

MEMORANDUM

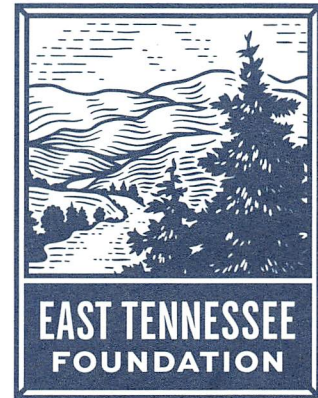
From: Mike McClamroch

MTM

To: East Tennessee Foundation Fundholders

Date: February 6, 2019

RE: 2018 Investment Performance



If you have been following the financial news or reviewing statements from your personal investments, you already know that 2018 was a challenging year for investors. Let me take a moment to talk about endowment investing, and how it may differ from your personal investing approach. Because East Tennessee Foundation expects to benefit our service area in perpetuity, the goal of our investment policies is to maintain or increase the real value of endowment principal and our distributions over the long-term while funding current needs at an appropriate level. The investment portfolio is very broadly diversified across many asset classes and includes significant allocations to both U.S. and global equities. Over the very long term, this allocation is consistent with our Foundation's investment goals. With our long-term view in mind, we need to remember that periods of downturns are part of the overall market cycle.

Here are just a few painful reminders about last year's stock market results:

- In Q4 2018, the S&P 500 plummeted 13.97%, while the Dow Jones Industrial Average dropped 11.8%, their worst results since 2011. The Nasdaq plunged 17.5% for the quarter, its biggest quarterly drop since 2008.
- December was the worst month of a volatile year. The Dow and S&P reported their worst December performance since 1931 and their largest monthly losses since early 2009.
- 2018 was the first time the S&P 500 posted a year-end loss in a year where it was rising in all of the first three quarters.

East Tennessee Foundation's long-term commingled investment fund was, I am sorry to report, not immune to this poor performance. For 2018, the fund was down 7.1%. However, our annualized return since the inception of the fund in early 1987 remains strong, at 7.5%. One bright spot in 2018 was that, in the very turbulent fourth quarter, our losses were approximately half those of U.S. equities markets. A complete investment report for Q4 is available on our fundholder portal.

Wise stewardship of the assets entrusted to our Foundation is central to our mission. Our long-term approach means that typically, in a prolonged up market, our overall returns will be more modest than the best-performing asset classes, and in a prolonged down market, our losses will also be more modest than the market overall.

Our volunteer investment committee of highly experienced local investment professionals continues to monitor closely the allocation and performance of the Foundation's investment portfolio and remains in frequent communication with our investment managers. Upon review, our committee believes that our current asset allocation and selection of investment vehicles are appropriate for ETF's long-term success.

In September of 2018, representatives from The Investment Fund for Foundations (TIFF), our primary investment manager, visited Knoxville to talk with our fundholders in person. I hope you were able to attend. If it would be helpful to you, members of our ETF staff and I would be happy to meet with you or your organization to talk more about our investment approach.

We thank you for your continued support of and confidence in East Tennessee Foundation. We are proud to be your partner in philanthropy.

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