



SOUTHWEST INITIATIVE FOUNDATION

Empower. Grow. Connect. Invest.

**Presentation to:
SWIF Fund Partners**

October 23, 2017

Agenda

- I. Why an Outsourced CIO?**
- II. Hirtle Callaghan Introduction**
- III. How We Work Together**
- IV. Investment Philosophy & Process**
- V. Current Equity Market: Excessive or Fair?**

Garrett Wilson – Investment Officer

Nick Fazzie, CFA – Portfolio Manager

Agenda

- I. Why an Outsourced CIO?
- II. Hirtle Callaghan Introduction
- III. How We Work Together
- IV. Investment Philosophy & Process
- V. Current Equity Market: Excessive or Fair?

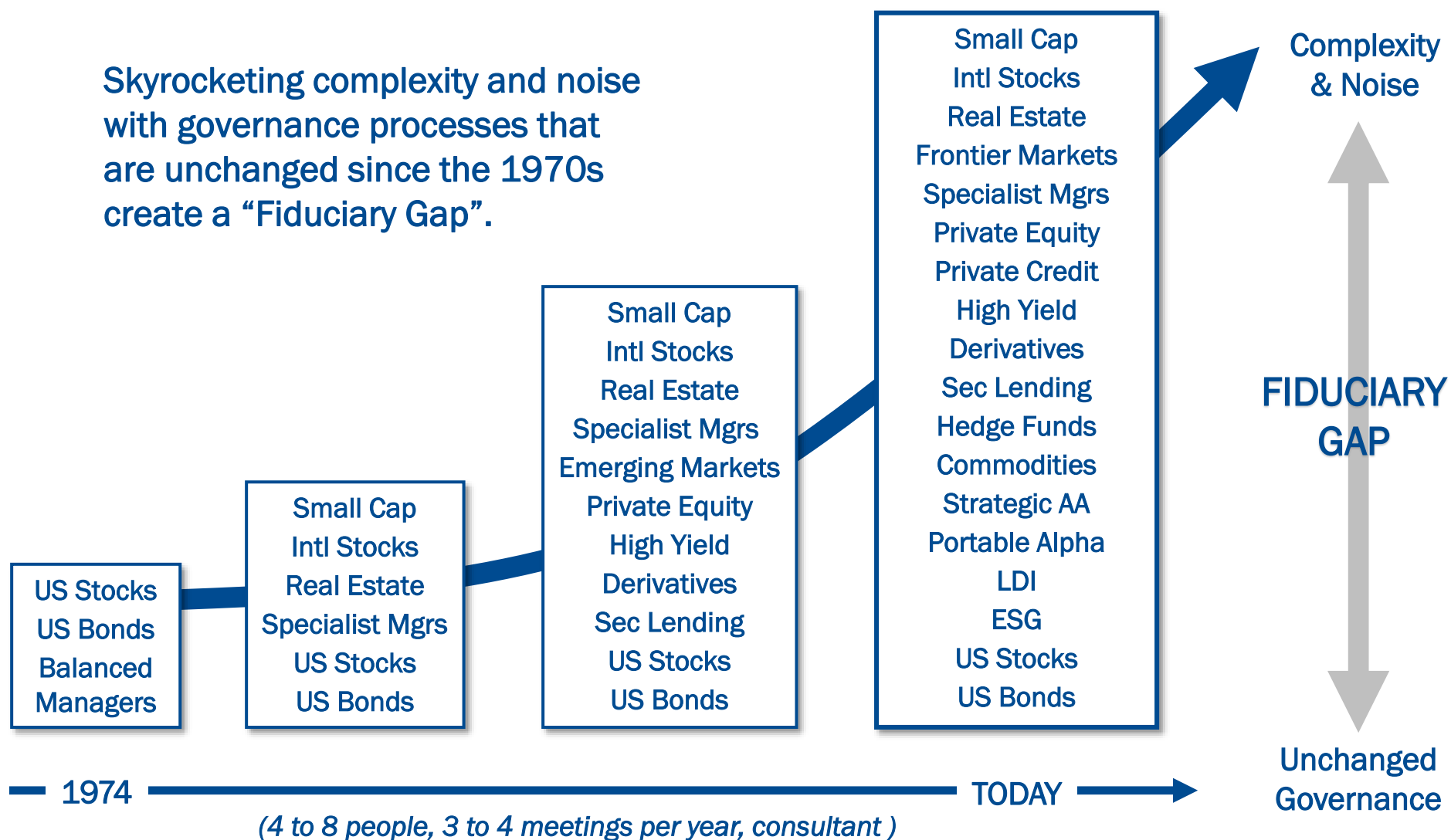
Why an Outsourced CIO?

Investment Complexity and Noise Have Skyrocketed

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers

Skyrocketing complexity and noise with governance processes that are unchanged since the 1970s create a “Fiduciary Gap”.

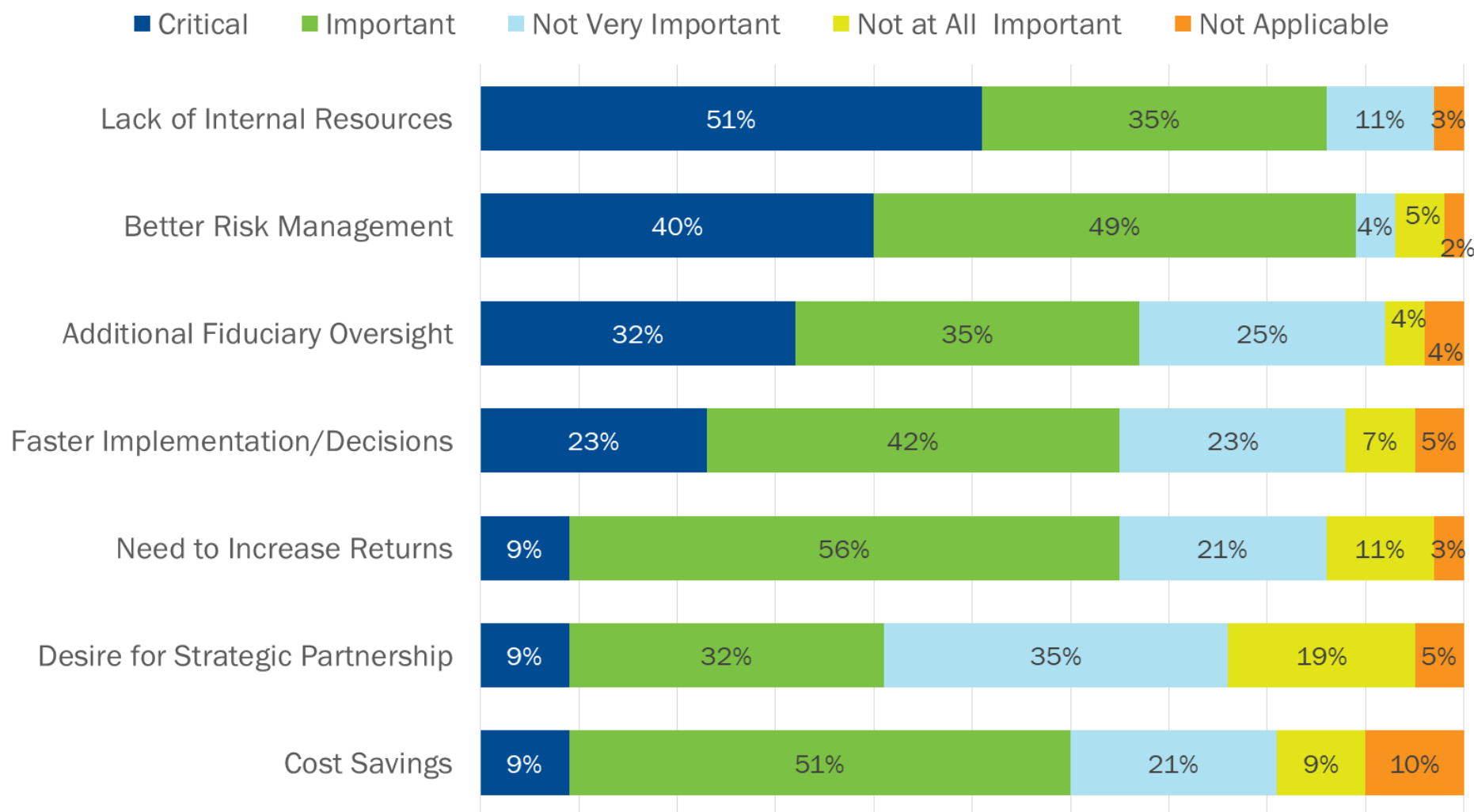


Why an Outsourced CIO?

Reasons to Outsource

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers



Source: *Chief Investment Officer* magazine. 2016 Outsourced Chief Investment Officer Survey.

Agenda

- I. Why an Outsourced CIO?
- II. Hirtle Callaghan Introduction
- III. How We Work Together
- IV. Investment Philosophy & Process
- V. Current Equity Market: Excessive or Fair?

Hirtle Callaghan Introduction

Who are We?

The most successful investment programs in the world rely on a fully staffed investment department led by a qualified Chief Investment Officer. However, it is difficult and expensive to develop and maintain a high quality investment department.

We set out to solve that challenge as an Outsourced Chief Investment Officer.

- Pioneered Outsourced Chief Investment Officer model in 1988
- Only Line of Business
- Zero Conflicts of Interest
- > 90 Professionals
- More Than 225 Client Relationships, Including:
 - Endowments & Foundations
 - Healthcare Institutions
 - Pension Funds
 - Private Clients & Family Offices
- > \$20 Billion of Assets Under Discretion
- Headquarters in Philadelphia with Regional Offices:
 - San Francisco, New York, Phoenix, Pittsburgh

Hirtle Callaghan Introduction

Advantages of the HC/SWIF Partnership

- **SCALE**
- **HIGH TOUCH SERVICE/PARTNERSHIP**
- **CUSTOMIZATION**
- **ZERO CONFLICTS OF INTEREST AND RESOURCES**
- **EXPERIENCE**

Agenda

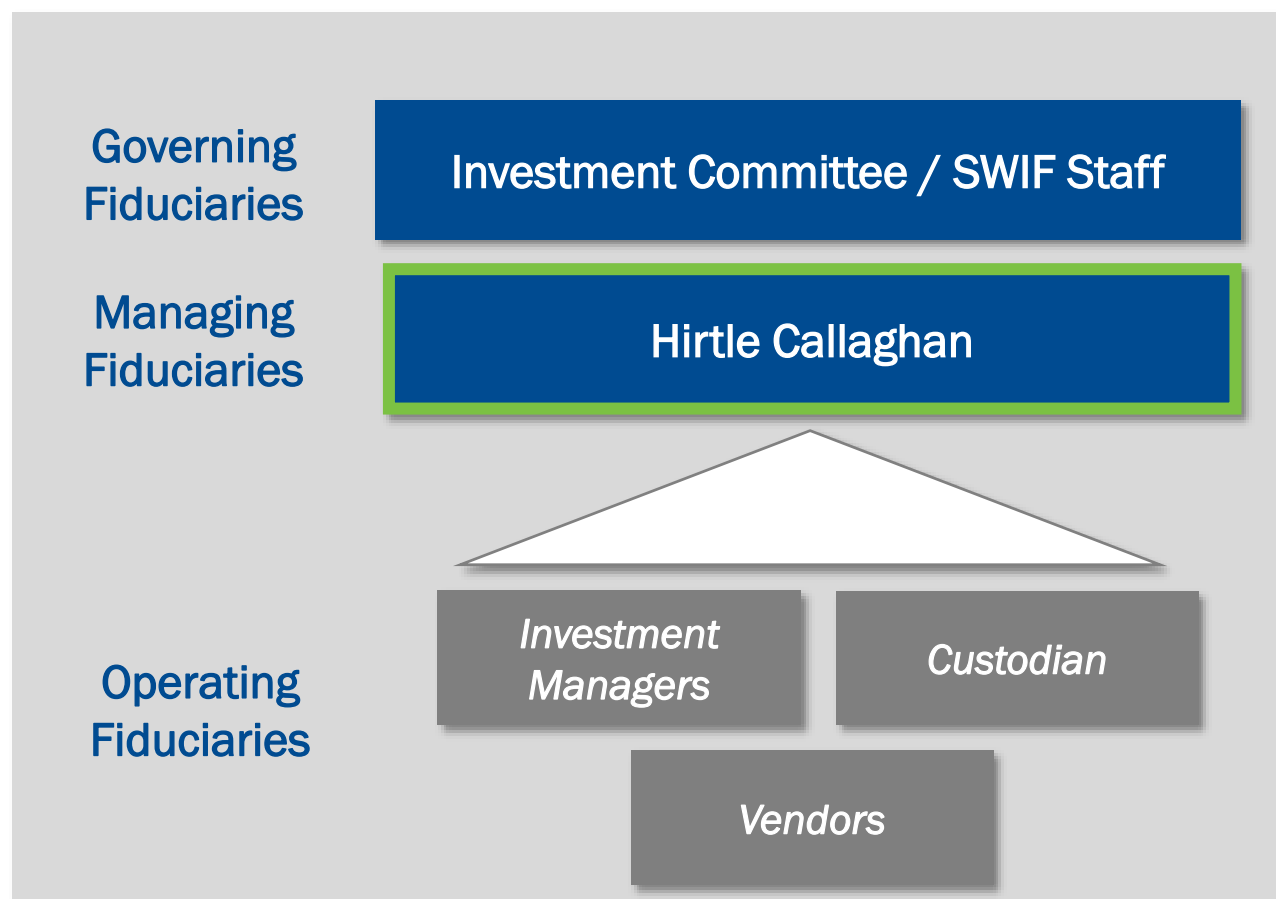
- I. Why an Outsourced CIO?
- II. Hirtle Callaghan Introduction
- III. How We Work Together
- IV. Investment Philosophy & Process
- V. Current Equity Market: Excessive or Fair?

How We Work Together

Fully Staffed and Experienced Investment Department to Serve Your Mission

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers



**This Structures Allows for Continuity, Effective Decision Making Processes,
& Enhanced Committee Governance**

How We Work Together

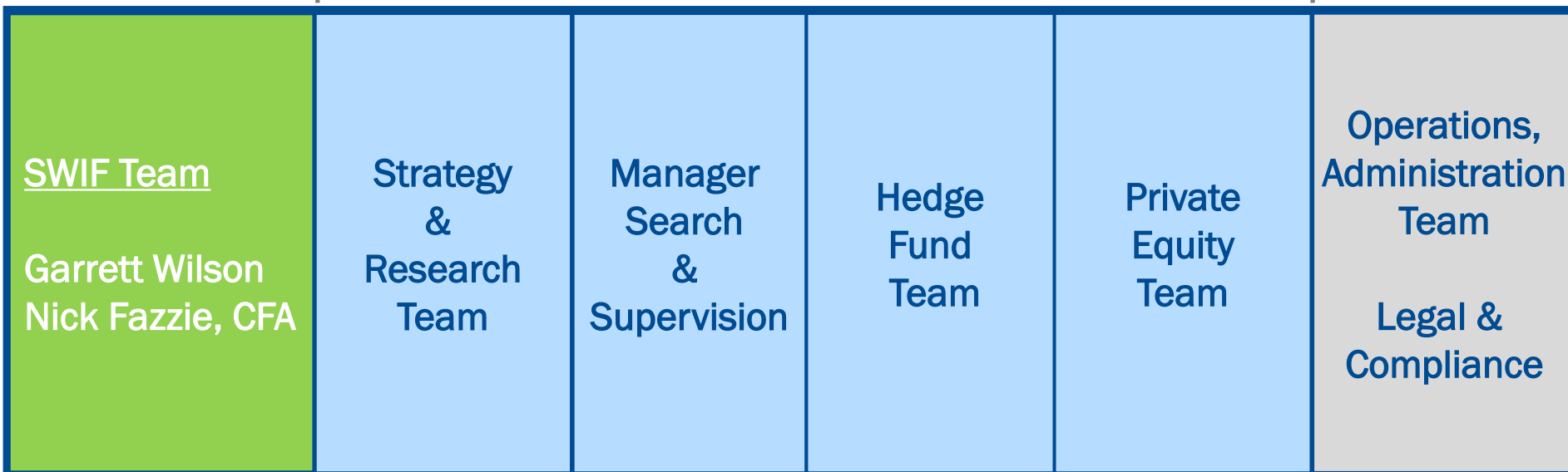
Fully Staffed and Experienced Investment Department to Serve Your Mission

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers

Strategy Portfolio Construction

- Centralized
- Firm Level Conviction



How We Work Together

Implementing the Governance Structure

Who is Ultimately Responsible for What Decision?

Decision	Shared Responsibility	Client Responsibility	CIO Responsibility
Asset Allocation Decision	Work Together (Recommendation Supported by Data)	Ultimate Responsibility	
Asset Class Inclusion/Exclusion	Work Together (Recommendation Supported by Data)	Ultimate Responsibility	
Setting Asset Class Ranges	Work Together (Recommendation Supported by Data)	Ultimate Responsibility	
Constituent Engagement	Work Together (Recommendation Supported by Data)	Ultimate Responsibility	
Active Capital Allocation			CIO Responsibility
Manager Selection & Supervision			CIO Responsibility
Rebalancing			CIO Responsibility
Determine How and When to Raise Cash in the Portfolio		Work Together (Signal Cash Flow Requirements)	CIO Responsibility
Select Custodian	Work Together (Recommendation Supported by Data)	Ultimate Responsibility	

How We Work Together

Engagement: Quarterly Meetings & Services

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers

Quarterly Meeting Platform

- Capital Markets Update
- Asset Allocation and Performance Review
- Investment Strategy Review
- Educational Topics

Educational Opportunities

- Annual Investment Conference
- Roundtable Investment Workshops
- Quarterly Firm Webcast
- Quarterly Investment Perspective
- Educational Sessions with Trustees/Staff

Constituent Engagement

- Open Dialogue / Investment Transparency
- Stock Gift Transaction Processing
- Help with Development Marketing

Enterprise Risk Analysis

- Liquidity Review
- Spending Analysis
- 3D Risk Review (Operational/Financial/Investment)

Account Management Support

- Dedicated Operations and Compliance Effort
- Customized Reporting
- Web Based Reporting Portal
- Audit Support (Annual Audit Memo, Conference Calls With Auditors)
- Fee Negotiation With Outside Managers
- Custodial Interface

Responsible Investing

- Impact Investing Initiatives
- Environmental, Social and Governance Investing

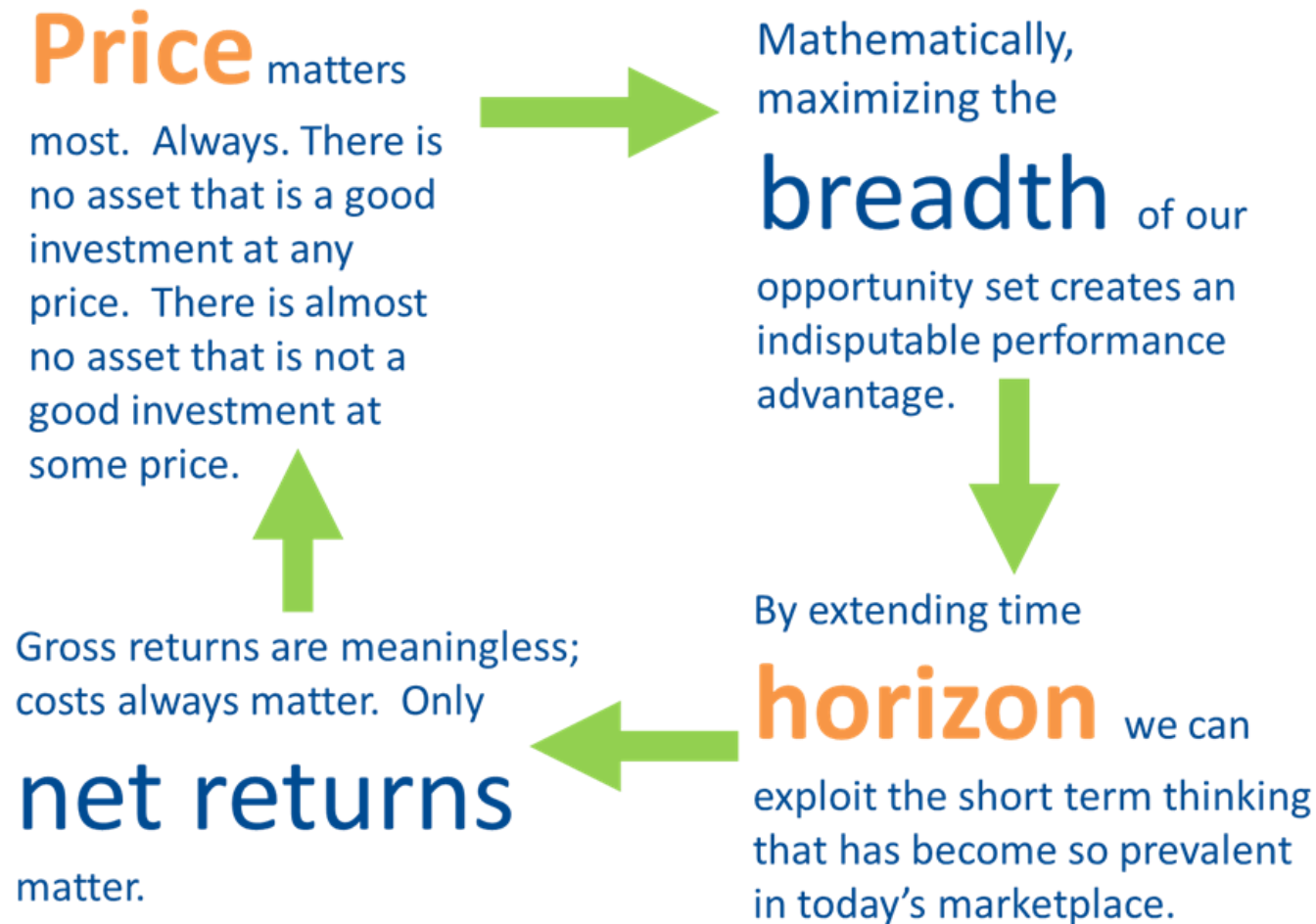


Agenda

- I. Why an Outsourced CIO?
- II. Hirtle Callaghan Introduction
- III. How We Work Together
- IV. Investment Philosophy & Process
- V. Current Equity Market: Excessive or Fair?

Investment Philosophy & Process

Four Cornerstones Serve as the Foundation of Our Investment Approach



Investment Philosophy & Process

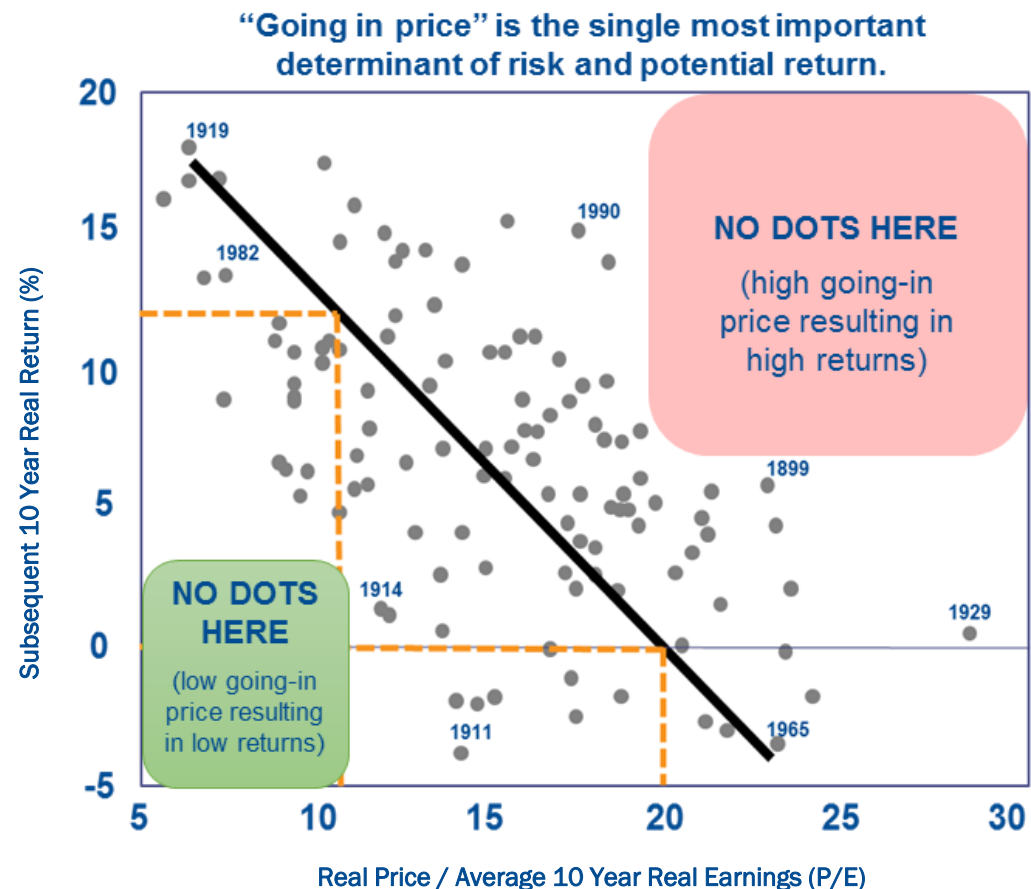
Disciplined, Fact-Based Process for Making the Decisions that Matter Most

Key Tenets:

- Manage Risk to Achieve Return
- Risk is the Permanent Loss of Capital
- Risk is a Function of the Price We Pay to Acquire Future Cash Flows
- The Longer the Time Horizon, the More Confidence in the Valuation Dominant Approach

Implementation:

- Broad Class and Style Diversification
- Active and Passive Management
- Active-Strategic Capital Allocation
- True-Alpha Manager Search
- Integrated Alternatives Programs
- Custom Designed for Client Objectives
- Highly Cost Effective

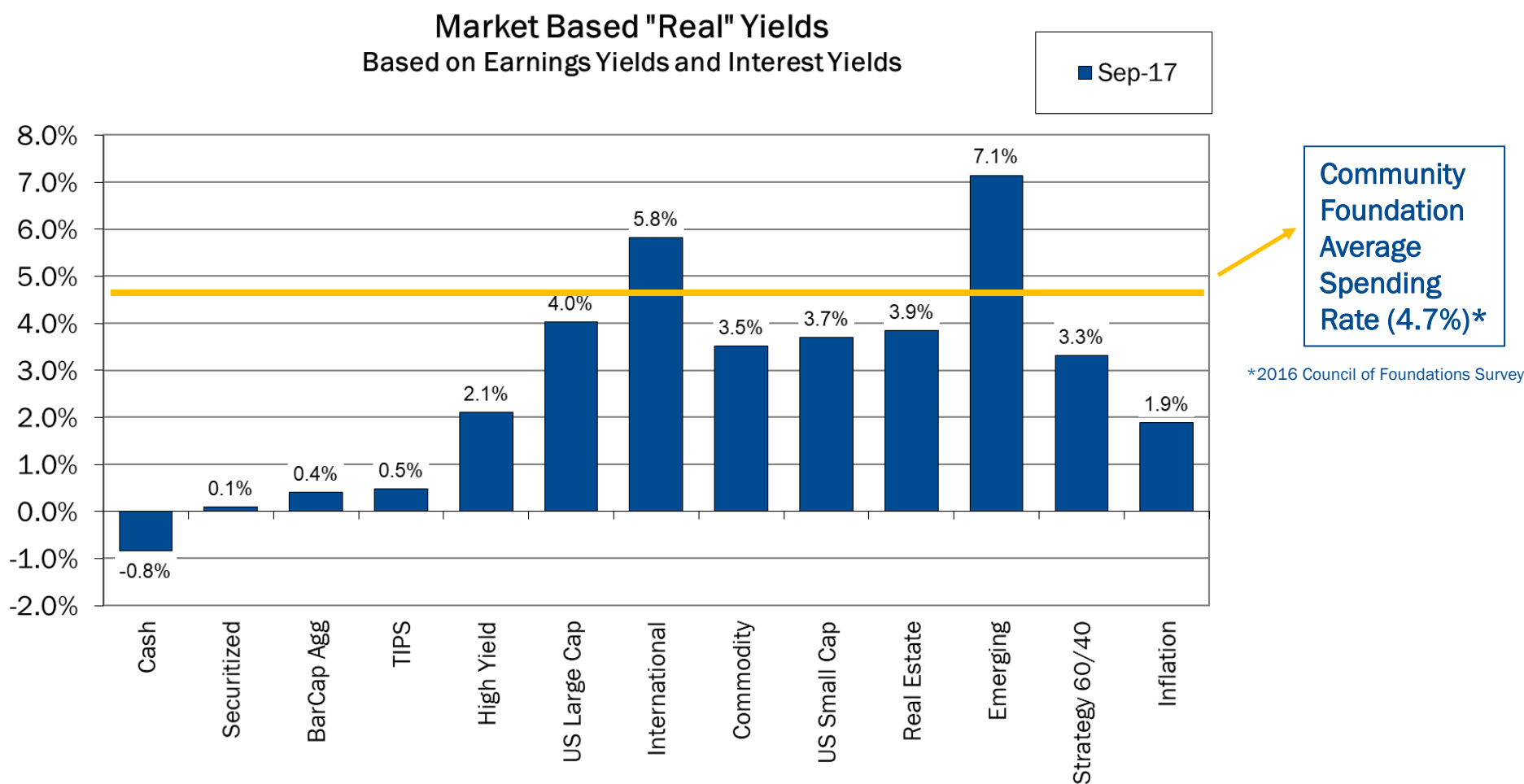


Investment Philosophy & Process

Buying Future Cash Flows at the Most Attractive Rate – Price Matters

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers



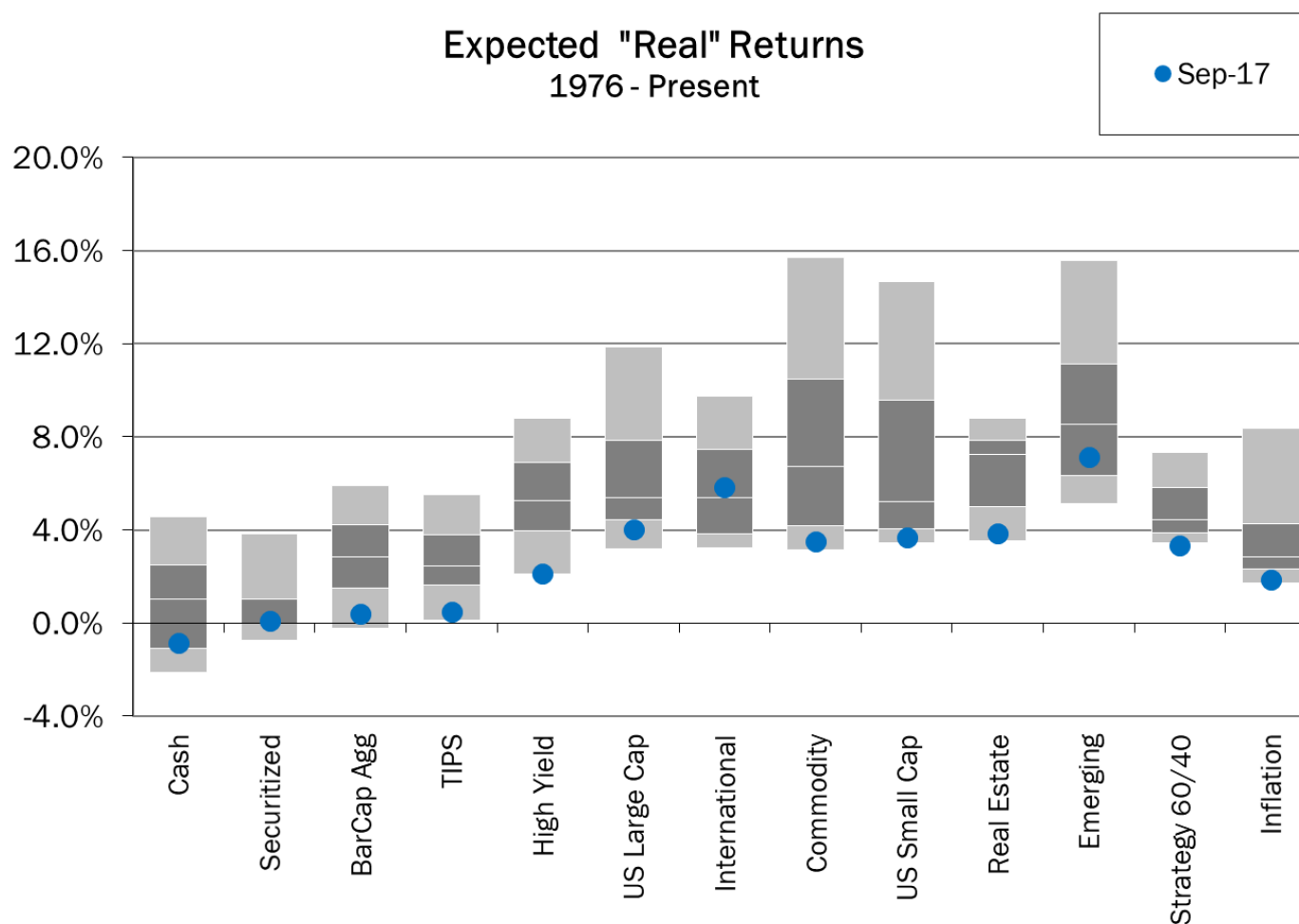
This information is based on market data and is not a guarantee of future performance.

Investment Philosophy & Process

Buying Future Cash Flows at the Most Attractive Rate – Price Matters

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers



This information is based on market data and is not a guarantee of future performance.

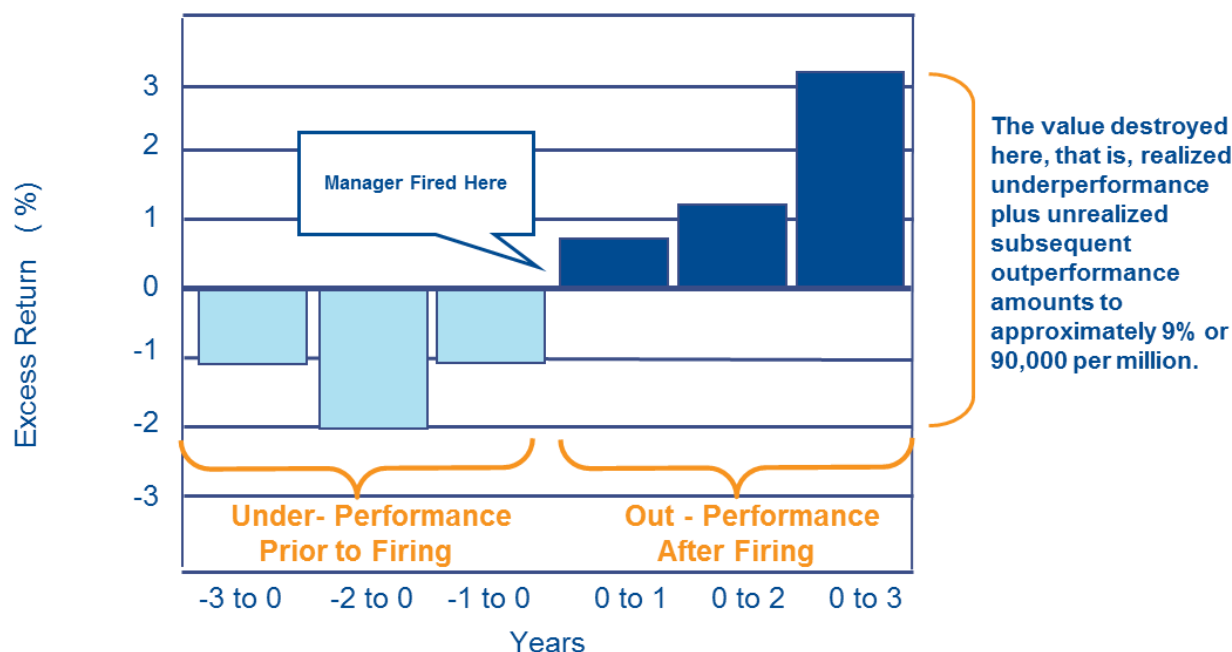
Investment Philosophy & Process

Long Only: Most Investors Chase Manager Performance and Destroy Value

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers

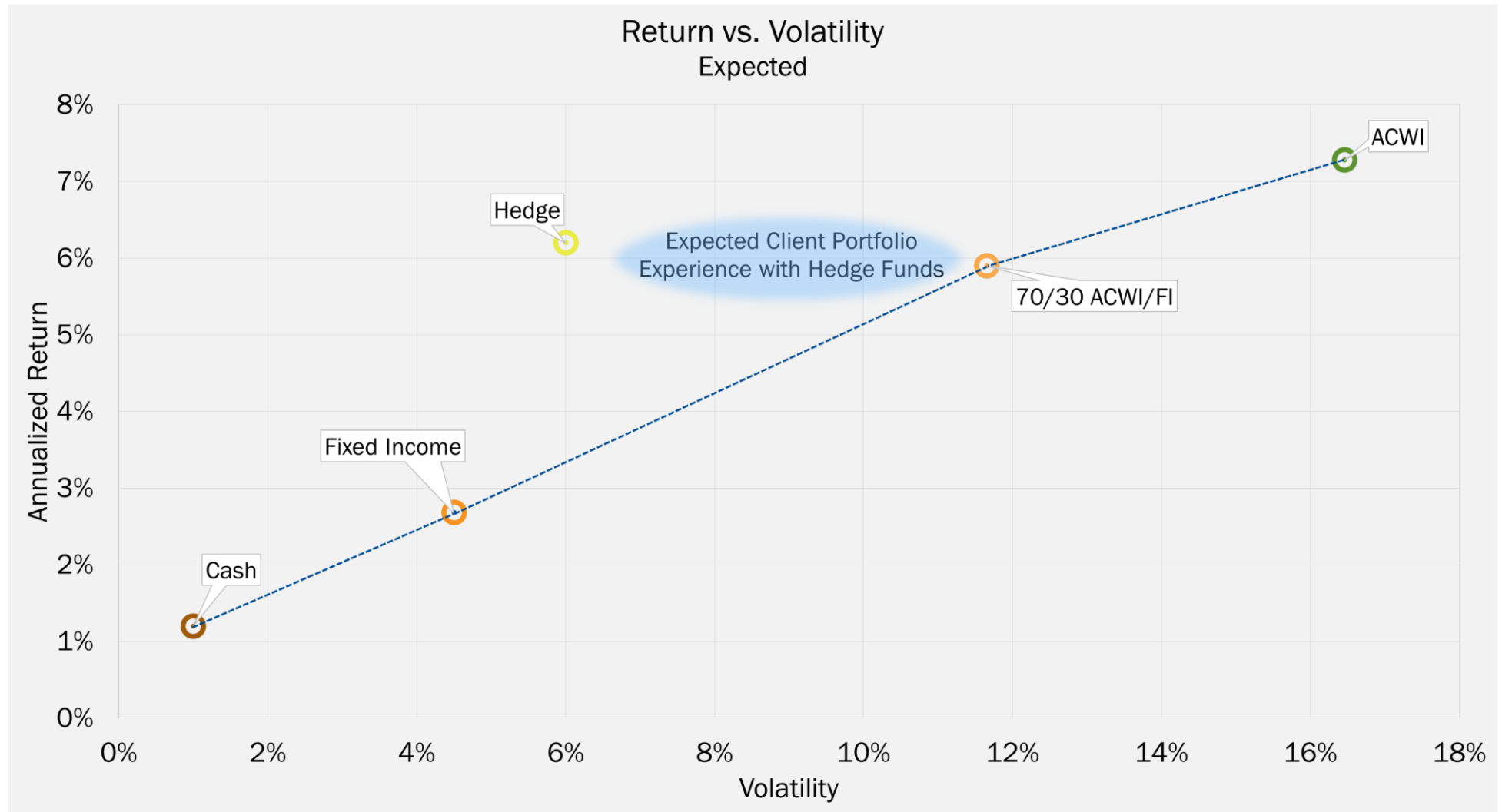
- We hire investment managers to implement a specific style and look for them to add idiosyncratic stock picking ability on top of their return pattern.
- Contrarian in nature, we aim to hire managers at the bottom of the performance cycle and trim from managers who have recently outperformed.



Source: "The Selection and Termination of Investment Managers by Plan Sponsors," by A. Goyal, Emory University and S. Wahal, Arizona State University, May 2005. This study obtained information from 3,500 plan sponsors over a 10 year period.

Investment Philosophy & Process

Hedge Funds: Diversified Exposure to Increase Portfolio Efficiency



Source: Hirtle Callaghan. Expected return framework based on the following: ACWI - 50% US Large Cap - 40% International Developed - 10% International Emerging; FI - US Aggregate; Cash - Short Term Treasuries. Hedge - defined as T-Bills plus 5% and 6% volatility, consistent with objectives of revised hedge fund program.

Agenda

- I. Why an Outsourced CIO?
- II. Hirtle Callaghan Introduction
- III. How We Work Together
- IV. Investment Philosophy & Process
- V. Current Equity Market: Excessive or Fair?

Current Equity Market: Excessive or Fair?

Market Valuations

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers

Robert Shiller: Stocks look just like they did right before the 13 most recent bear markets

Are U.S. Stocks 20% overvalued?

FAANGtastic Five Pull tech stocks into bubble territory

Oaktree's Howard Marks Surveys a Pricey Market

HEDGE FUND BILLIONAIRE JULIAN ROBERTSON: 'We're creating a bubble'

David Tepper Says booming market still has room to grow

Billionaire Warren Buffett says stock valuations make sense with interest rates where they are

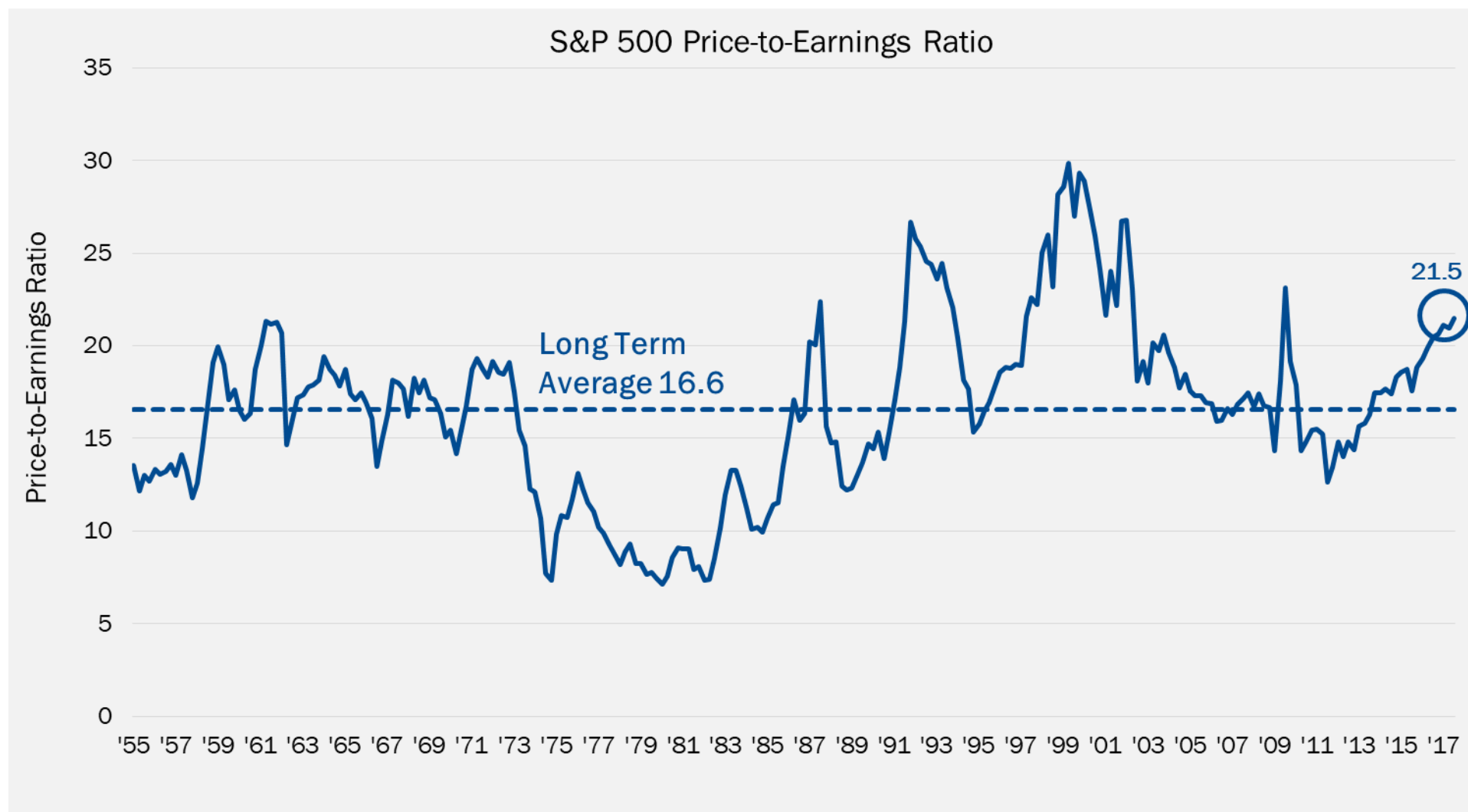
Stocks aren't overvalued - Bloomberg

Current Equity Market: Excessive or Fair?

Economic Regime Relevant to Understanding Current Valuations

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers



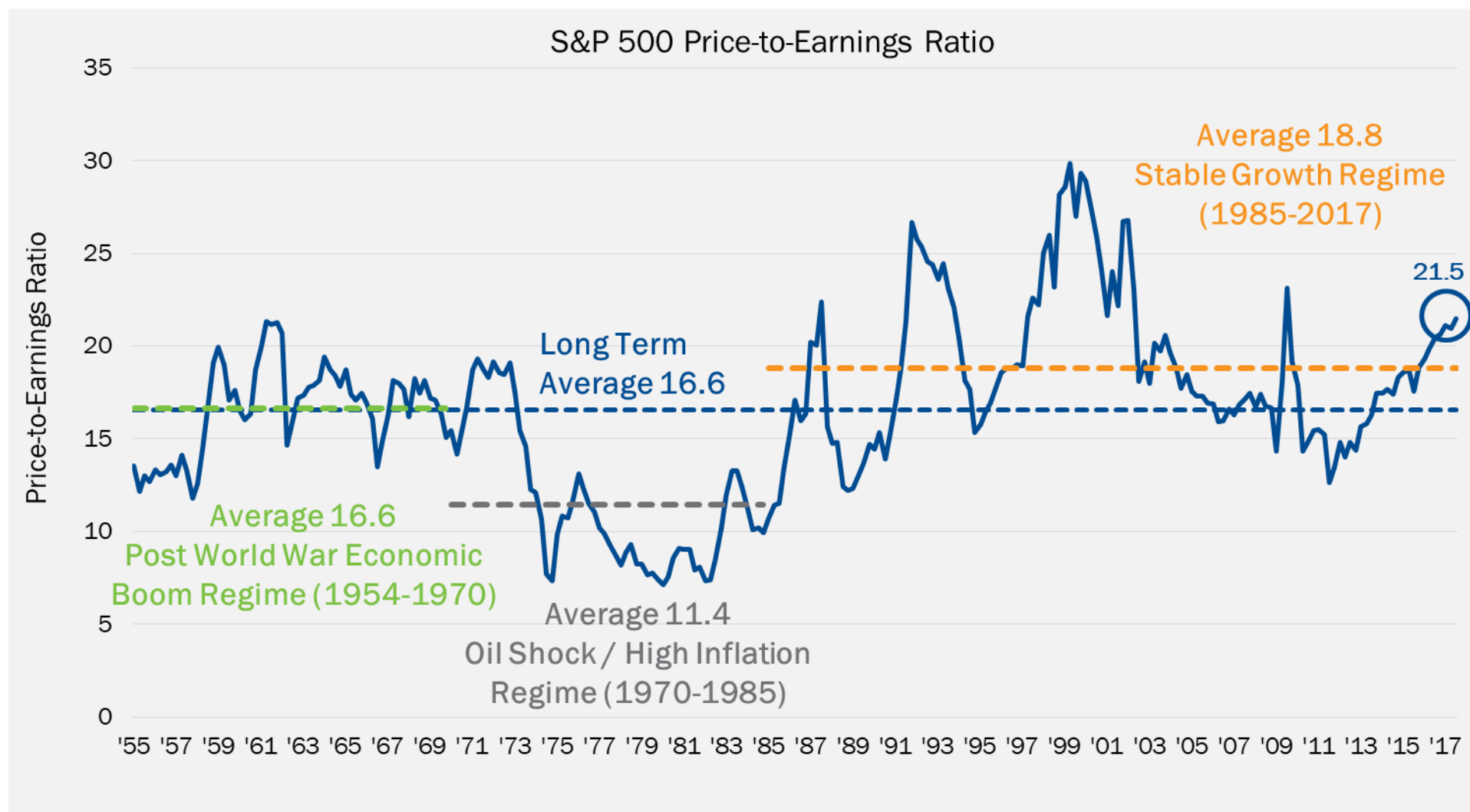
Source: Bloomberg, Hirtle Callaghan. Series plots the trailing twelve months price to earning ratio.

Current Equity Market: Excessive or Fair?

Economic Regime Relevant to Understanding Current Valuations

HIRTLE
CALLAGHAN
& CO

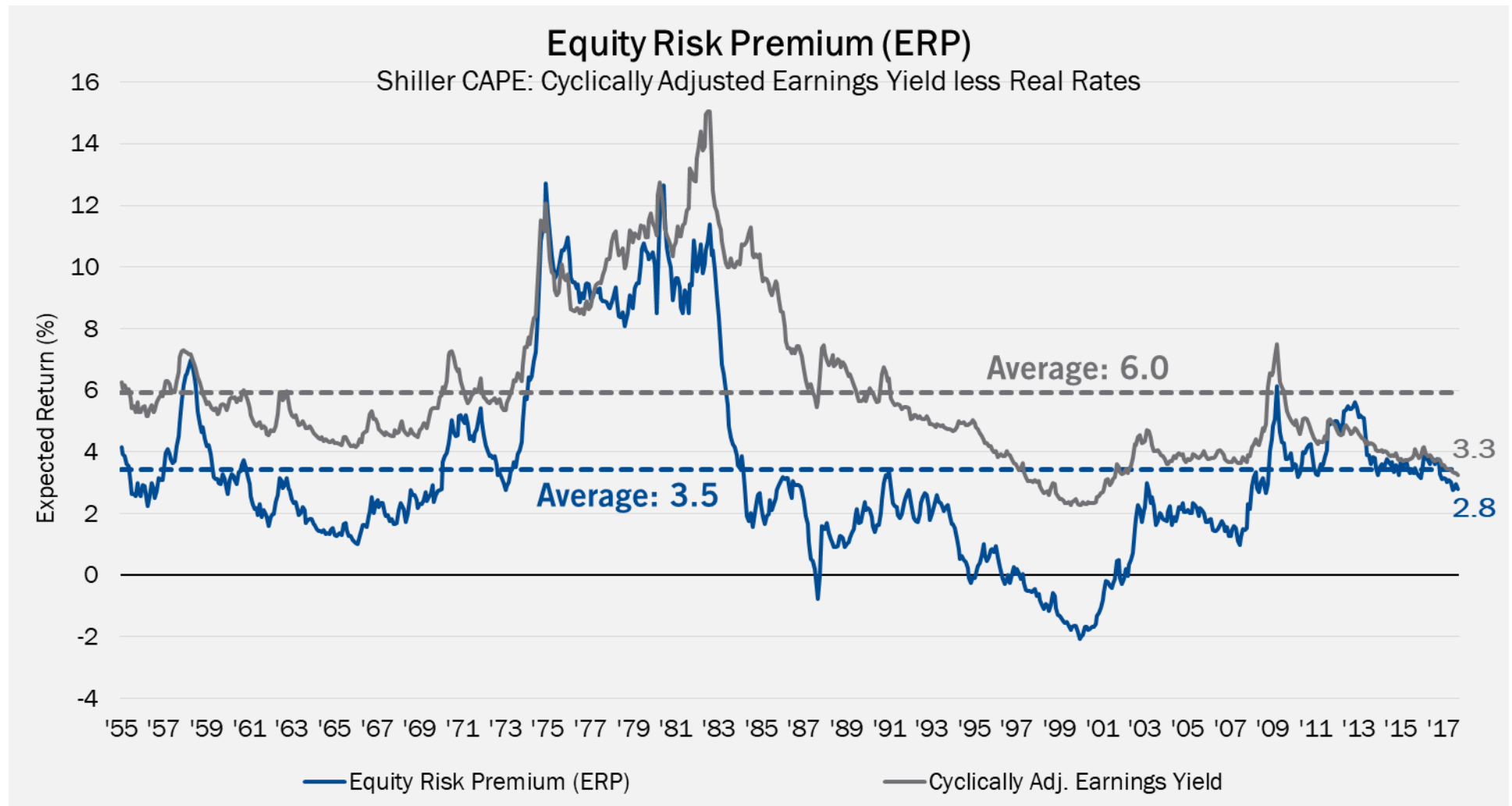
Chief
Investment
Officers



Source: Bloomberg, Hirtle Callaghan. Series plots the trailing twelve months price to earning ratio.

Current Equity Market: Excessive or Fair?

While Absolute Valuations Cause Concern in Shiller Framework, Relative Valuations Appear Reasonable



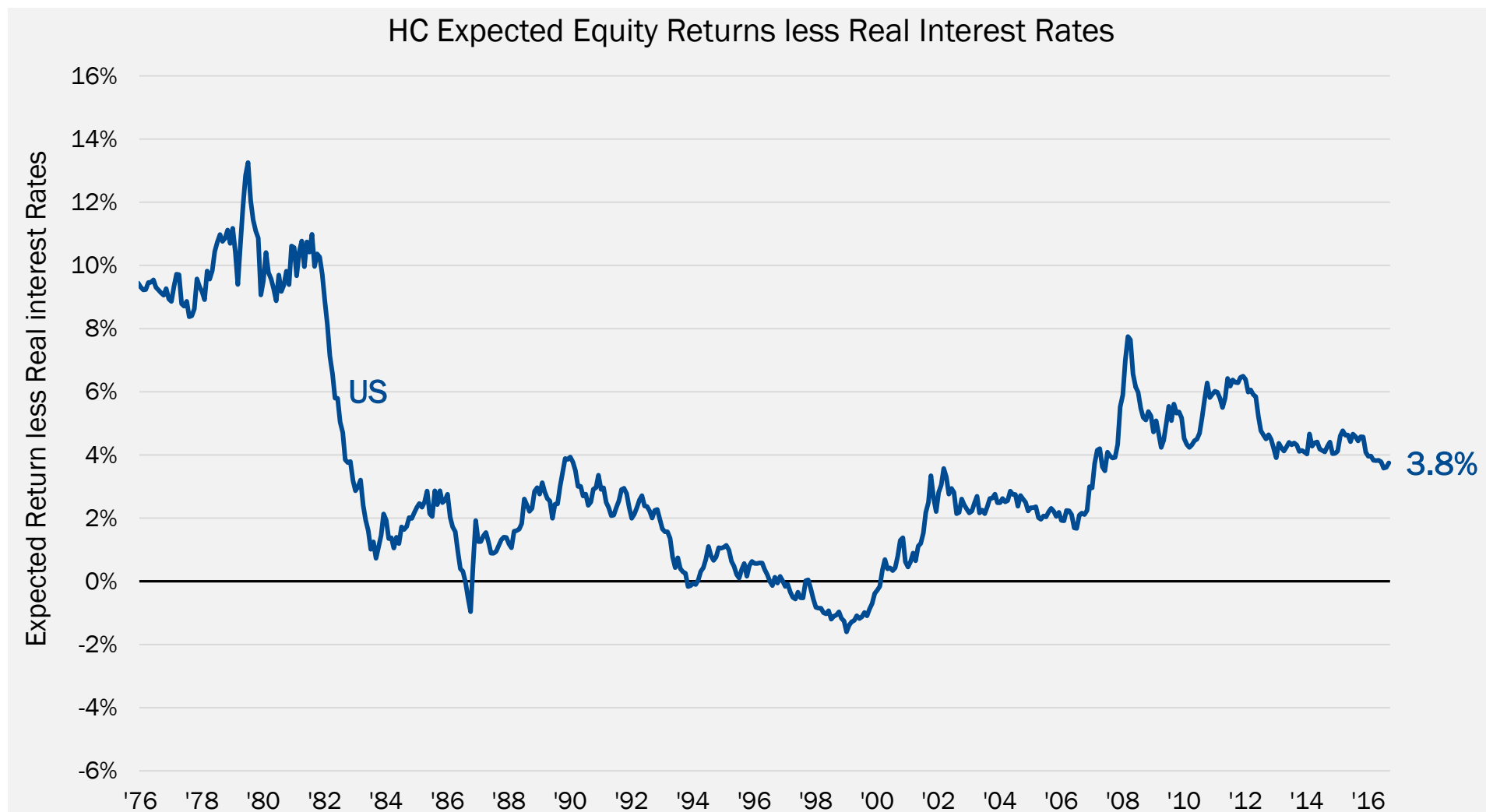
Equity risk premium is the inverse of S&P 500 Cyclically-adjusted price to earnings ratio $1/(\text{CAPE})$ less the 10 year real rate. CAPE is calculated by dividing inflation-adjusted price of the S&P 500 Index by the average of last 10 years inflation-adjusted earnings. Real rate is 10 year nominal rates less inflation.

Current Equity Market: Excessive or Fair?

Using HC Valuation Methodology: Equity Risk Premium Also Fair / Quite Attractive

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers



Source: Hirtle Callaghan. Series shows the normalized earnings yield less the US 10 Year real rate for EM, International developed and US.

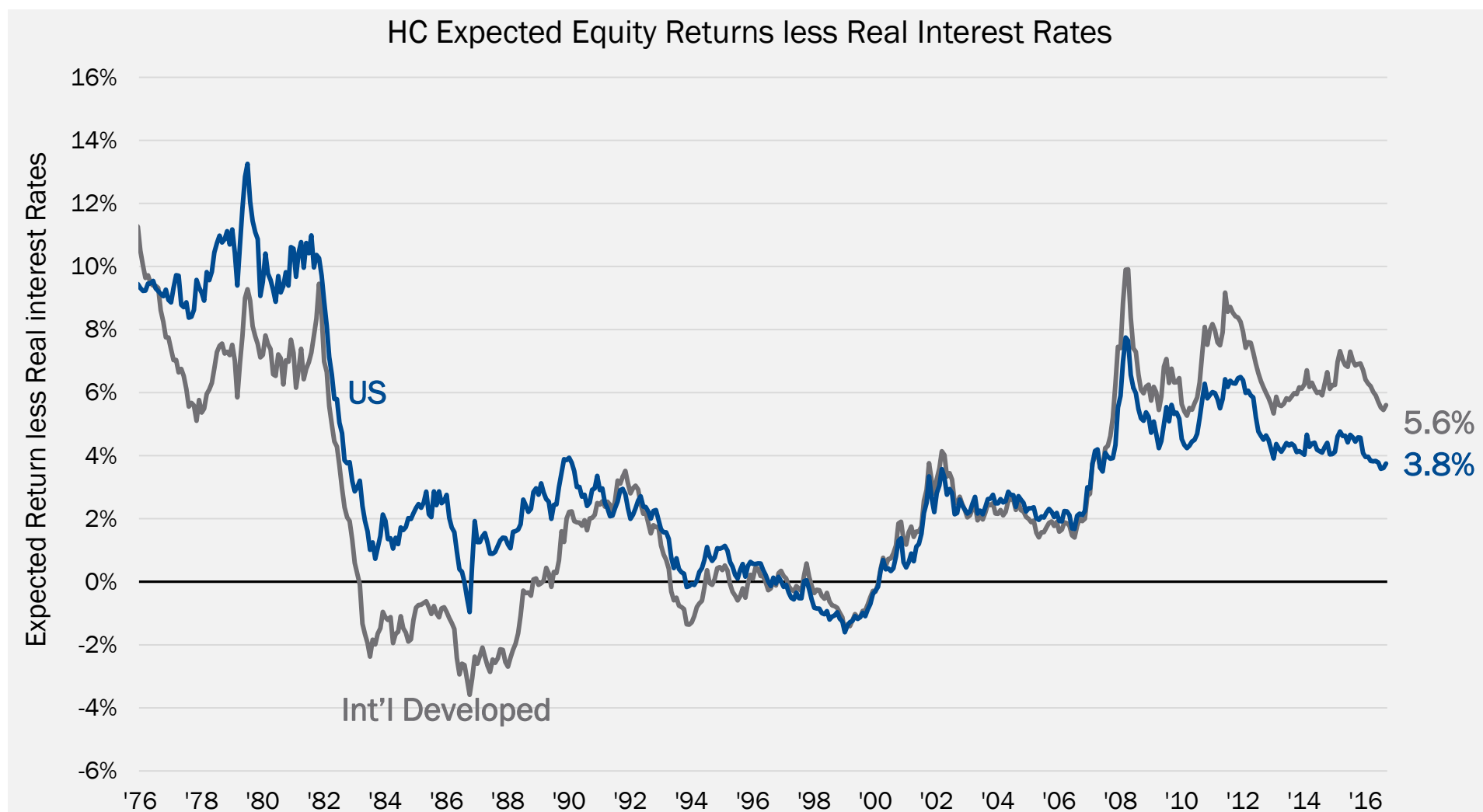
*Emerging market series begins on 9/30/1995.

Current Equity Market: Excessive or Fair?

Using HC Valuation Methodology: Equity Risk Premium Also Fair / Quite Attractive

HIRTLE
CALLAGHAN
& CO

Chief
Investment
Officers



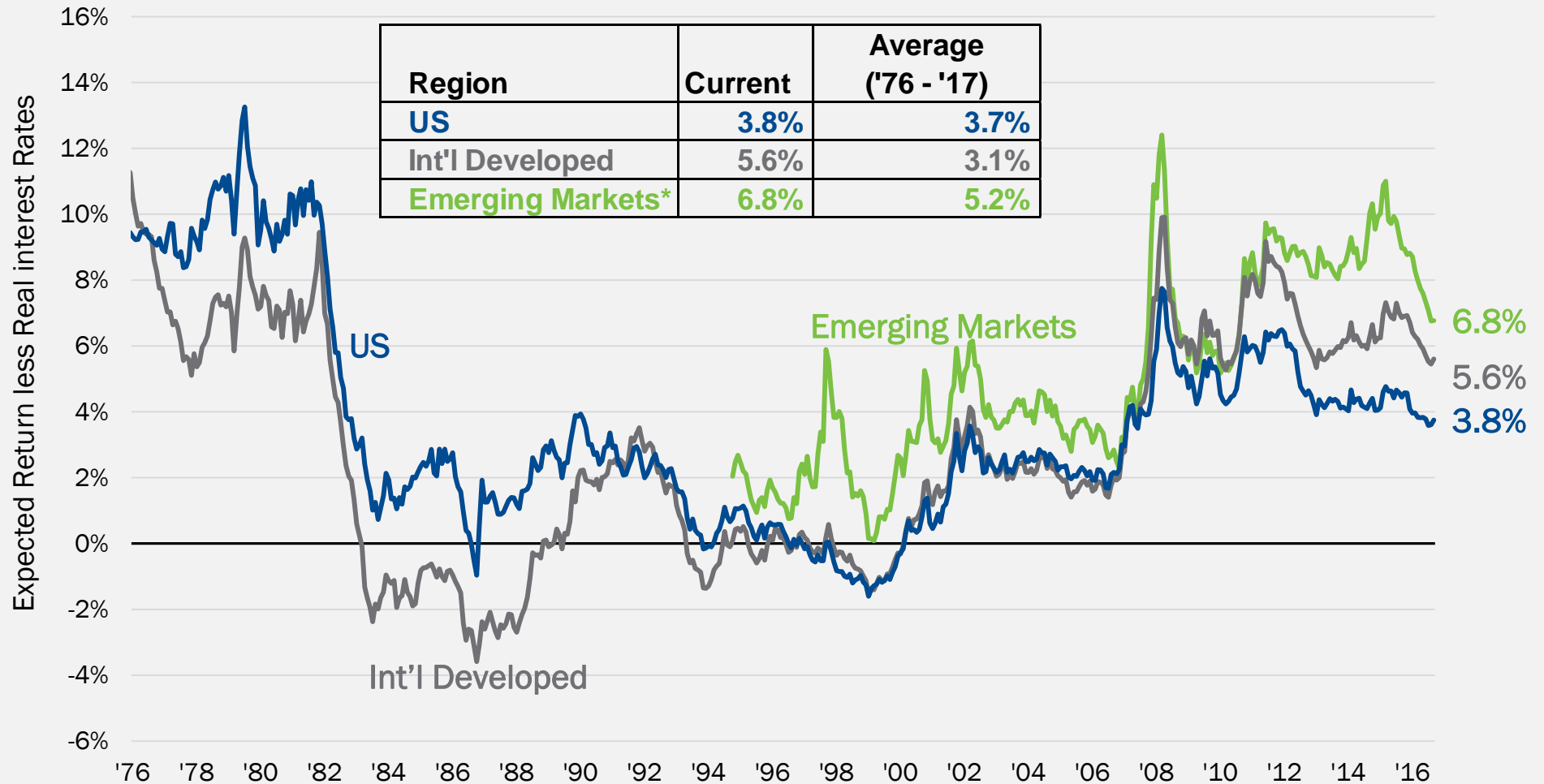
Source: Hirtle Callaghan. Series shows the normalized earnings yield less the US 10 Year real rate for EM, International developed and US.

*Emerging market series begins on 9/30/1995.

Current Equity Market: Excessive or Fair?

Using HC Valuation Methodology: Equity Risk Premium Also Fair / Quite Attractive

HC Expected Equity Returns less Real Interest Rates



Source: Hirtle Callaghan. Series shows the normalized earnings yield less the US 10 Year real rate for EM, International developed and US.

*Emerging market series begins on 9/30/1995.

Hirtle, Callaghan & Co., LLC Disclosure Statement and Important Information

Unless otherwise indicated, these materials reflect the actual performance of investment vehicles selected and/or sponsored by Hirtle Callaghan and believed by Hirtle Callaghan to be appropriately structured to capture a specific market sector or asset class. The results shown do not reflect, however, the investment experience of any client account and do not adjust for cash flows that may be experienced in an individual client account or for other individual factors. Additionally, the unaudited information presented in these materials is shown net of all operating expenses of the underlying vehicles but exclusive of Hirtle Callaghan's management fee and custody expenses that will be incurred by any client account. Application of such fees will reduce investment return. For example, a \$10 million account with a one year total return of 5.00% would grow to \$10.5 million gross and approximately \$10.4 million net of advisory fees, assuming an annual investment advisory fee of 0.95%. Hirtle Callaghan's standard fee schedule is discussed more fully in Part 2A of Hirtle Callaghan's Form ADV. Fees payable by individual client accounts are set forth in the monthly account statement. Past performance is, of course, no guarantee of future performance and the performance achieved by the investment vehicles and/or Hirtle Callaghan clients in the past is not indicative of the investment results that may be achieved in the future.

In some cases, we have included "composite" performance information for the underlying Investment Managers. This information reflects the historical performance of individual managers and is based on composite data provided to Hirtle Callaghan by third party sources. This information is provided as a means of illustrating the contribution of individual managers to the performance of the underlying investment vehicle; they do not reflect results achieved by any Hirtle Callaghan client, may not reflect manager changes, and are not indicative of future results. Additionally, composite information is shown exclusive of management fee and custody expenses that will be incurred by any client account. Application of such fees will reduce investment return.

Certain slides may present the performance achieved by the Hirtle Callaghan Private Equity and Hedge Funds. The performance data represented is net of all fund fees and expenses but does not include the Hirtle, Callaghan & Co., LLC investment advisory fee. Current year performance is unaudited, preliminary and subject to change. This information is neither an offer to sell nor a solicitation of an offer to purchase any securities. Such an offer will only be made to accredited investors and/or qualified purchasers by means of a confidential private placement memorandum and related subscription documents. You have received this presentation as we have been in contact with you in the past and we have reason to believe that you are an accredited investor and/or a qualified purchaser or a representative of such.

Index and market data included in these materials are, unless otherwise indicated, provided by a third party source independent of Hirtle Callaghan. Indices used for comparison are unmanaged and do not reflect transactional costs, management fees, or any other expenses generally associated with an investment account.

The copying or distributing of this presentation without the prior written consent of Hirtle, Callaghan & Co., LLC is expressly forbidden.

**HIRTLE
CALLAGHAN
& CO**

**Chief
Investment
Officers**

Investment Solutions for a Complex World

Garrett Wilson

Hirtle, Callaghan & Co.

Five Tower Bridge

300 Barr Harbor Drive, Suite 500

W. Conshohocken, PA 19428

(610) 943-4244 Office

(610) 420-1342 Cell

gwilson@hirtlecallaghan.com

Nick Fazzie, CFA

Hirtle, Callaghan & Co.

Five Tower Bridge

300 Barr Harbor Drive, Suite 500

W. Conshohocken, PA 19428

(610) 943-4184 Office

(856) 630-9034 Cell

nfazzie@hirtlecallaghan.com