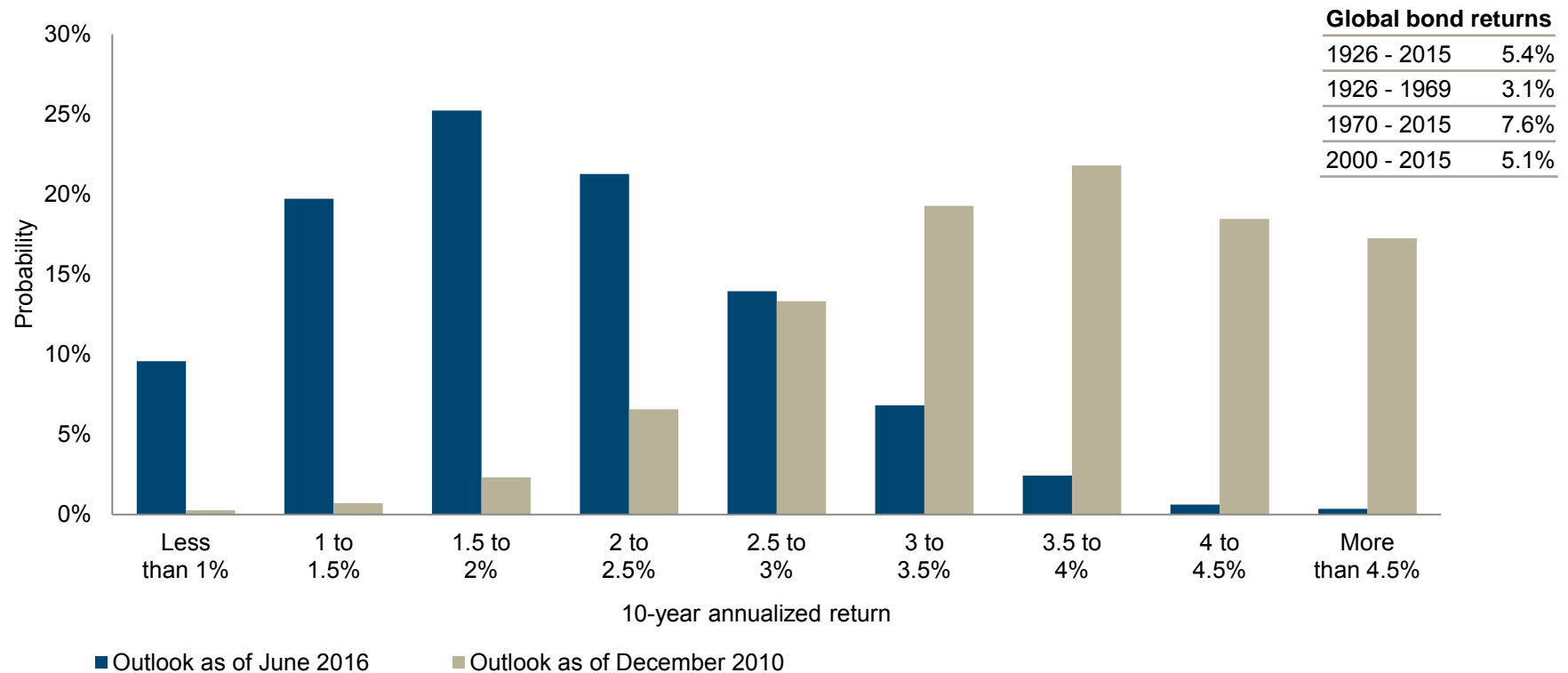
Sources: Vanguard.

Notes: Forecast corresponds to distribution of 10,000 VCMM simulations for ten-year annualized nominal returns as of June 30, 2016 in USD for asset classes highlighted here. For details, see 'Vanguard's economic and investment outlook' (Davis et al. 2015).

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# Projected global fixed income ten-year return outlook

VCMM-simulated distribution of expected average annualized nominal return of total fixed income market as of December 2010 and June 2016



**IMPORTANT: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for global fixed income returns hedged in USD. Simulations are as of June 30, 2016. Results from the model may vary with each use and over time. For more information, please see the important information slide.**

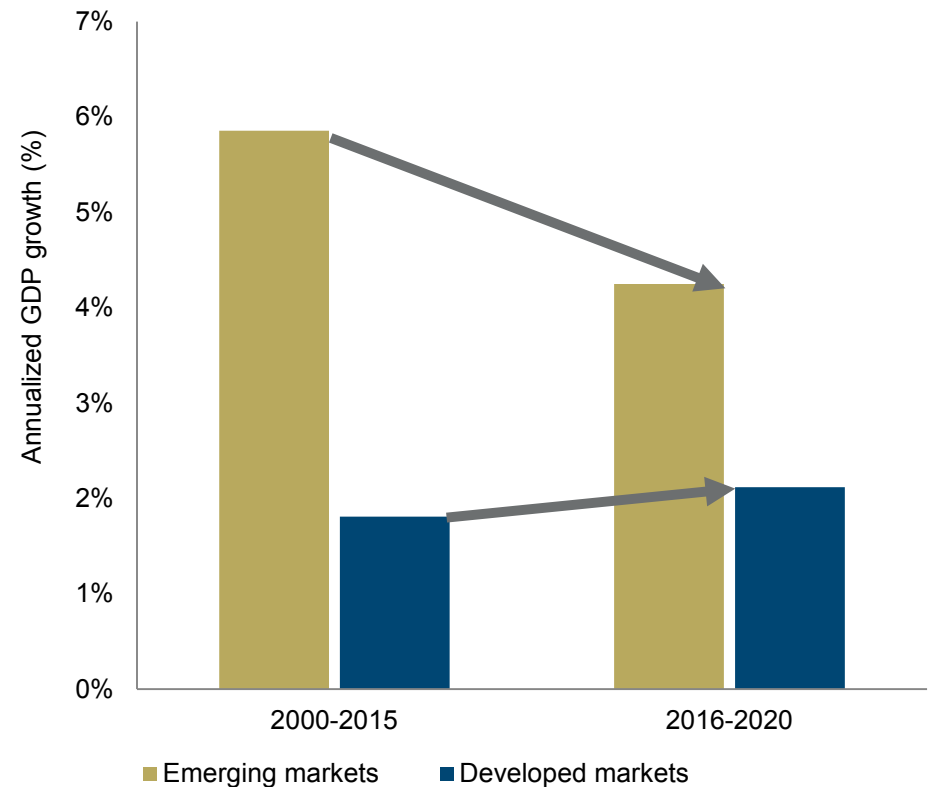
Sources: Vanguard.

Notes: Figure displays projected range of potential returns for portfolios of 70% U.S. bonds/30% non-U.S. bonds hedged in USD, rebalanced annually. For details on benchmarks used for historical returns, see "Indexes used in our historical calculations," on page 5 of *Vanguard's economic and investment outlook* (Davis et. al 2015).

# 1) Low-growth world in the midst of structural convergence, not more dire secular stagnation

- Unfavorable demographics, a lower or negative contribution from private-sector debt and credit expansion will cause the gap in GDP growth between emerging markets and developed economies to converge
- The investment and export driven high growth era enjoyed by many emerging markets over the past 15 years is waning
- Emerging market growth will remain stronger than DM, but the gap will close as China gradually slows.
- A resilient US economy and strengthening Europe will help close the gap from the bottom
- Lower growth going forward will be more balanced and unlevered

## Narrowing growth gap



Sources: Vanguard calculations based on data from International Monetary Fund - World Economic Outlook. <https://www.weforum.org/agenda/2016/09/why-china-is-central-to-global-growth>

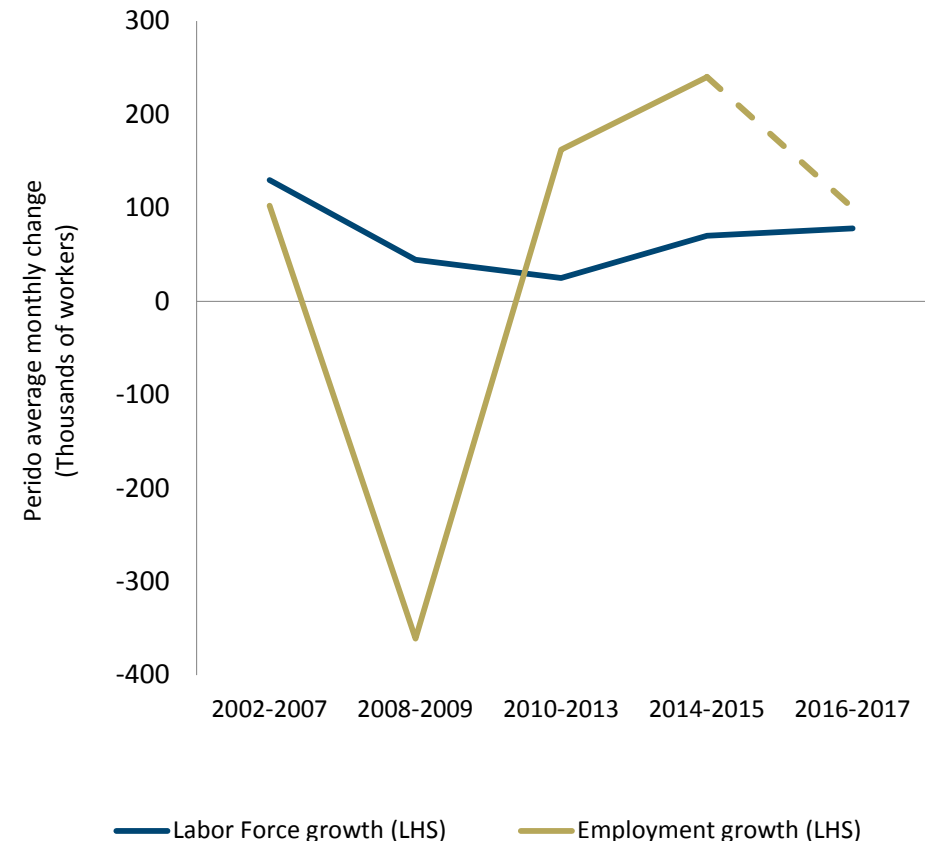
Notes: Developed and emerging market group totals estimated as GDP-weighted average of individual countries. Groupings follow IMF designation. Data as of June 30, 2016.



# United States: From cyclical thrust, back to trend growth

- >200k job growth cannot be sustained given proximity to full employment and lower trend labor force participation as the population ages
- Growth scares likely over course of 2016 and 2017 as monthly additions of new jobs recedes
- Unemployment likely to dip slightly below estimates of full employment, but hover around 5% longer term
- Displaced workers unlikely to rejoin labor market en-masse. Structural factors induce a higher trend for unemployment measures that include these workers
- Fed communications should begin acknowledging these dynamics

## Convergence in employment growth



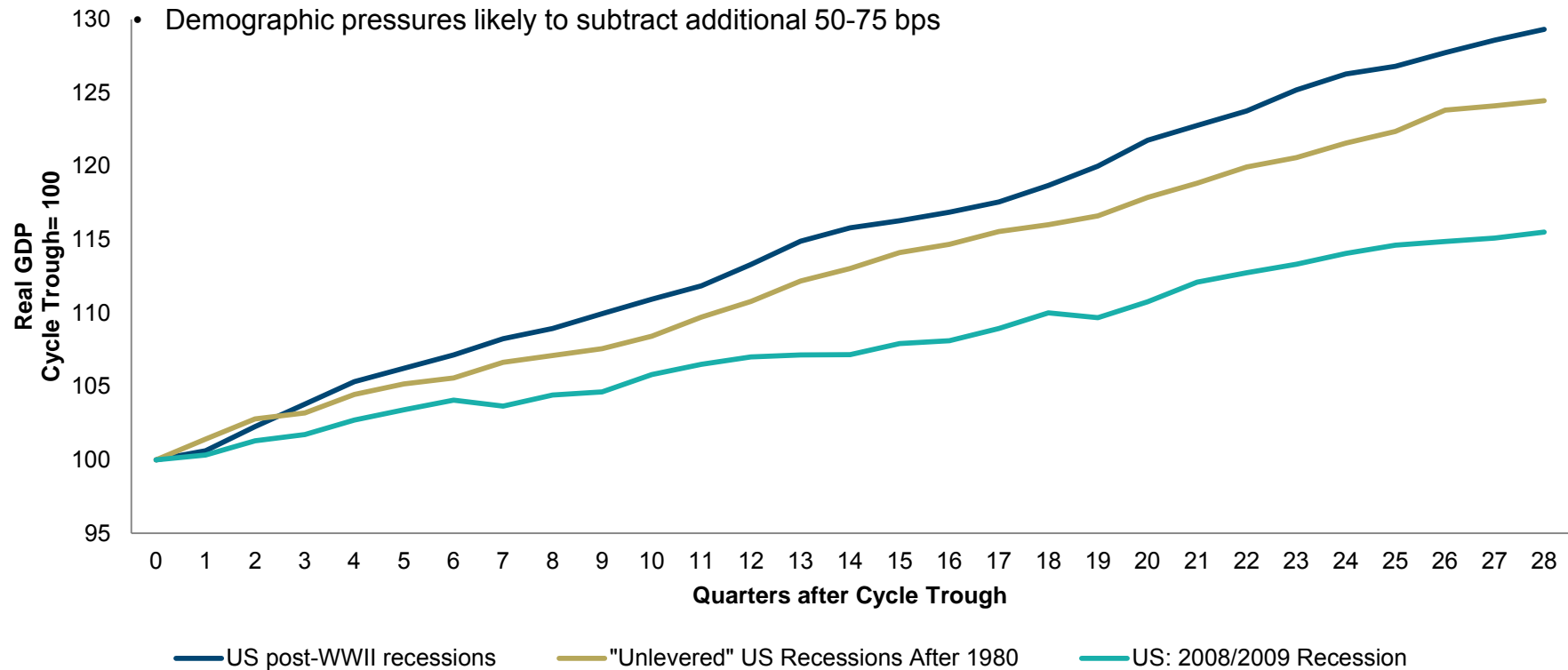
Sources: Vanguard calculations based on data from Congressional Budget Office, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and Moody's Analytics.

Notes: Labor force growth represents average monthly change in labor force historically while 2016-2017 period estimated using population growth estimates and assumptions of no change in participation rates. Employment growth is assumed to return to trend in labor force growth over the 2016-2017 period.

# The 'steroid era' of leveraged US growth is over

## 2% trend growth is neither "new" nor "subpar"

- Current recovery is 1-1.5% below previous recoveries (2.1% vs 3.7% annualized)
- Leverage effect of previous cycles: 50-75 bps annualized
- Demographic pressures likely to subtract additional 50-75 bps



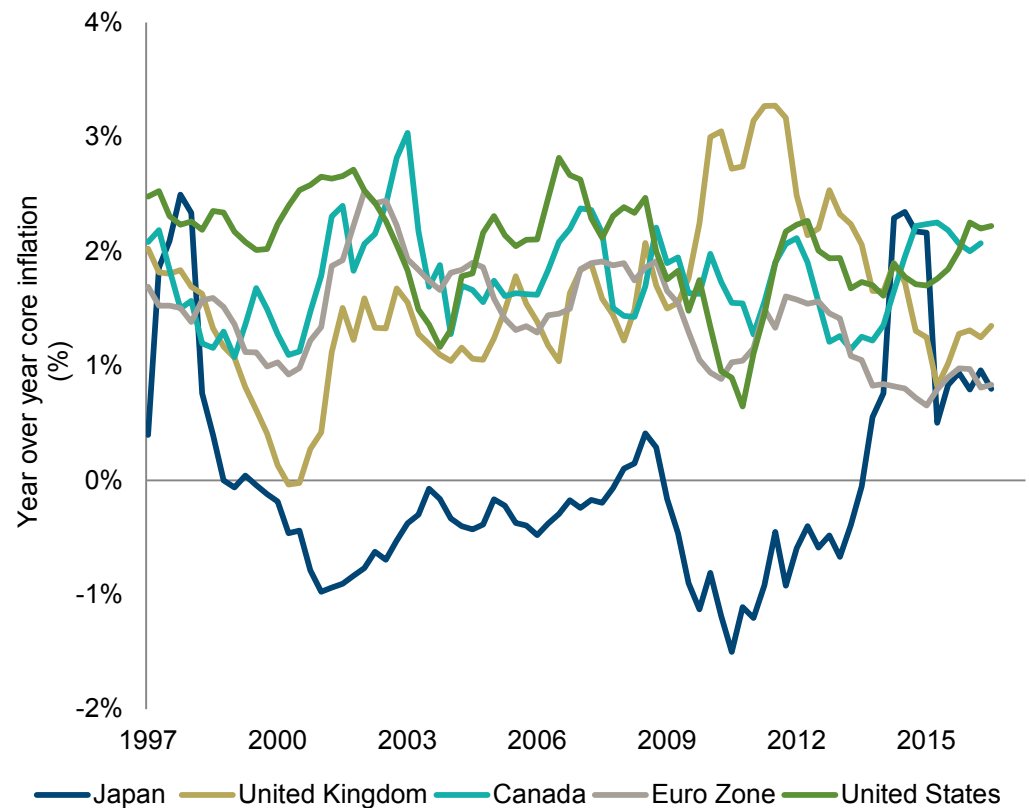
Sources: Vanguard calculations based on data from U.S. Bureau of Economic Analysis, National Bureau of Economic Research, U.S. Census Bureau and Moody's Analytics.

Notes: "Unlevered" growth is calculated by taking the average debt to disposable income ratio from 1980 to 2000, estimating linear regressions (sample: 1995-2016) between this ratio and real PCE, real residential investment, and real nonresidential investment, and calculating counterfactuals for each series using the average debt to disposable income ratio. The counterfactuals were then combined according to each series' weight in GDP, and this "residual" was added to GDP growth, yielding leverage-adjusted growth. This approach is a proxy for removing the effects of excess leverage driving growth, and is applied to every recovery after 1980 excluding the current recovery. Each index begins at 100 which signifies the cycle trough.

## 2) Secular deflationary forces persist, though some headwinds should fade at margin

- Central banks continue to struggle to meet 2% targets, prompting extreme policy responses such as QE and negative rates
- Achieving more than 2% core inflation across developed markets could take several years and will ultimately require a more vibrant global rebound

### Core inflation continues to be range bound



Sources: Thompson Reuters Datastream.

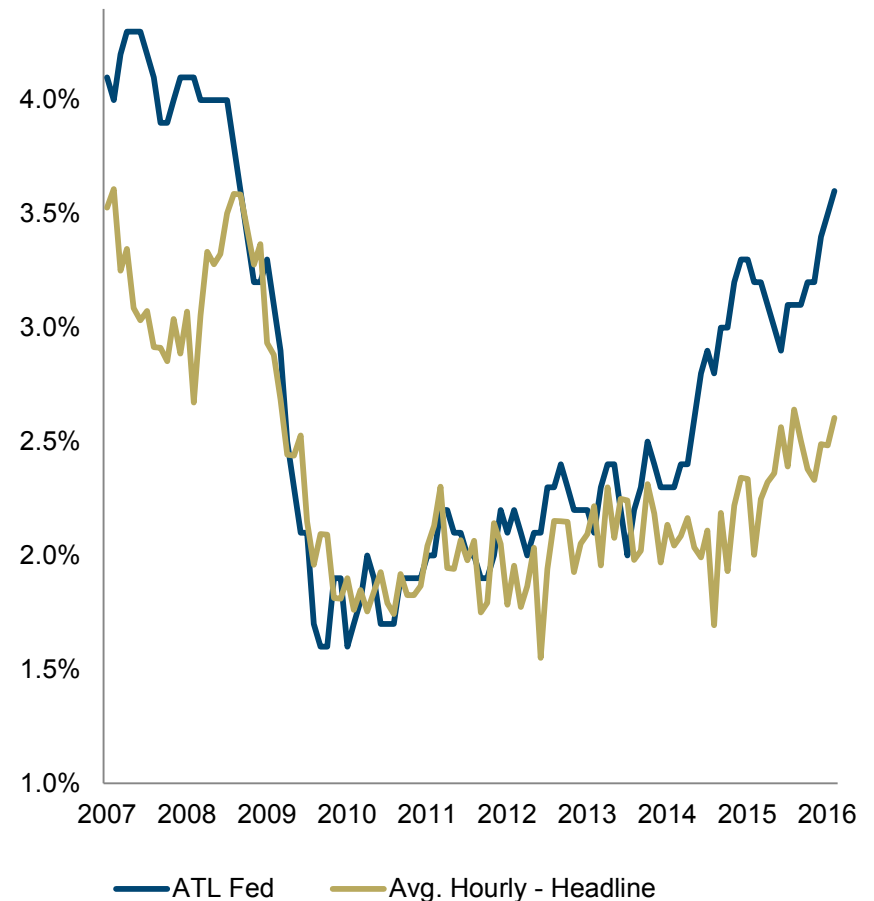
Notes: The data is as of September 30, 2016.

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# Wage inflation is key indicator of future inflation

- Wage inflation above 3% is typically regarded as an indicator of a tight labor market and inflation at target.
- Wage metrics are painting mixed inflation outlook depending on methodology
- Average hourly earnings (includes all workers) is derived by dividing the estimated industry payroll by the corresponding paid hours. May be depressed in periods of rapid employment growth
- Federal Reserve Bank of Atlanta's wage metric tracks individual workers compensation over time and reflects the median U.S. worker's wage growth.

## Wage growth: Depends on how it is measured



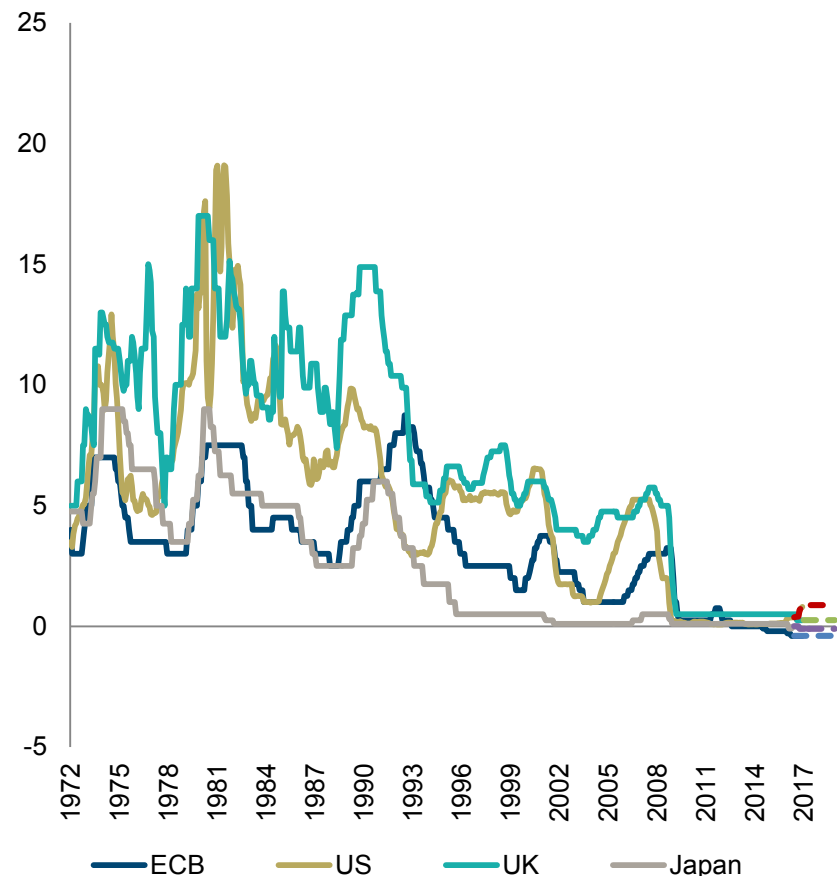
Source: Vanguard, calculations based on data from U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

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# ECB and BoJ may not raise rates this decade while easing likely by BoE. This will keep Fed anchored and limit divergence

- Expansion or extension of QE program in Europe and easing in UK likely given Brexit.
- BoJ discussing further policy options including helicopter money as effectiveness of current extraordinarily easy policies are questioned.
- 1% is likely high water mark for US monetary policy in this environment.
- We view the low rate environment as secular, not cyclical.

Divergence in policies looks more like convergence when viewed over time



Note: Dashed lines indicate future projected policy rates.

Sources: Vanguard calculations, using data from the Federal Reserve, Bank of England, European Central Bank, Bank of Japan, and Thomson Reuters Datastream.

# Portfolio summary

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

Market Performance

Periods Ending September 30, 2016

Name	Sep-16	Last 3 Months	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b>US Equity</b>							
CRSP US Total Market TR USD	0.2	4.4	8.2	15.0	10.4	16.3	7.6
S&P 500	0.0	3.9	7.8	15.4	11.2	16.4	7.2
S&P 400 MidCap	-0.6	4.1	12.4	15.3	9.4	16.5	9.1
S&P 600 SmallCap	0.6	7.2	13.9	18.1	9.0	17.9	8.7
<b>International Equity</b>							
MSCI Emerging Markets	1.3	9.0	16.0	16.8	-0.6	3.0	3.9
MSCI Emerging Markets NR LCL	0.4	7.6	11.3	13.0	4.3	7.0	5.9
MSCI EAFE	1.2	6.4	1.7	6.5	0.5	7.4	1.8
MSCI EAFE NR LCL	0.3	6.0	-1.6	4.6	5.3	11.2	2.2
MSCI ACWI ex USA	1.2	6.9	5.8	9.3	0.2	6.0	2.2
<b>Fixed Income Domestic</b>							
Barclays Aggregate	-0.1	0.5	5.8	5.2	4.0	3.1	4.8
Barclays U.S. Corporate 1-5 Years USD TR	0.1	0.5	3.7	3.3	2.6	3.1	4.3
Barclays US Credit Corp 5-10 Yr TR USD	0.1	1.4	9.0	8.5	6.0	5.7	6.4
Barclays LT Corporate	-1.0	2.6	16.8	15.7	9.5	7.2	7.6
Barclays LT Govt/Credit	-1.3	1.2	15.7	14.7	10.1	6.3	7.8
Barclays US Treasury STRIPS 20-30 Yr Equal Par	-2.8	-0.4	21.4	19.6	17.3	7.3	10.3
Barclays High Yield	0.7	5.6	15.1	12.7	5.3	8.3	7.7
Barclays Government	-0.1	-0.3	5.0	4.0	3.3	2.2	4.3
Barclays Credit	-0.3	1.2	8.9	8.3	5.4	4.8	5.8
Barclays 1-5 Yr. Treasury	0.2	-0.2	2.2	1.5	1.4	1.1	3.0
Barclays US Treasury 5-10 Yr TR USD	0.2	-0.4	6.0	4.6	4.2	2.8	5.6
Barclays U.S. Treasury Long TR USD	-1.6	-0.4	14.7	13.1	11.2	5.5	8.1
Barclays Capital U.S. Treasury TIPS 0-5 Years	0.7	0.3	3.0	2.6	0.5	0.7	2.8
Barclays US TIPS	0.5	1.0	7.3	6.6	2.4	1.9	4.5
<b>Fixed Income International</b>							
Barclays Gbl Agg Ex USD TR Hdg USD	0.0	0.5	6.9	7.5	5.8	5.0	4.7
Barclays Emerging Markets	0.2	3.1	12.8	13.9	6.6	7.3	7.4
<b>REIT</b>							
MSCI US REIT Gross	-1.8	-1.4	11.9	19.8	14.1	15.8	6.2

# COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

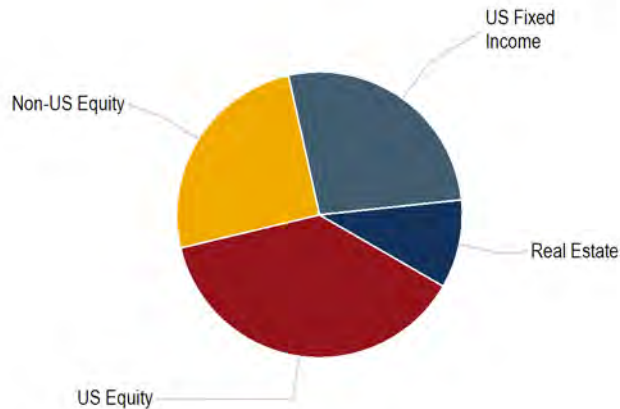
## Total Portfolio Performance & Asset Allocation

### Performance Summary

	Ending September 30, 2016								Inception	
	Market Value (\$)	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>COMMUNITY FOUNDATION FOR MUSKEGON COUNTY (Gross)</b>	<b>161,873,683</b>	<b>0.20</b>	<b>3.24</b>	<b>7.80</b>	<b>11.56</b>	--	--	--	<b>4.96</b>	<b>Apr-14</b>
<b>COMMUNITY FOUNDATION FOR MUSKEGON COUNTY (Net)</b>		<b>0.20</b>	<b>3.23</b>	<b>7.77</b>	<b>11.51</b>	--	--	--	<b>4.93</b>	
0JABQX Composite Benchmark		0.17	3.23	7.60	11.54	--	--	--	4.96	Apr-14

- 0JABQX Composite Benchmark = 10% REIT Spliced Index / 30% Spliced Bloomberg Barclays USAgg Float Adj Ix / 24% Spl Total International Stock Index / 36% Spliced Total Stock Market Index

### Current Allocation as of September 30, 2016



	Current	%	Policy	Difference*
US Equity	\$61,321,130	37.9%	36.0%	1.9%
Non-US Equity	\$40,860,819	25.2%	24.0%	1.2%
US Fixed Income	\$43,454,603	26.8%	30.0%	-3.2%
Real Estate	\$16,237,131	10.0%	10.0%	0.0%
<b>Total</b>	<b>\$161,873,683</b>	<b>100.0%</b>	<b>100.0%</b>	

\*Difference between Policy and Current Allocation



COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

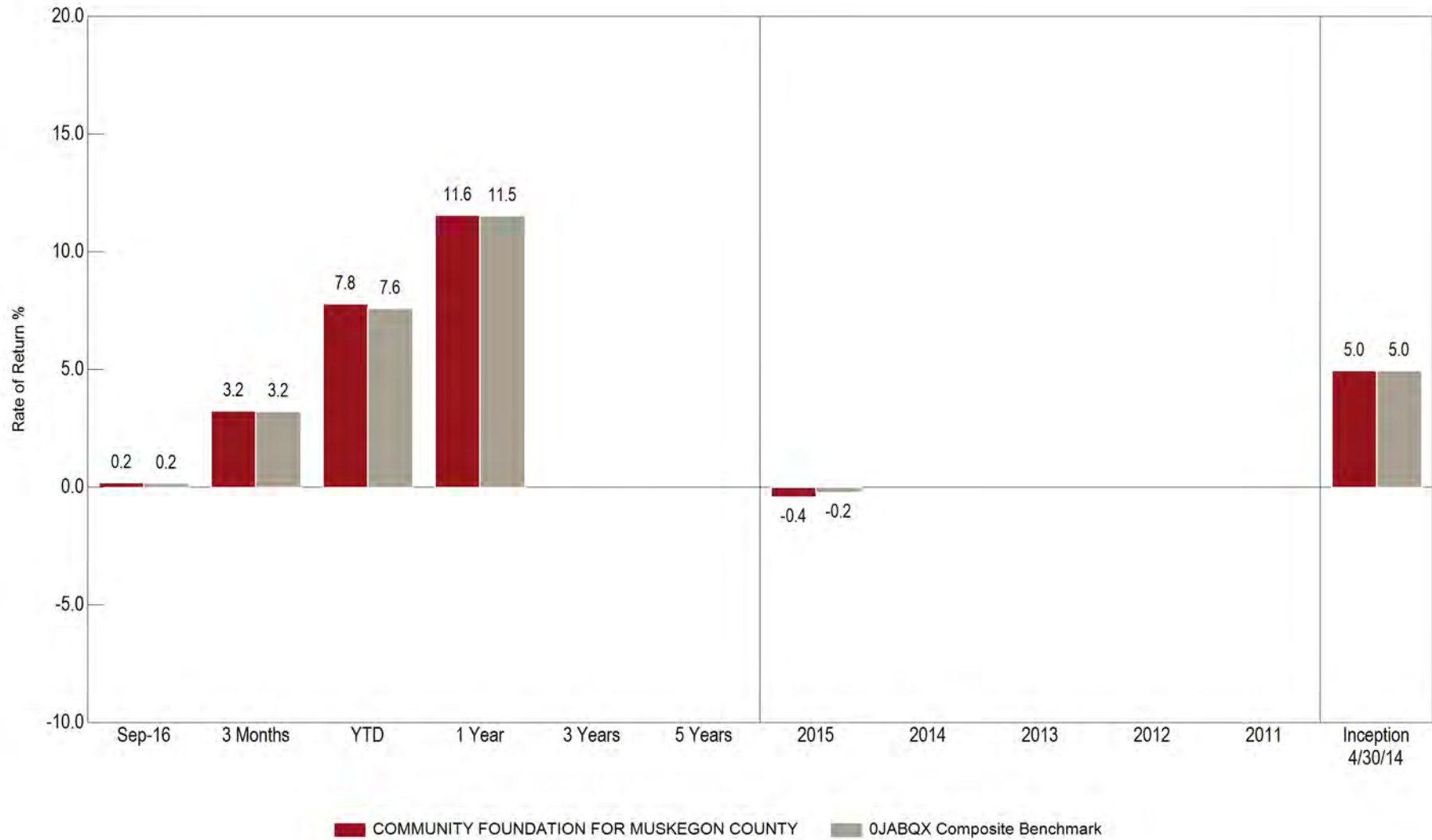
Performance Summary (Gross of Fees)

	Ending September 30, 2016										Inception	
	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since	
<b>COMMUNITY FOUNDATION FOR MUSKEGON COUNTY</b>	<b>161,873,683</b>	<b>100.00</b>	<b>0.20</b>	<b>3.24</b>	<b>7.80</b>	<b>11.56</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>4.96</b>	<b>Apr-14</b>	
OJABQX Composite Benchmark			0.17	3.23	7.60	11.54	--	--	--	4.96	Apr-14	
<b>Total Equity</b>	<b>102,181,949</b>	<b>63.12</b>	<b>0.66</b>	<b>5.31</b>	<b>7.64</b>	<b>12.89</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>3.99</b>	<b>Apr-14</b>	
<b>Equity Domestic</b>	<b>61,321,130</b>	<b>37.88</b>	<b>0.16</b>	<b>4.43</b>	<b>8.22</b>	<b>15.00</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>7.77</b>	<b>Apr-14</b>	
Spliced Total Stock Market Index			0.17	4.41	8.23	14.99	10.43	16.35	7.53	7.77	Apr-14	
Vanguard® Total Stock Market Index Fund Institutional Shares	61,321,130	37.88	0.16	4.42	8.22	15.00	10.42	16.34	7.54	7.77	Apr-14	
Spliced Total Stock Market Index			0.17	4.41	8.23	14.99	10.43	16.35	7.53	7.77	Apr-14	
Multi-Cap Core Funds Average			0.05	4.52	6.23	10.97	7.48	13.82	5.82	4.83	Apr-14	
<b>Equity International</b>	<b>40,860,819</b>	<b>25.24</b>	<b>1.42</b>	<b>6.66</b>	<b>6.75</b>	<b>9.69</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>-1.69</b>	<b>Apr-14</b>	
Spl Total International Stock Index			1.31	6.93	6.07	9.90	0.91	6.54	2.21	-1.64	Apr-14	
Vanguard® Total International Stock Index Fund Inst Shares	40,860,819	25.24	1.42	6.66	6.74	9.67	0.91	6.81	2.21	-1.70	Apr-14	
Spl Total International Stock Index			1.31	6.93	6.07	9.90	0.91	6.54	2.21	-1.64	Apr-14	
International Funds Average			1.41	6.18	3.31	7.07	0.79	7.25	1.82	-1.80	Apr-14	
<b>Total Fixed Income</b>	<b>43,454,603</b>	<b>26.84</b>	<b>-0.08</b>	<b>0.41</b>	<b>5.96</b>	<b>5.32</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>3.86</b>	<b>Apr-14</b>	
<b>Fixed Income Domestic</b>	<b>43,454,603</b>	<b>26.84</b>	<b>-0.08</b>	<b>0.41</b>	<b>5.96</b>	<b>5.32</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>3.86</b>	<b>Apr-14</b>	
Spliced Bloomberg Barclays USAgg Float Adj Ix			-0.09	0.45	5.99	5.34	4.04	3.11	4.81	3.92	Apr-14	
Vanguard® Total Bond Market Index Fund Institutional Shares	43,454,603	26.84	-0.08	0.41	5.96	5.32	3.99	3.01	4.80	3.91	Apr-14	
Spliced Bloomberg Barclays USAgg Float Adj Ix			-0.09	0.45	5.99	5.34	4.04	3.11	4.81	3.92	Apr-14	
Spl Interm Inv-Grade Debt Funds Avg			0.01	0.79	5.88	5.25	3.73	3.44	4.24	3.36	Apr-14	
<b>Total Real Estate</b>	<b>16,237,131</b>	<b>10.03</b>	<b>-1.83</b>	<b>-1.47</b>	<b>11.81</b>	<b>19.75</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>11.92</b>	<b>Apr-14</b>	
<b>Real Estate Domestic</b>	<b>16,237,131</b>	<b>10.03</b>	<b>-1.83</b>	<b>-1.47</b>	<b>11.81</b>	<b>19.75</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>11.92</b>	<b>Apr-14</b>	
REIT Spliced Index			-1.83	-1.45	11.91	19.83	14.11	15.79	6.44	12.04	Apr-14	
Vanguard® REIT Index Fund Institutional Shares	16,237,131	10.03	-1.83	-1.48	11.79	19.73	14.01	15.70	6.49	11.92	Apr-14	
REIT Spliced Index			-1.83	-1.45	11.91	19.83	14.11	15.79	6.44	12.04	Apr-14	
Real Estate Funds Average			-1.65	-0.68	9.60	16.62	12.52	14.41	5.24	10.53	Apr-14	

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

Total Portfolio Performance (Gross of Fees)

as of September 30, 2016



COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

Cash Flow Summary

	Month Ending September 30, 2016			
	Beginning Market Value	Net Cash Flow	Net Investment Change	Ending Market Value
Vanguard® REIT Index Fund Institutional Shares	\$16,540,186	\$0	-\$303,055	\$16,237,131
Vanguard® Total Bond Market Index Fund Institutional Shares	\$43,488,755	\$0	-\$34,152	\$43,454,603
Vanguard® Total International Stock Index Fund Inst Shares	\$40,289,723	\$0	\$571,096	\$40,860,819
Vanguard® Total Stock Market Index Fund Institutional Shares	\$61,225,830	\$0	\$95,300	\$61,321,130
<b>Total</b>	<b>\$161,544,494</b>	<b>\$0</b>	<b>\$329,189</b>	<b>\$161,873,683</b>

Net Investment Change is inclusive of income.



COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

Investment Expense Analysis

As Of September 30, 2016

Name	Market Value	% of Portfolio	Expense Ratio
<b>Total Equity</b>	<b>\$102,181,949</b>	<b>63.1%</b>	
<b>Equity Domestic</b>	<b>\$61,321,130</b>	<b>37.9%</b>	
Vanguard® Total Stock Market Index Fund Institutional Shares	\$61,321,130	37.9%	0.04%
<b>Equity International</b>	<b>\$40,860,819</b>	<b>25.2%</b>	
Vanguard® Total International Stock Index Fund Inst Shares	\$40,860,819	25.2%	0.10%
<b>Total Fixed Income</b>	<b>\$43,454,603</b>	<b>26.8%</b>	
<b>Fixed Income Domestic</b>	<b>\$43,454,603</b>	<b>26.8%</b>	
Vanguard® Total Bond Market Index Fund Institutional Shares	\$43,454,603	26.8%	0.05%
<b>Total Real Estate</b>	<b>\$16,237,131</b>	<b>10.0%</b>	
<b>Real Estate Domestic</b>	<b>\$16,237,131</b>	<b>10.0%</b>	
Vanguard® REIT Index Fund Institutional Shares	\$16,237,131	10.0%	0.10%
<b>Total</b>	<b>\$161,873,683</b>	<b>100.0%</b>	<b>0.06%</b>



# COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

## Benchmark History

As Of September 30, 2016

### COMMUNITY FOUNDATION FOR MUSKEGON COUNTY

5/1/2014 Present 10% REIT Spliced Index / 30% Spliced Bloomberg Barclays USAgg Float Adj Ix / 24% Spl Total International Stock Index / 36% Spliced Total Stock Market Index

#### Total Equity

N/A

#### Equity Domestic

4/30/2014 Present 100% CRSP US Total Market TR USD

Vanguard® Total Stock Market Index Fund Institutional Shares

4/30/2014 Present 100% CRSP US Total Market TR USD

#### Equity International

4/30/2014 Present 100% FTSE Global All Cap ex US

Vanguard® Total International Stock Index Fund Inst Shares

4/30/2014 Present 100% FTSE Global All Cap ex US

#### Total Fixed Income

N/A

#### Fixed Income Domestic

4/30/2014 Present 100% Barclays U.S. Aggregate Float Adjusted

Vanguard® Total Bond Market Index Fund Institutional Shares

4/30/2014 Present 100% Barclays U.S. Aggregate Float Adjusted

#### Total Real Estate

N/A

#### Real Estate Domestic

4/30/2014 Present 100% MSCI US REIT

Vanguard® REIT Index Fund Institutional Shares

4/30/2014 Present 100% MSCI US REIT



## Legal

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**An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in such a fund.**

Total Portfolio Net of Fees returns reflect the deduction of fund expense ratios, purchase or redemption fees, and any advisory service fee applied to the client portfolio.

Total Portfolio returns represent client-specific time-weighted returns (TWR) are presented gross of any applicable service fees with the exception of mutual fund expense ratios and other security-level expenses.

Client performance inception date is generally the first month-end after initial funding. Mutual funds and all investments are subject to risk, including the possible loss of the money you invest. Diversification does not ensure a profit or protect against a loss.

Performance figures assume the reinvestment of dividends and capital gains distributions. The fund performance percentages are based on fund total return data, adjusted for expenses, obtained from Lipper, a Thomson Reuters Company. The total return data was not adjusted for fees and loads.

Benchmark comparative indexes represent unmanaged or average returns on various financial assets, which can be compared with funds' total returns for the purpose of measuring relative performance.

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# Asset allocation summary of CFMC VIAS composite portfolio

## As of September 30, 2016

Investment	Market value as of September 30, 2016	Target allocation	Actual weight	Variance
<b>Domestic equity</b>				
Total Stock Market Index Fund Institutional Shares	\$61,321,130	36.0%	36.9%	0.9%
<i>Domestic equity subtotal</i>	<i>\$61,321,130</i>	<i>36.0%</i>	<i>36.9%</i>	<i>0.9%</i>
<b>International equity</b>				
Total International Stock Index Fund Institutional Shares	\$40,860,819	24.0%	24.6%	0.6%
<i>International equity subtotal</i>	<i>\$40,860,819</i>	<i>24.0%</i>	<i>24.6%</i>	<i>0.6%</i>
<b>Fixed income</b>				
Total Bond Market Index Fund Institutional Shares	\$43,454,603	30.0%	28.7%	-1.3%
Total Bond Market ETF (held at PNC in pledge)*	\$4,103,811			
<i>Fixed income subtotal</i>	<i>\$47,558,414</i>	<i>30.0%</i>	<i>28.7%</i>	<i>-1.3%</i>
<b>Other investments</b>				
REIT Index Fund	\$16,237,131	10.0%	9.8%	-0.2%
<i>Other investments subtotal</i>	<i>\$16,237,131</i>	<i>10.0%</i>	<i>9.8%</i>	<i>-0.2%</i>
<b>Cash and equivalents</b>				
Cash	\$0	0.0%	0.0%	0.0%
<i>Cash subtotal</i>	<i>\$0</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
<b>Total portfolio</b>	<b>\$165,977,494</b>	<b>100.0%</b>	<b>100.0%</b>	

\* Total Bond Market ETF market value is reported by Community Foundation for Muskegon County staff.

For institutional use only. Not for distribution to retail investors.

# Historical portfolio performance

## Community Foundation for Muskegon County (CFMC) Quarterly Summary of Combined Historical Performance For the period ending 9/30/2016

	Quarter	YTD	1 year	Annualized return			Calendar return					
				3 year	5 year	10 year	2015	2014	2013	2012	2011	2010
<b>CFMC Composite Portfolio</b>	3.23	7.77	11.51	6.40	8.69	4.87	-0.42	5.68	12.35	12.21	-3.47	13.95
<b>CFMC Composite Benchmark*</b>	3.23	7.61	11.55	6.88	10.68	5.84	-0.20	7.08	19.26	12.92	0.70	12.98

### Notes:

Composite performance data consists of previous providers' portfolio and benchmark returns through April 2014; VIAS returns thereafter. Data prior to May 2014 is based upon information taken from the previous providers' quarterly performance reports and is provided as an estimate only. Composite does not include segregated accounts or pledge holdings.

Return calculations are derived from Morningstar Direct.

\* Composite Benchmark allocations over time:

50% S&P 500 / 10% Russell 2000 / 10% MSCI EAFE / 30% LB AGG from March 2004 to March 2005;

45% S&P 500 / 12.5% Russell 2000 / 12.5% MSCI EAFE / 30% LB AGG from March 2005 to December 2007;

55% Russell 3000 / 15% MSCI AC World Index ex-US / 30% LB AGG from December 2007 to December 2008;

55% Russell 3000 / 15% MSCI AC World Index ex-US / 30% Barclays AGG from December 2008 to April 2014;

36% Spliced Total Stock Market Index (CRSP US Total Market Index) / 30% Spliced Barclays US Agg Float-Adj Ix (Barclays U.S. Aggregate Float Adjusted Index)/24% Spliced Total Int'l Stock Index (FTSE Global All Cap ex US Index) / 10% REIT Spliced Index (MSCI US REIT Index) since 4/30/2014.

Past performance is not a guarantee of future returns.



# Segregated accounts

# Investment performance of segregated accounts

## As of September 30, 2016

**Community Foundation for Muskegon County (CFMC)  
Quarterly Summary of Investment Performance of Segregated Accounts  
For the period ending 9/30/2016**

Account name	Investment manager	Q3 2016 return	YTD 2016	Market value as of 9/30/16
Freedom – Willard Bosma	RJ	+3.59%	+6.06%	\$444,657
Maykol Bond	ML	+2.09%	+4.82%	\$108,522
J. Hanna / M. Murphy	UBS	+3.98%	+5.42%	\$1,065,675
Ernest E. Settle	UBS	+3.95%	+5.45%	\$1,145,201
Cutler	Schwab	+3.71%	+7.60%	\$205,800
The 2012 Fund	Schwab	+0.00%	+0.01%	\$994,511
MI Heritage Trails (MICHHT)	UBS	+3.47%	+5.70%	\$1,178,368
Hilt Landing Proj. (Hiltlp)	UBS	+0.00%	+0.01%	\$0
Donahue	NW	+1.13%	+4.95%	\$117,946
G & B Hilt Fund (hilt05)	UBS	+3.19%	+5.35%	\$6,574,941
Collins	RJ	+2.98%	+3.48%	\$628,017
Smith	RJ	+1.24%	+7.71%	\$51,456
Bush Scholarship (bushj)	AGLC	+0.26%	+1.06%	\$0

Note: Vanguard cannot independently validate the accuracy of the returns shown above.

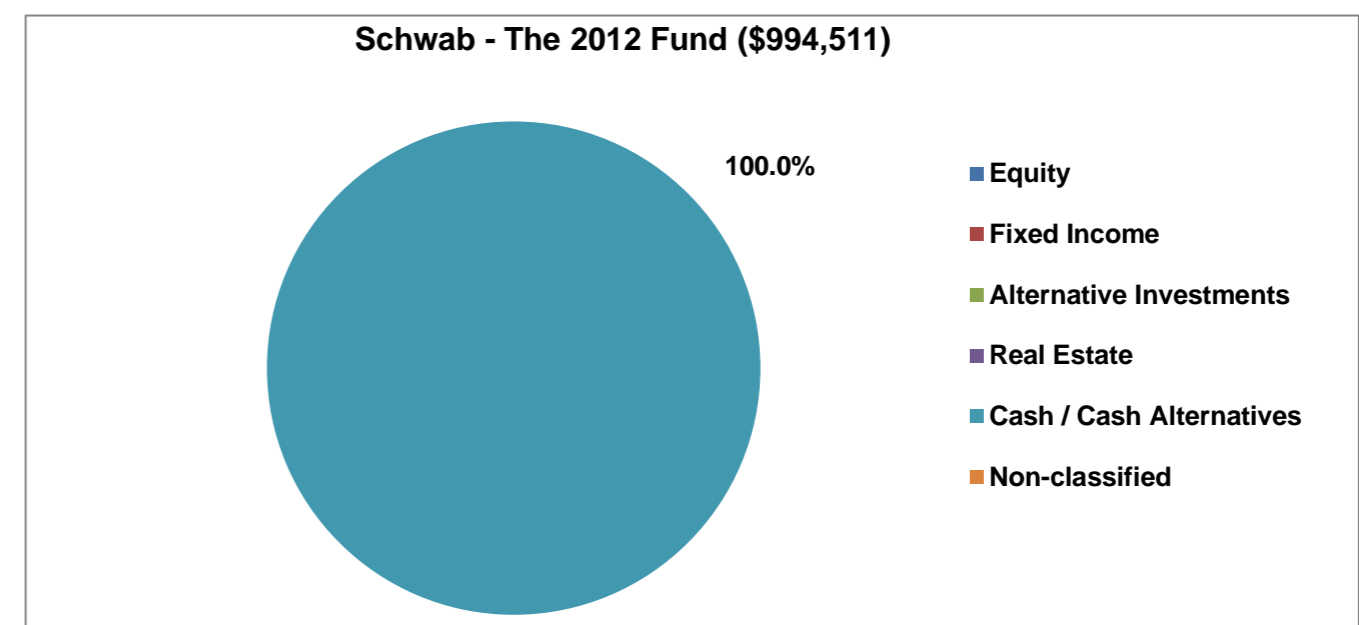
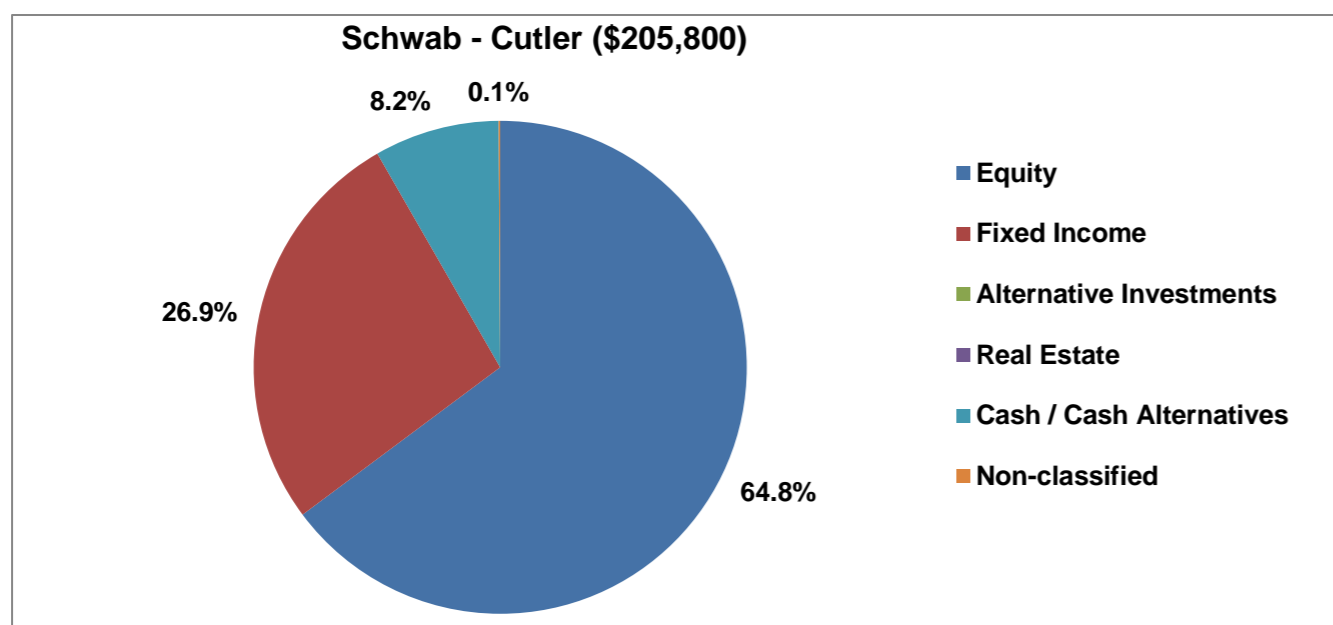
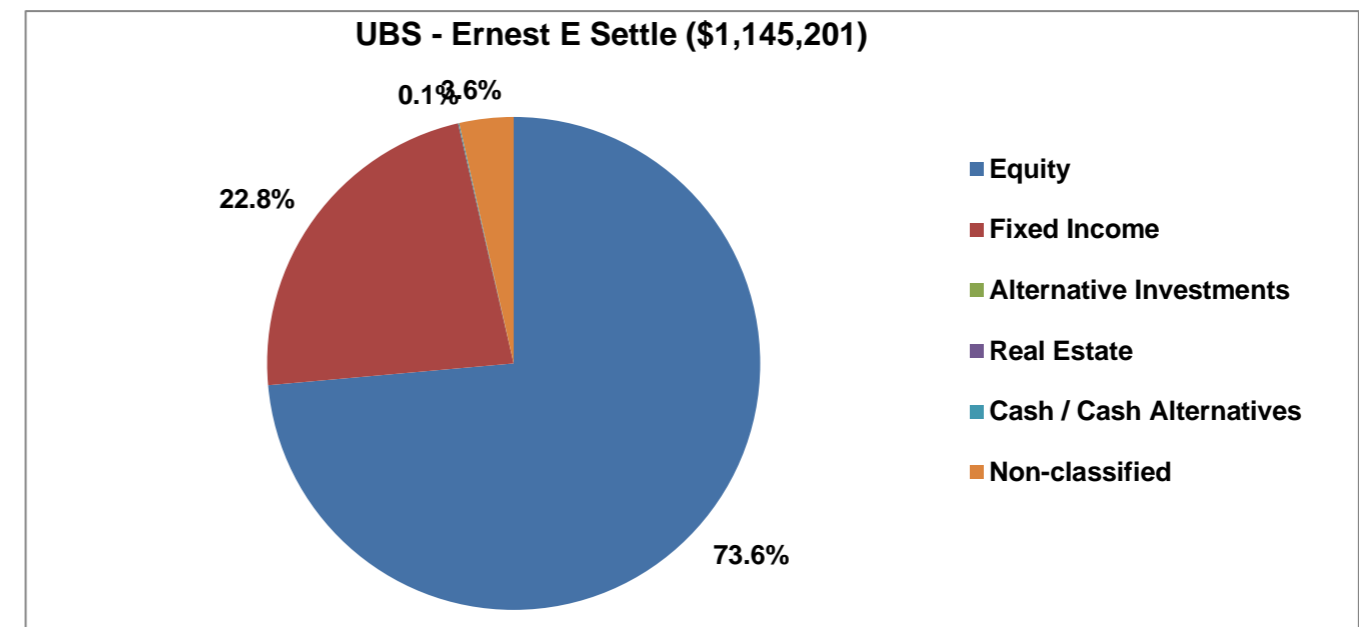
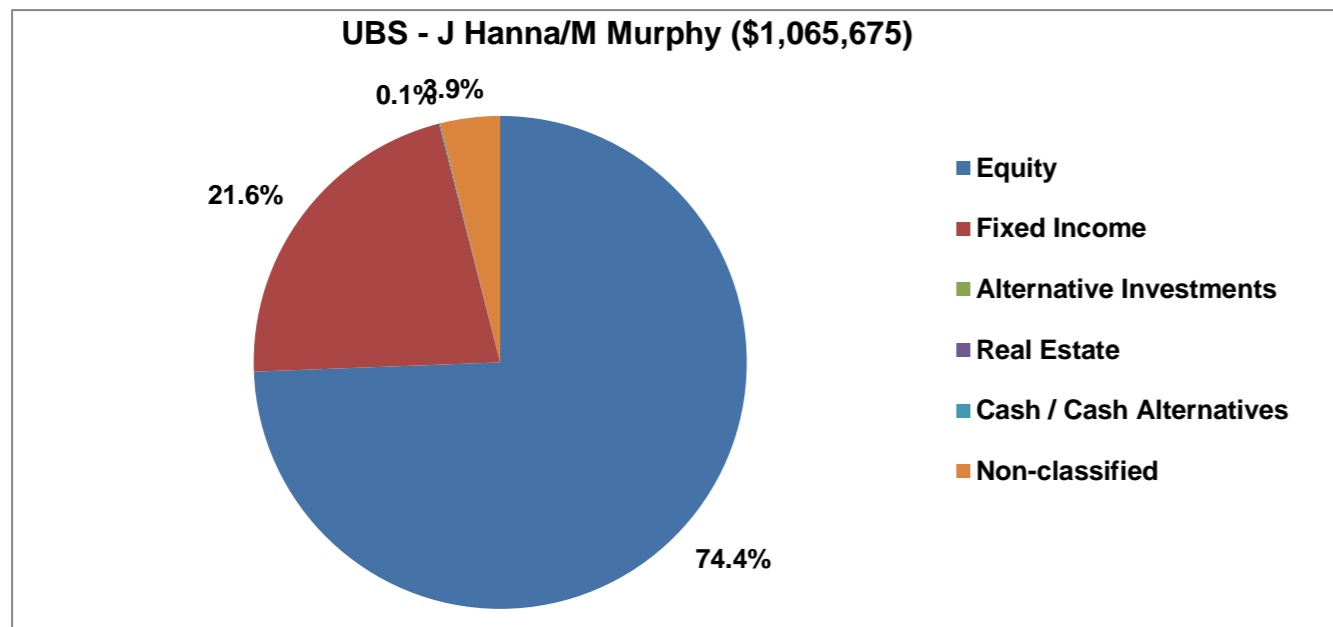
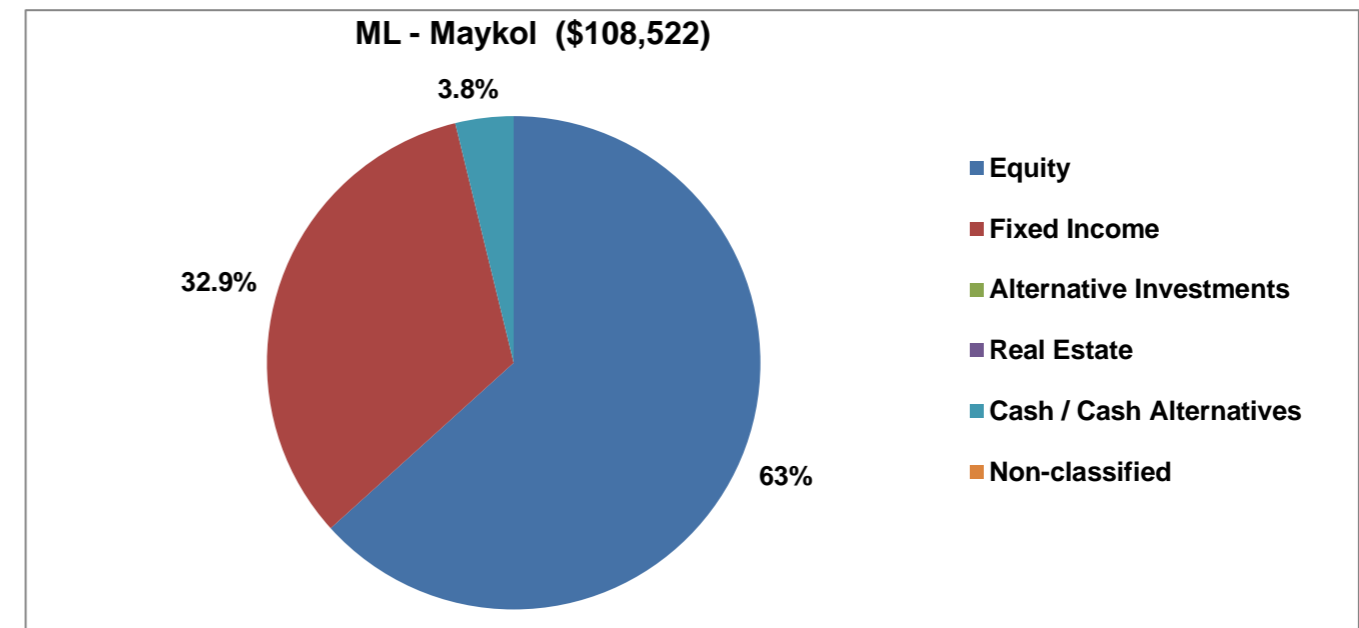
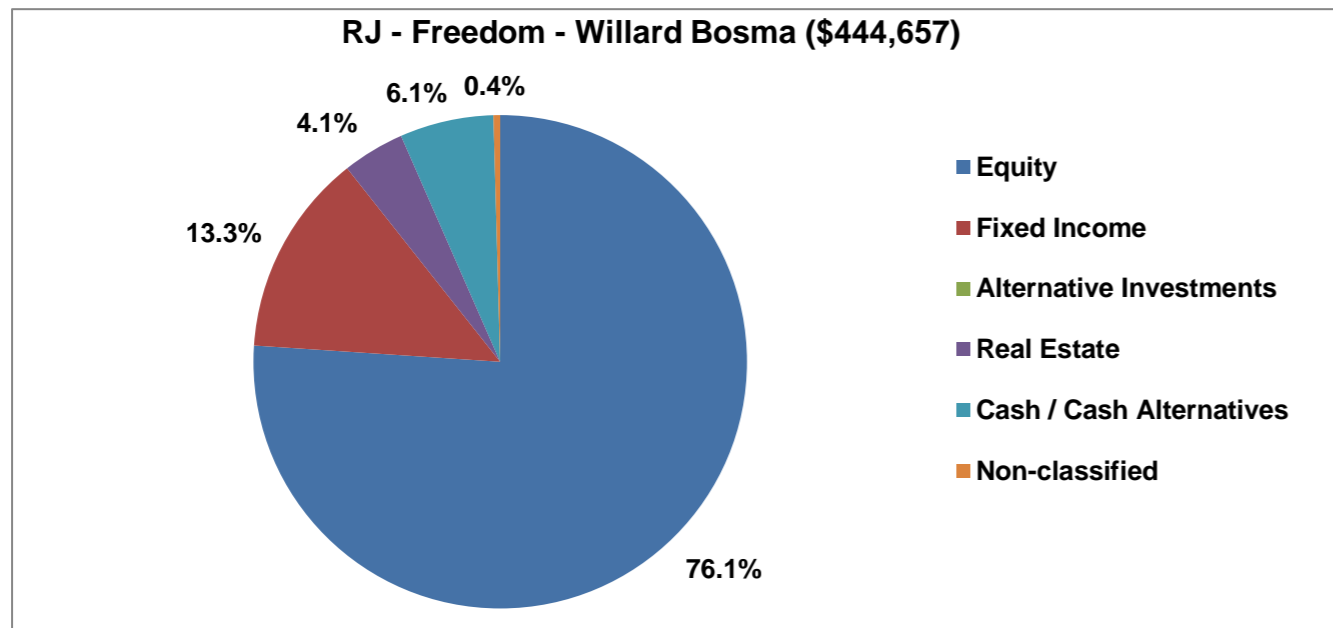
Note: Performance net of investment manager fees.

All returns are manually calculated using data provided by the investment providers and CFMC staff. Return calculation reflects beginning period and ending period market values adjusted for investment provider or CFMC cash flows and investment provider fees.

Past performance is not a guarantee of future returns.

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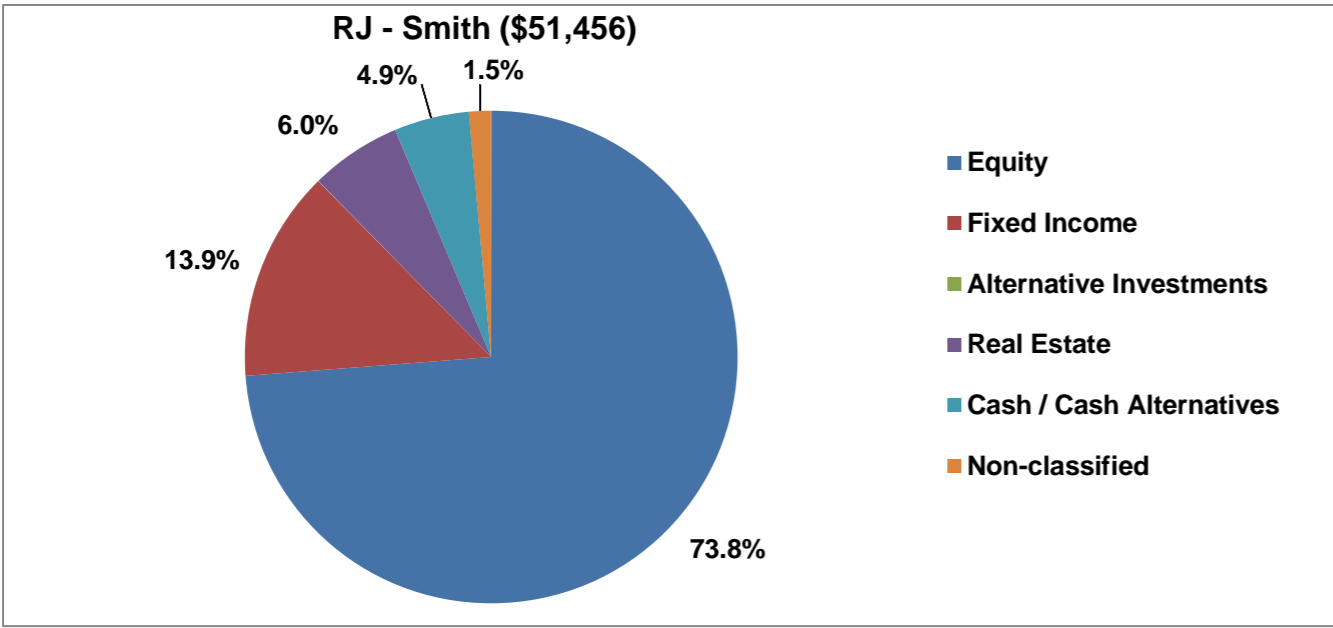
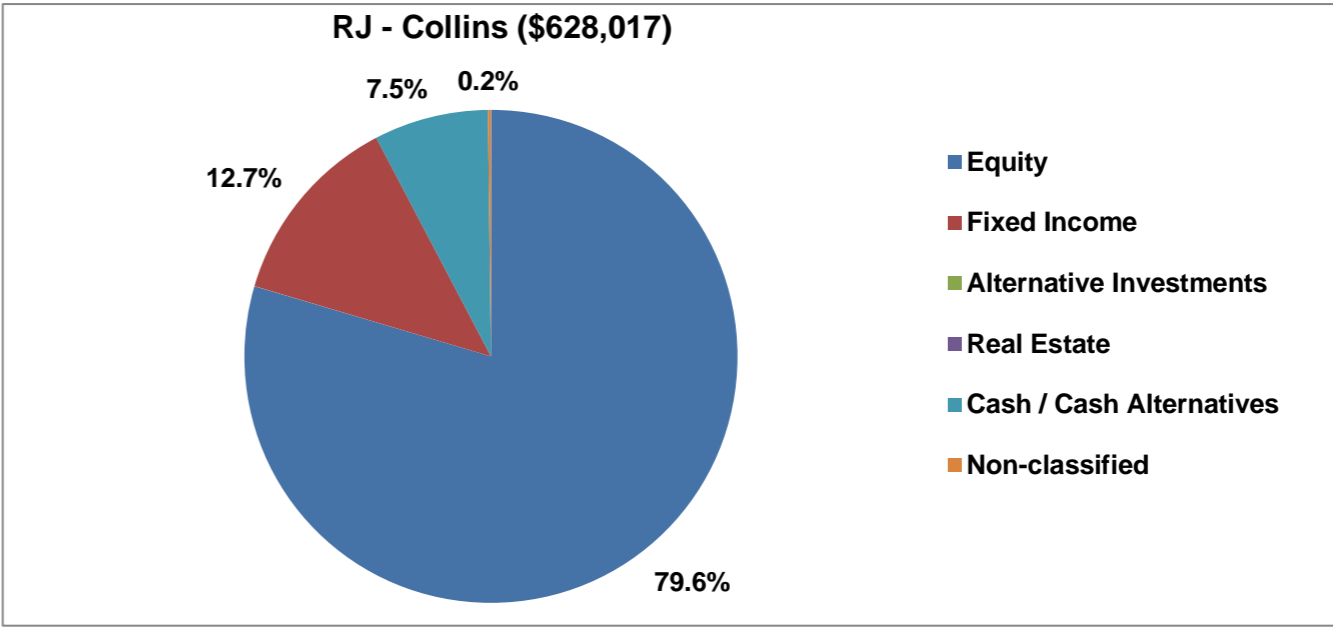
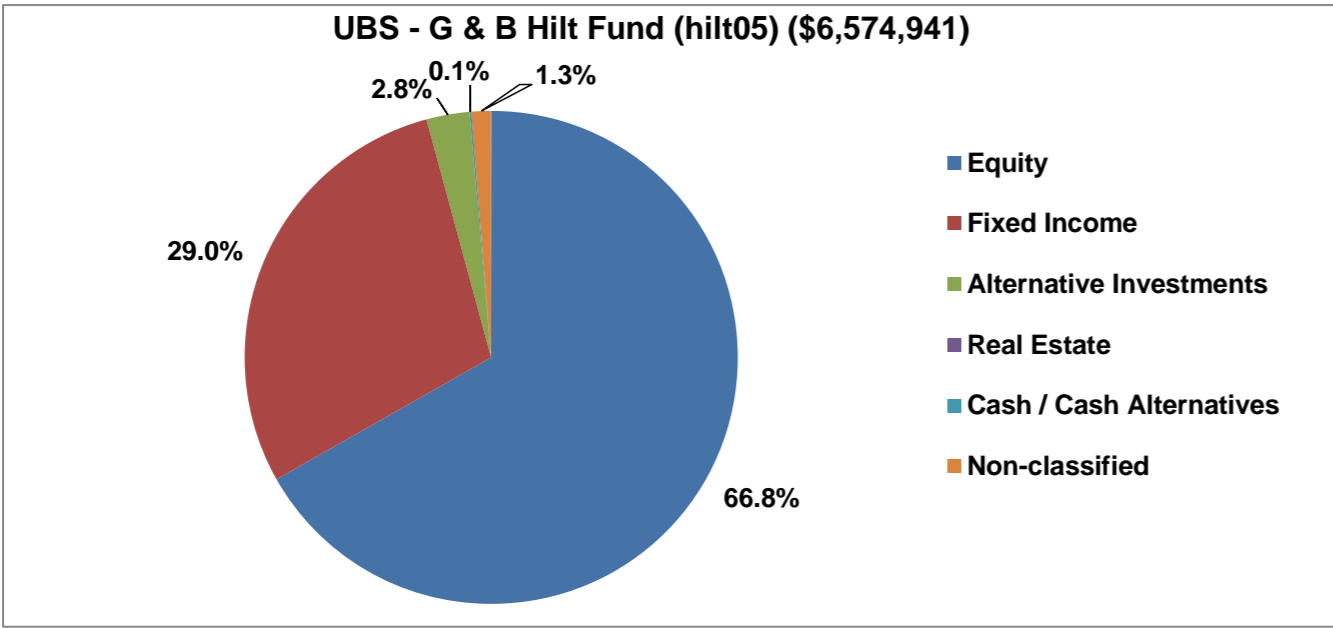
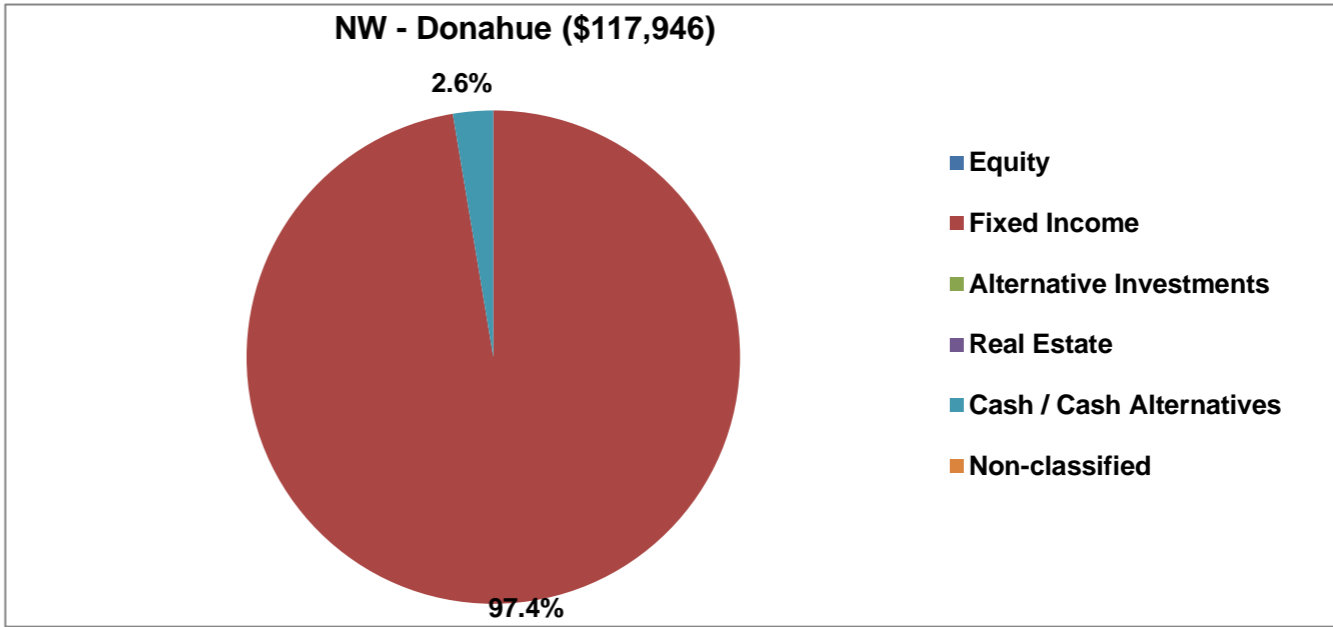
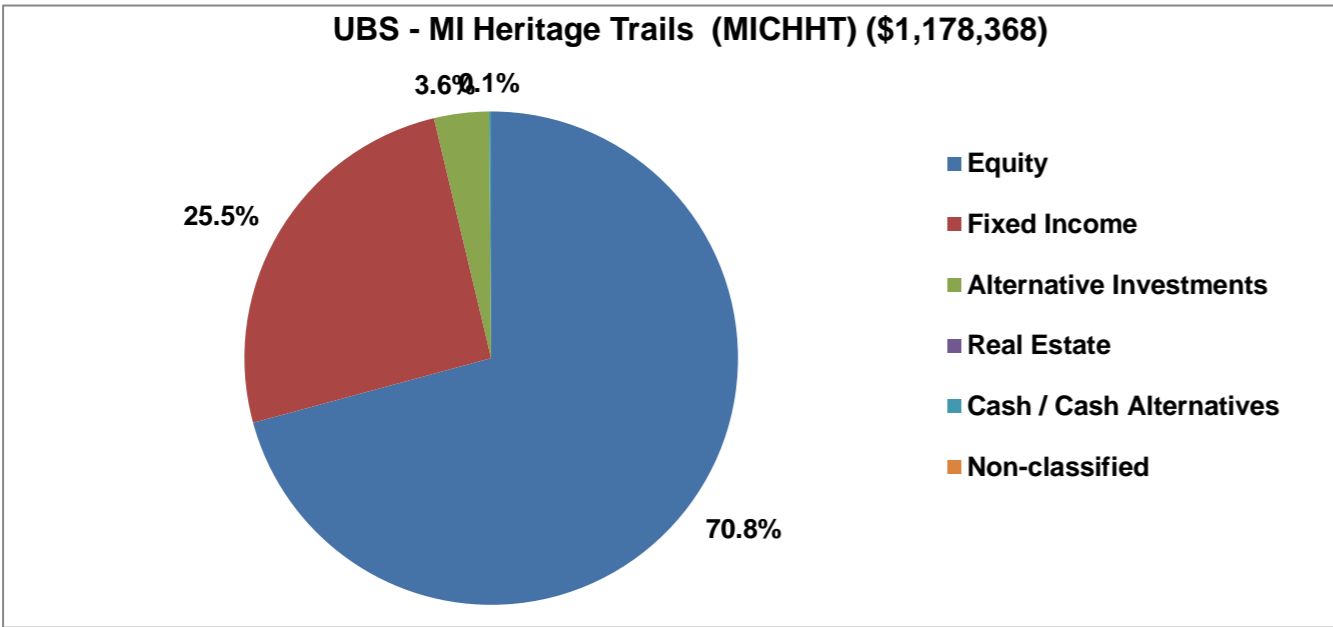
**Community Foundation for Muskegon County (CFMC)  
Quarterly Asset Allocation Summary of Segregated Accounts - As of 09/30/2016**



Note: Asset allocation data sourced from investment manager statements. Vanguard cannot independently validate the accuracy of the data provided.

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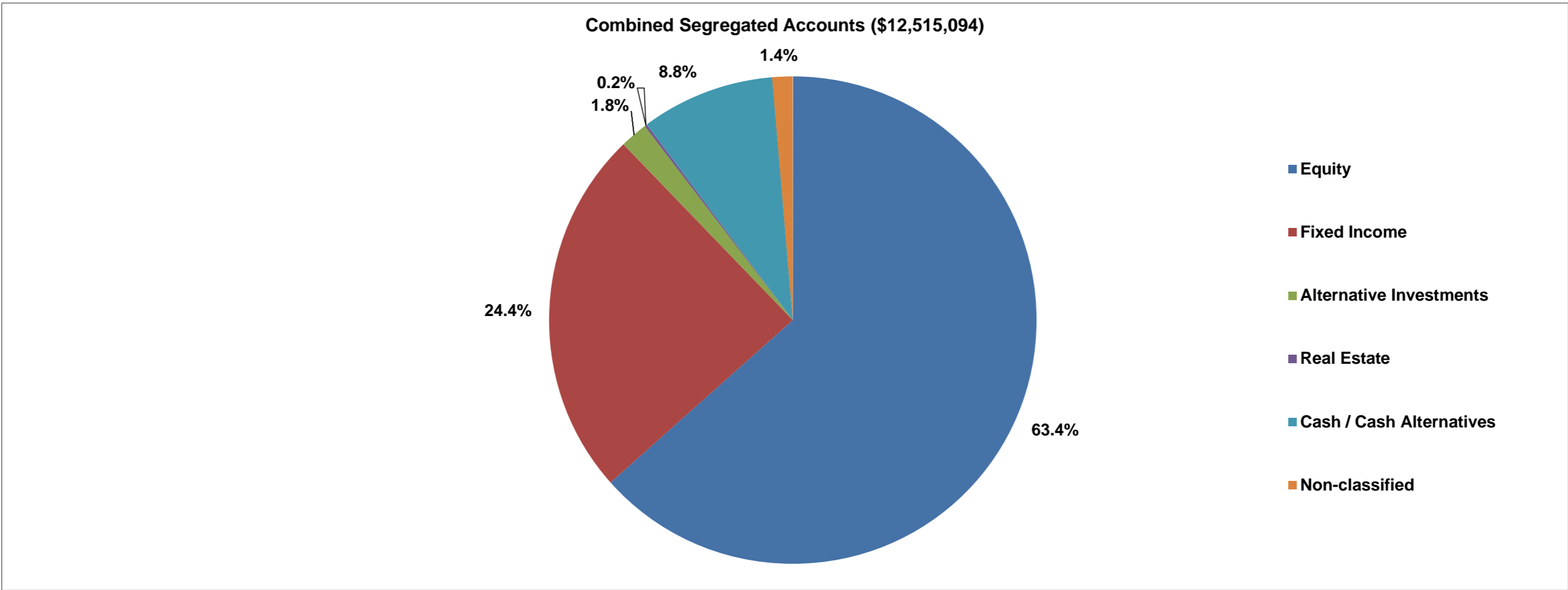
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# Risk/return analysis

# Community Foundation for Muskegon County Risk/return study – 10-year time horizon

Forecast: June 2016

Asset classes	Current portfolio	5	25	50	75	95	Volatility
U.S. equities	36.00%	-4.7%	2.4%	7.0%	11.8%	19.3%	17.6%
Non-U.S. equities (unhedged)	24.00%	-1.8%	4.5%	9.0%	13.6%	20.5%	18.6%
U.S. Bonds	30.00%	0.8%	1.5%	2.0%	2.5%	3.3%	4.4%
REITs	10.00%	-2.9%	2.2%	5.7%	9.3%	14.8%	18.5%
Inflation	1.8%	0.0%	1.1%	1.7%	2.4%	3.4%	2.3%
Median return (geometric)	6.4%						
Median inflation-adjusted return	4.6%						
Median risk (volatility)	11.3%						
Sharpe ratio	0.45						

## Portfolio return distribution

	5	10	20	30	40	50	60	70	80	90	95
Current nominal returns	-0.5%	1.1%	2.9%	4.3%	5.3%	6.4%	7.4%	8.6%	9.9%	11.8%	13.5%
Current real returns	-2.5%	-0.9%	1.1%	2.4%	3.5%	4.6%	5.7%	6.8%	8.2%	10.3%	12.0%

	1	2	3	4	5
1) U.S. equities	1				
2) Non-U.S. equities (unhedged)	0.76	1			
3) U.S. bonds	0.03	0.08	1		
4) REITs	0.54	0.40	0.04	1	
5) Inflation	-0.17	0.16	0.29	-0.05	1

Source: Vanguard, Investment Strategy Group.

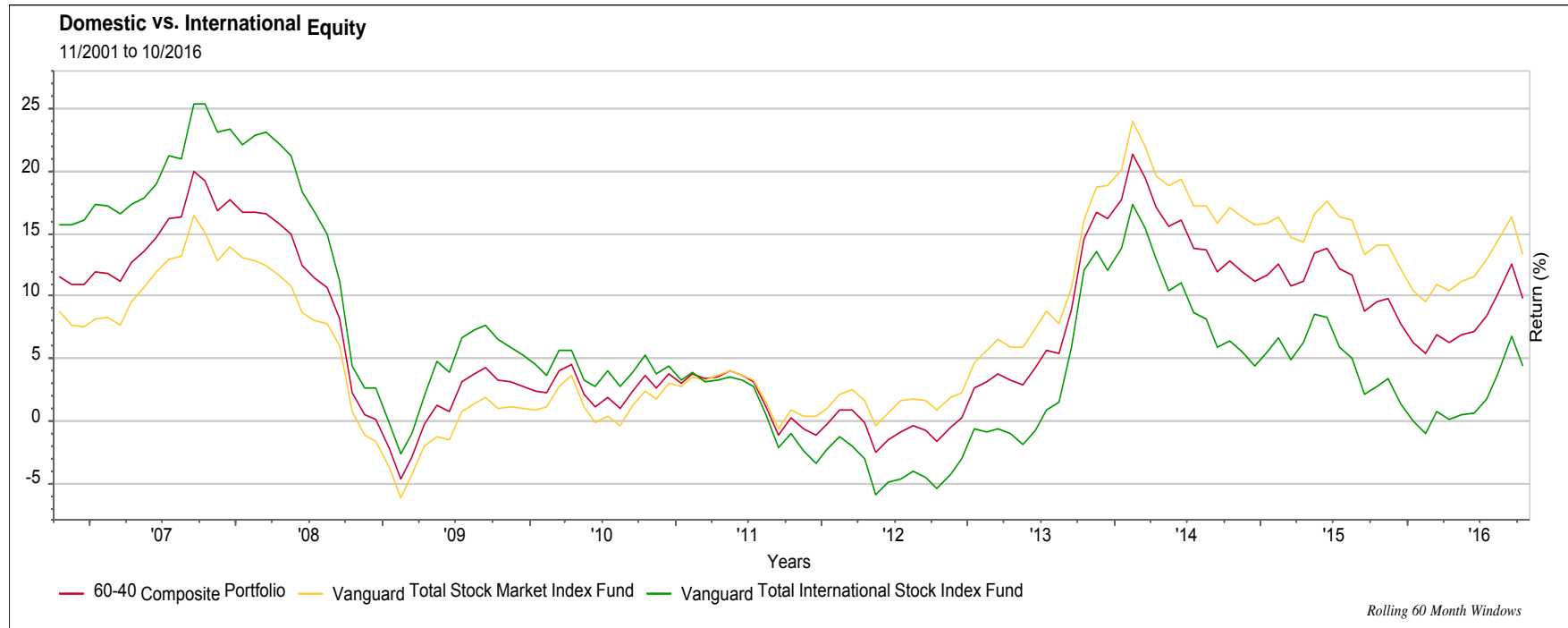
**IMPORTANT: The projections or other information generated by the Vanguard Capital Markets Model® (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM derived from 10,000 simulations for U.S. equity returns and fixed income returns. Simulations as of June 30, 2016. Results from the model may vary with each use and over time. For more information on VCMM, see the Important Information slide.**

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# International



# Domestic and International Equities have outperformed each other over time

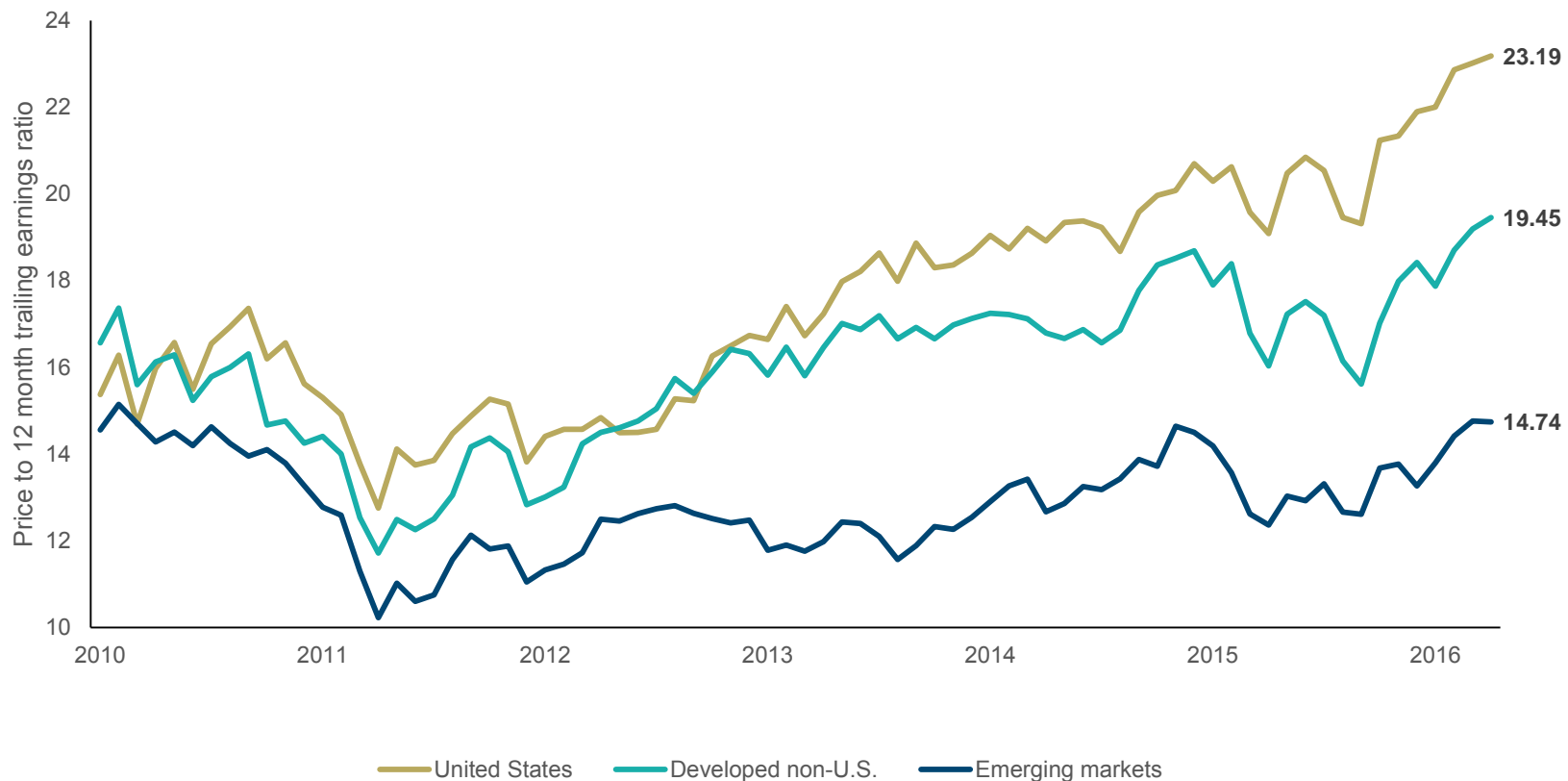


Source: FactSet.

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# Global equity market valuations

Valuations have mostly adjusted to the growth shocks



Sources: Vanguard and FactSet.

Notes: Figure displays the price-to-earnings ratio defined by the most recent price divided by the 12-month average of trailing earnings. United States is represented by the MSCI United States Index, Developed Markets non-U.S. is represented by the MSCI World ex U.S. Index, and Emerging Markets is represented as the MSCI Emerging Markets Index. All three indices are denominated in U.S. dollars and represent an unhedged position with data as of September 30, 2016.

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The Vanguard Capital Markets Model® is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

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