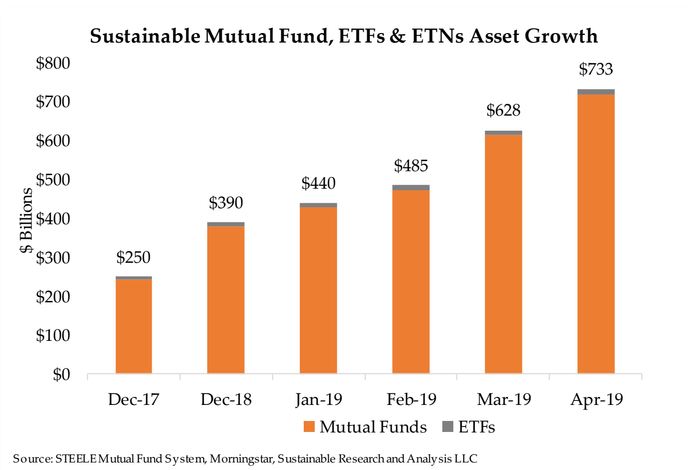
"You cannot get through a single day without having an impact on the world around you. What you do makes a difference, and you have to decide what kind of difference you want to make." – Jane Goodall

Second Quarter 2019 Insights

Like many of the people we cite at the start of our letters, Dr. Goodall's notoriety comes from a world far removed from the field of investing. In the early 1960's she became known for her groundbreaking work researching chimpanzees in Africa. Over time, her work and mission has not only focused on the well-being of chimpanzees but also the protection of other endangered species and protecting the environment.

Here we are almost 60 years later, and Dr. Goodall's missions and the world of investing are much more closely aligned than anyone could have imagined. Acronyms such as ESG (Environmental, Social and Governance) and SRI (Socially Responsible Investing) are used in the financial press as frequently as EPS (Earnings Per Share) and GDP. As the concepts of "doing good" and investing are merging, there is also an active debate of whether investment firms can meet investor demands for focusing on social issues in their investment policies while still fulfilling their fiduciary duties.



In this letter, we will discuss our thoughts on impact investing and how it has fit into our investment process since we first started working together in 2001. In short, we believe that "doing good" does not mean that an organization needs to sacrifice investment returns. As with all good things, it needs to be done in the right balance, which starts with a well-defined asset allocation strategy.

We will also provide a quick review of the second quarter's market performance and give our thoughts on the outlook for the second half of this year.

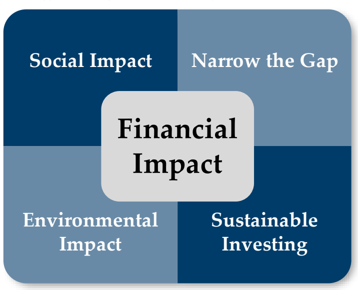
Impact Investing - Challenges & Landscape

Institutions face several challenges in the impact investing space, including defining their goals and deciding what percentage of their portfolio they want to commit to impact and/or ESG initiatives. As Dr. Goodall states, you must decide what type of impact you want to make. Do you want to factor impact and SRI into your entire portfolio or carve out an allocation focused on impact? If carbon emissions are a concern, you could exclude all fossil fuel investments or place a limit on the total exposure. One could also add investments in renewable energy to a portfolio to offset some of the fossil fuel exposure.

Another hurdle institutions face is figuring out what's real and what is not in the socially responsible investing universe. Large asset managers have seen their fees compress dramatically over the last several years as investors gravitated towards lower cost, passive strategies. As investors become increasingly enamored with making an impact in their portfolios, asset management firms are happy to create funds that appear to accomplish that goal. They view ESG as a golden opportunity to charge active management fees again. Unfortunately, ESG in the world of investments has become akin to the terms "organic" or "gluten free" when one visits the grocery store. Of course, you want your eggs produced by happy, healthy chickens roaming the fields, but how can you be sure that's the case? You need to visit the farm, which is essentially what we do when we evaluate strategies for our clients. Unfortunately, there are a lot of pretenders out there who view this mainly as a theme to boost assets under management.

SRI/Impact Investing In Practice

Goal Setting: The definition of "doing good" often lies in the eyes of the beholder. For any new client, the first thing we do is meet with them to understand their mission and how it should be reflected in their investment policy statement. Does the institution have an environmental focus or social initiative aimed at addressing inequities? Many institutions we meet with have an interest in "narrowing the gap" of income inequality through education, affordable housing and access to healthcare. We are also seeing increased interest in allocating capital to women and minority owned firms, which is perhaps the easiest criteria to define.



Manager & Strategy Selection: For us, this is where the rubber meets the road and we leverage our 20+ years' experience researching managers across the globe. We have an extensive database of managers that we use to populate client portfolios. This includes strategies in both the public and private markets. Quite often, some of the most impactful managers and strategies are not labeled as such. We have investments with private equity firms who own companies that provide job training which allows people with high school degrees to secure jobs in the healthcare sector. There are also strategies focused on financing education, affordable housing and healthcare within underserved communities. Several strategies offer returns in line with or better than traditional strategies.

We also have a rich history of allocating capital to diverse emerging managers (MWVBE). Many of our client portfolios have significant exposure to these firms with and without stated mandates. This is very much a function of the investment process we have followed back to our early days as a team investing for the endowment at Emory University. We tend to avoid asset gatherers when we are seeking firms for actively managed strategies. These are often multi-billion-dollar firms where the focus appears to be mostly on gathering assets to boost the compensation pool versus smaller firms focused on delivering strong returns consistently for their clients. These smaller firms also usually have owners with a significant portion of their personal wealth invested in their businesses, which closely aligns them with the interests of their clients.

Thus, we tend to focus on managers with smaller pools of capital, sometimes known as "emerging managers." Not surprisingly, a number of firms with diverse ownership fall into this category. Several firms in our current portfolios are now established managers that we initially allocated to many years ago when they were much smaller.

Socially Responsible Investing & Fiduciary Duty

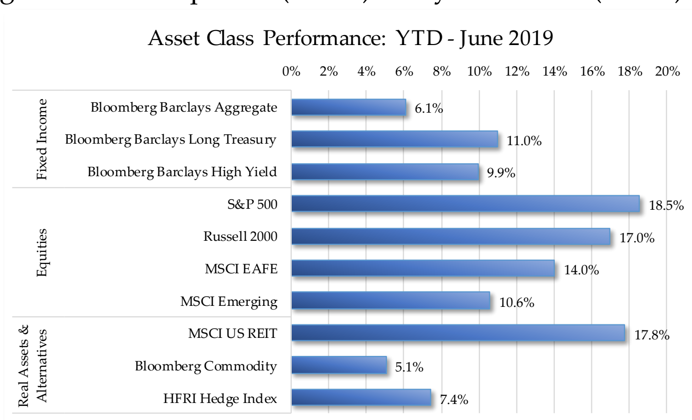
This is a topic which could consume many more pages, but here is our attempt to discuss this topic at a very high level and give some of our thoughts on this fairly controversial issue. The debate often centers on if it is justified to accept lower returns in place of doing social good or having positive impact. While some strategies do accept lower returns for positive impact, we do not believe you have to sacrifice returns while meeting your SRI and/or impact goals.

Within the definition of fiduciary duty is what is known as the "prudent person" rule. Taken together, a person or firm with fiduciary duty and discretion over a client's assets must act in the client's best interest and only expose the account to risks that a person of "reasonable intelligence" would consider. The investment industry has devoted hours of research to whether impact investing or the consideration of ESG has a positive impact on performance. Much of this work has been performed on specific strategies and not broadly allocated portfolios such as the ones that we manage for our clients.

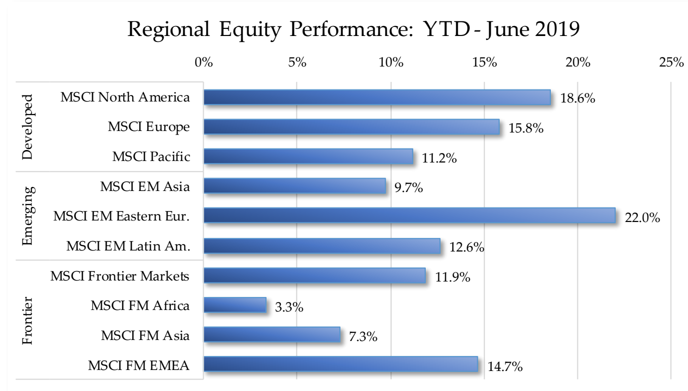
The research we have reviewed states that impact and/or socially responsible investing, at the least, does no harm. The same goes for allocating capital to diverse firms and private market impact strategies. For us, the performance must be there, and many have shown the ability to do that when given the opportunity.

Market Update

Thanks to optimism about stimulus from global central banks, most risk assets and safe haven assets posted gains for the second quarter and the first half of 2019. Fixed income markets have been expecting Fed and ECB rate cuts, which is supportive of developed market government bonds. Long term treasuries were the best performing sector this quarter, rising 6.0%, and are up 11.0% year-to-date. The Barclays Aggregate index also gained for the quarter (+3.1%) and year-to-date (+6.1%).



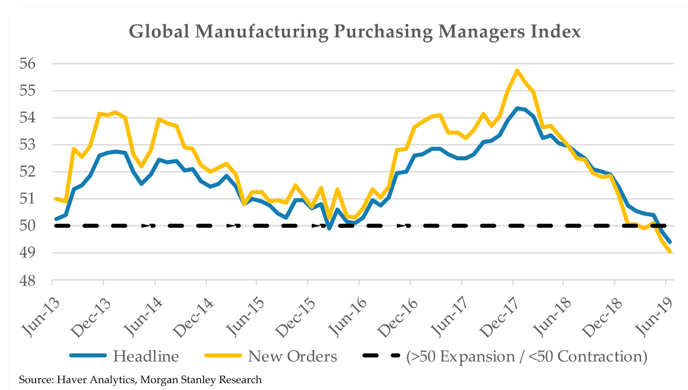
After a setback in May, domestic equities rebounded in June. For the quarter, the S&P 500 rose 4.3% and is up 18.5% year-to-date. Large cap stocks outperformed small cap stocks as the Russell 2000 gained 2.1% for the quarter and 17.0% year-to-date. International developed markets outperformed emerging markets for both the quarter (+3.7% vs +0.6%) and year-to-date (14.0% vs 10.6%). Real estate also benefitted from expectations that rates will remain low as the MSCI REIT index gained 1.3% for the quarter and 17.8% year-to-date. The only major asset class to struggle this quarter was commodities, which lost -1.2%, driven by weakness in energy, industrial metals and livestock.



Outlook: Thoughts on the Second Half of 2019

With global equity indices up anywhere from 10-18% year-to-date and fixed income indices up in the high single digits, we are asking ourselves how much longer this Goldilocks type environment can continue. Expectations for rate cuts from both the Fed and the ECB are priced into the markets. There also is a fair amount of optimism that the US and China will continue to creep towards a solution in their long-standing trade dispute.

When we look at the trend in Global Purchasing Managers Indices, we can see why central banks are considering adding monetary stimulus. Again!



The US is holding up well, but the trend here is the same as in other developed and many emerging markets. Trade is negatively impacting all markets and Europe also remains handcuffed by a continued post-crisis commitment to austerity over growth. Inflexible labor policies also continue keep a lid on the Euro area. Neither of these signs appear to be abating anytime soon. We expect that portion of the market will continue to be a laggard.

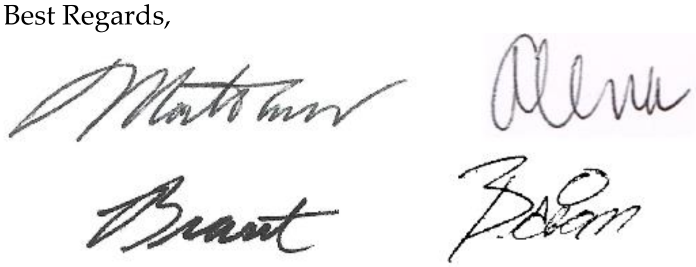
Given the rally and stretched valuations, we did trim some risk to get our portfolios closer to home late in the quarter. This puts us in a strong position to capitalize on dislocations that are likely to occur as central bankers change the direction of monetary policy and prepare for a passing of the baton in Europe from Mario Draghi to Christine Lagarde.

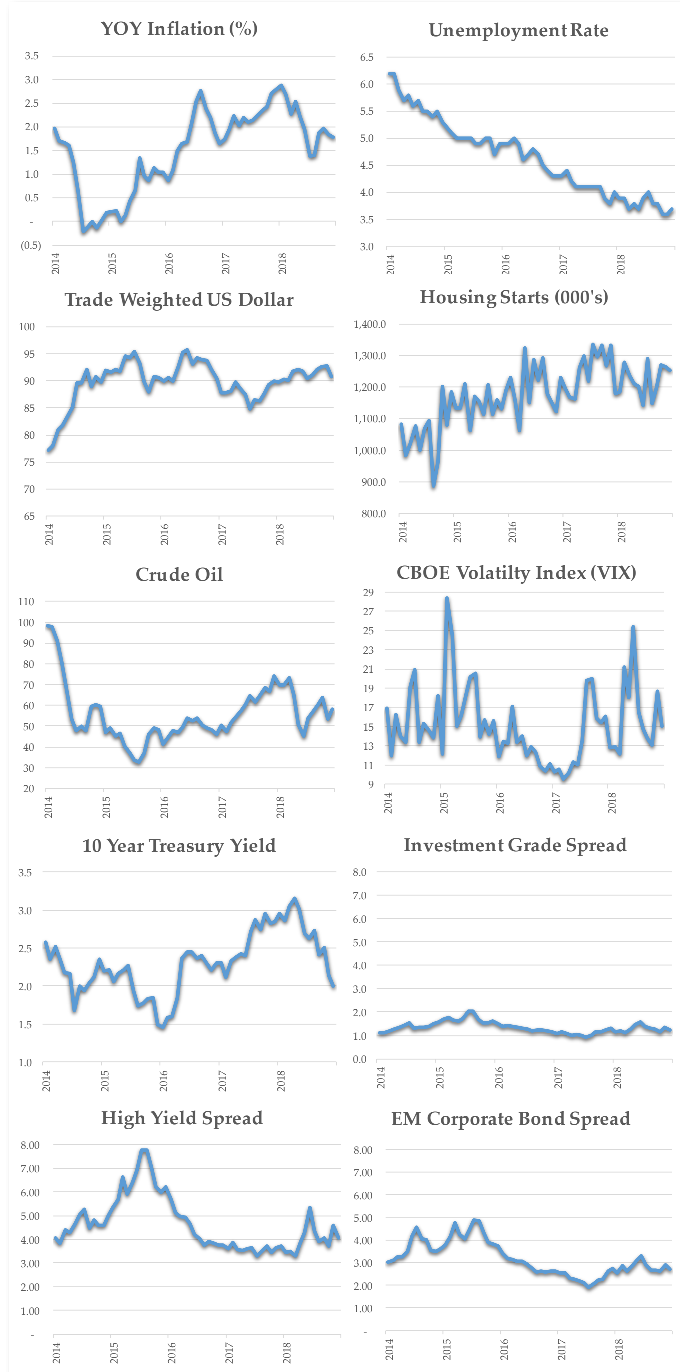
Firm Update

While the rally in the second quarter was not as robust as the first, we are pleased that our clients' long-term portfolios have kept pace with the global rally in risk assets. Our cash plus strategy is also on track to post solid mid-single digit returns over the course of 2019.

We are also appreciative that the normally slow summer months have been very productive in planting seeds for our business development pipeline. We specifically appreciate the time spent with several OCIO search firms. This is a growing sector in our market and many of the independent firms we meet provide a valuable service to non-profits in helping them navigate the landscape when selecting an OCIO firm that best suits their needs. We look forward to enhancing these relationships in the months and years to come as our business continues to grow.

Best Regards,





* Sources: BofA Merrill Lynch; US Departments of Labor, Commerce & Energy; CBOE; Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System