The Committee Foundation Meeting Summary
2018.08.03_Investment
August 3, 2018

Attendees:

1. Cooper Johnson – The Committee Foundation
2. Gabriel Garcia - Wiley Wealth Management; New committee member
3. Mark Alexander – Chief Investment Officer of Kovak
4. Hellen Keller – Keller Electric, retired
5. Raymond Bush – Price Consulting
6. Luke Cade – Bank of Pennsylvania
7. Bruce Wane – Daily Bugle
8. Jonathan Wick – Wick Hotels
9. Jessica Jones – The Committee Foundation, Finance
10. Steve Rogers

Agenda:

I. To make a decision on whether to redeem Lone Pine or Lone Jupiter at the end of the year.
II. Performance Report

Meeting Summary:

- Richard phoned-in for the meeting.
- Mike led the subject of Lone Juniper and gave a quick summary on the subject of Continental Capitals at their last meeting.
    - Steve Rogers, founder of Continental Capitals stepped down.
    - The foundation was offered the opportunity to get out before year-end because of the personnel change.
    - Concern that the person taking over Steve's role would have a different approach or ideas regarding the business.
- Next meeting will determine whether or not to keep Continental Capitals.
    - Replace with another fund-of-funds.
    - Replace with direct hedge fund managers.
    - They get only one chance every year to redeem funds, otherwise they would have to wait for the following year to discuss it again.
- History:
    - 10% hedge fund portfolio = 70% equities, 20% bonds, 10% alternatives.
    - There was a decision to reduce bond percentage from 30% to 20% four years ago.
    - Hedge funds were used as a bond substitute in the portfolio.
    - Most committee members did not pick hedge funds, and went for three fund-of-funds:

        - Lone Juniper, Wellington – Archipelago Fund, and Drake Capital
    - At the first quarter of this year, Drake Capital was redeemed, and decision to fund two direct managers was made.
        - Canyon Capital, Hengistbury Partners
    - Current portfolio: Lone Juniper, Wellington – Archipelago Fund, Hengistbury Partners, and Canyon Capital.
- They feel like with the recent addition of two hedge funds, adding another two hedge funds seems a little rushed and unnecessary.
- There is a risk of changing for another fund-of-funds.
- Steve Mendel was more important to Continental Capitals's hedge fund than the fund-of-funds.
- Steve's departure is not a disaster.
- Mike would go for all-direct as opposed to the fund-of-funds industry if they had $35 million because of underlying issues.
- Mike states that the if they leave Continental Capitals, they would have to make another decision on where to put the fund.
- They could put the money in Archipelago but it has a one-year soft-lock.
    - Pros:
        - It takes of all the pressure points.
        - It will be easier to do in stages because of the Wellington Liquidity profile.
    - Cons:
        - A lot of capital will be in Wellington's hands – adding an incremental equity risk to the portfolio.
        - Might negatively characterize Lone Juniper or Lone Pine.
- Why fund-of-funds?
    - To not have a disaster occur in the portfolio.
    - The fund still paid off even though it was diversified to death versus fixed income.
- Is it prudent to go away from the fund-of-fund strategy?
    - Yes. They can pick individual managers.
    - Adds value because they can be more defensive, less fees, and it's dilutional.
- How much money?
    - Approx. $200 million
    - It was created to invest the money outside of Lone Pine's own funds and let others come in and make a little money.
    - Little concern because it's more stable.
- New girl was not on the investment committee on the Lone Juniper.
- A third alternative is to not buy anything
- Mike doesn't like the idea of making decisions that they are not thrilled about because if it would be unpleasant if something unexpected would happen.

- Bruce is indifferent – wants to review if 10% is the right number in terms of where they want to be in terms of hedge funds.
- Richard asks when they would have the funds available if they pulled the plug on Lone Juniper – Late January – early February.
- They would have at least two regular meetings until then to figure out what they are going to do with the money.
- Same discussion occurred when they had Drake Capital.
- Is the investment policy statement flexible enough to allow an increased allocation to the bonds?
    - Hope that the policy allows to park the money while they make a responsible decision, but if the policy doesn't allow it, that's a problem.
- Jennifer asked about the short term bonds on rising interest rate environments
    - Will have a price dip that shows a negative but will gain more yield after
    - With a current flat yield curve, yield will roughly be the same as a long term bond
- Is the investment policy statement flexible enough to allow an increased allocation to the bonds?
    - Hopefully the policy allows that they are just parking money while they make a responsible decision, but it will be a problem if the policy does not allow it.
    - 1% change in interest rates yields a 1% loss in a one-year duration fund.
    - Will have a 3% after that, so they would catch up in four months
    - Reasons why people lose money in short term bonds:
        - Owning speculative credit
        - Pre-priced service
    - Will also be discussed in the next meeting.
- Jennifer is inclined to stay with the fund-of-funds. The portfolio may be better served by the fund-of-funds in an untested environment.
- Richard doesn't want to take a vote on something that is not going to pass. He deferred to room because he doesn't want to cause an issue for not being there.
- Tom will repeat the motion.
- Bruce asked how many managers would represent real diversification?
    - Addition of one or two more, assuming they will keep Wellington in the portfolio.
- Mike tells that they don't need 10 managers.
- Disadvantage of 10 managers:
    - It would not matter to the overall portfolio if they have a 10% allocation with 10 managers.
- Motion: To redeem from Lone Juniper, 100% at yearend?
    - Approved: 4
    - Opposed: 2
    - Abstain: 1
- Most of the group agree that it is healthy to have a split decision.

- Performance report - disappointing quarter
- Value is in the bottom 1% of its long terms return vs growth.
- Things that are not working in the portfolio are a combination of:
  - traditional value managers who are struggling
  - people who actually do loans and growth stocks, like HS, but don't own FANGs
- They are still just shy of top quartile for the one-year period despite a disappointing year.
- Pretty exceptional outcomes for the longer term periods
- July was a good month; portfolio will be up a couple percent.
- A pretty good chunk of underperformance is from non-US strategies.
- Manning had a very good year, but they are the FANG manager, so they underperformed by 1% on July.
- Growth manager, HS, is having a miserable but not doing stupid things.
- Small cap is an area will a little bit of underperformance.
- Non-US funds is the worst performing.
- Emerging markets has been a drag in terms of absolute returns but has been pretty good relatively speaking.
- Fixed income did not perform very well.
- Hedge fund portfolio is the best performing asset class.

Others:

- Question for next meeting: "Do we sell Lone Juniper?"

Next Meeting Date: Not specified