INVESTMENT UPDATE: COLEMAN FOUNDATION March 1, 2017

To: Michael W. Hennessy (MH), Esther Barron (EB), & R. Michael Furlong (MF)

From: Daniel B. Wanzenberg (DW) & Trevor C. Davies (TD)

Re: **Investment Update as of December 31, 2016**

Allocation and Performance *(please see the asset allocation spreadsheet **as of February 10, 2017**, which is at the end of this report)*

All three major US equity indices were up in December, capping off positive fourth quarter and annual returns. The Dow Jones Industrial Average led the way, gaining 3.4 %, 8.7%, and 16.5% for the month, quarter, and year, respectively. The S&P 500 Index had lower but strong returns of 2.0%, 3.8%, and 12.0% for the same time frames, while the Nasdaq notched lower gains of 1.2%, 1.7%, and 8.9% for the periods. Towards the end of the year, for the second year in a row, the Federal Reserve raised interest rates in December. This action, combined with forecasts for three rate hikes in 2017, signaled the Federal Open Market Committee's belief that the economy is strong enough to withstand a gradual normalization of interest rates. As the markets head into 2017, there is a great deal of political and economic uncertainty domestically. The election of Donald J. Trump and a Republican Congress has catalyzed stock market outperformance, as investors anticipate reductions in corporate tax levels and the deregulation of many industries. But against this backdrop is the potential for the renegotiation of trade relationships, which could have dramatic impacts on US corporations and the broader economy as a whole.

During 2016, the International political and economic environment changed markedly, in which the Brexit vote, the Italian constitutional referendum and the anticipation of major elections in 2017 (Germany and France) all point to a global environment that is increasingly rejecting globalization and growing more nationalistic and protectionist. The performance in International markets was mixed in 2016, as the MSCI EAFE Index was up 3.4% in December but was down 0.7% for the quarter and only posted a modest 1.0% gain for the year. The MSCI Emerging Markets Index rose slightly in December, 0.3%, though it was down 4.1% for the quarter despite returning a robust 11.6% for the year. In Europe, the emerging Italian banking crisis is placing increasing pressure on the European Union; in Asia, as China's economy slows, questions about its ability to reform its economy to be more consumption oriented are becoming more urgent.

Despite uncertainly surrounding markets, there are reasons to be positive for active equity management in 2017. First, flows into equities continue to rise versus fixed income markets, as the expectation of additional interest rate increases are anticipated. Second, an increase in volatility amongst and within sections of the market as defined by style (Growth versus Value) and sector are also likely to continue. Additionally, within sections of the market the discrepancy between winning and losing companies (stocks) is becoming more apparent – we believe these trends will continue throughout 2017.

CFI Equity: (Current 72.0% vs. Target 70.0%)

***CFI US Public Equity (*review manager commentaries and additional attachments performance attribution)**

(+/-) Dana: *Large Cap* - outperformed the S&P 500 index (4.51% vs. 3.82%) for the fourth quarter.

Small Cap **-** underperformed the Russell 2000 index (8.49% vs. 8.72%) for the fourth quarter.

(=) In-House Equities: CFI currently owns 19 stocks in the In-House account; The best performing stocks in this group were Goldman Sachs group (+49%), Wells Fargo (+25%) and Snap-On Inc. (+13%). The worst performing stocks was Centene (-15%) and Amazon (-10%) in the 4th Quarter. The combined return for our in-house equities in the 4th quarter, 2016 was +3.30% vs. S&P 500 +3.85%. For the Full Year return was 10.42% vs. S&P 500 11.96%.

(-) Pinnacle Associates: Pinnacle underperformed the Russell 2500 index (3.28% vs. 6.00%) during the quarter.

(-) Fuller & Thaler (F&T): The F&T Micro-cap portfolio underperformed the Russell Microcap index (5.26% vs. 10.05%) for the quarter.

CFI International Equity:

(+) Oakmark Global Select: The Oakmark Global Select outperformed the MSCI EAFE index (7.43% vs. -0.71%) for the quarter. It should be noted that this portfolio is Global – meaning it has approximately half of its asets in the US, which dramatically outperformed the international market during the quarter. The portfolio ended the quarter with 45% European exposure, 5% Japanese, 5% South Korean and 45% in North America.

(-) WCM Focused Growth: WCM Focused Growth underperformed the MSCI EAFE index (-6.69% vs. 6.43%) for the quarter.

CFI Private Equity

CFI now is invested in five funds managed by two different firms (Portfolio Advisors and Brickman) in the Private Equity space.

Portfolio Advisors: CFI started investing in these Funds in 2007 and 2008. All three Funds will no longer make any major new investments and any remaining commitments will be used as a reserve for existing investments and netted against distributions from each fund as needed. All of these Funds are in the process of liquidation of their Investments and returning the proceeds

to Investors. The following is the current recap of CFI's 12-31-16 Estimated Market Values (MV) of each Commitment and Proceeds Returned to CFI for the Year 2016:

Equity Fund IV 12-31-16 MV $2,671,713 with 2016 Distributions of $1,358,309.

Equity Fund V 12-31-16 MV $2,458,045 with 2016 Distributions of $507,120.

Secondary Fund 12-31-16 MV $1,151,160 with 2016 Distributions of $556,120.

Total Distributions for the Year 2016 from PA was $2,421,549, Down from the Year 2015 of $3,004,597 or -19.41%. 2016 Distributions plus 2016 Year End MV compared to 2015 MV the Funds were Down 1% in 2016. For Both Fund IV and the Secondary Fund have returned all of the original investment made in 2016. Total MV PA Funds at 12-31-16 is $6,280,918.

Brickman Real Estate LP (Brickman Fund V and Fund VI) Fund V during the Year 2016, called $0 for new investments, and returned Capital of $3,069,615 from the sale of several buildings. Current Estimated MV of Fund V at 12-31-16 is $1,536,420. Fund V will no longer make any major investments in Buildings, only improvements to currently owned Buildings. Fund V is also in the process of liquidation of their Buildings over the next several years which will affect the Overall Performance of this Fund. On July 2, 2014 CFI committed $5 Million to Brickman's Fund V and through 12-31-16 had Five Capital Calls totaling $3,095,238. To Date – Fund VI has closed on seven properties for about $90MM in equity. **Estimated** MV of Fund VI at 12-31-16 is $5,964,077. On 11-02-16 Fund VI made a distribution of $584,416 for a sale on Cambridge, MA.

Hillcrest Credit and Income Fund II, LP: CFI has committed $5 million to this (Brickman) Fund, initial closing 7-28-16, which will target a market segment in subordinate debt and preferred equity in high quality real estate assets in top U.S. metropolitan markets. CFI is considering this to be a Fixed Income Investment with the first capital call toward the middle of 2017.

CFI Fixed Income: (Current 26.8% vs. Target 29%)

We are a target weight to fixed income.

(=) Wasmer Schroeder (WS) Traditional: WS performed in-line with the Barclays Agg. 3-5 yr. index (-1.86% vs. -1.68%) for the quarter.

(=) Wasmer Schroeder CMBS: The CMBS account returned 0.34% for the fourth quarter, beating the Barclays 1-3.5 Year CMBS AAA Index, gross of fees. For the year, the account has returned 2.21% and met its expected annual return of +/- 2.5%.

(+) **Goldman Sachs Broad Street Realty Fund:** Dust is settling on Investments made with the Fund, Fourth Quarter, 2016 distribution annualized was over 8.15%. For All of 2016 8.1%.

(+) **Goldman Sachs Multi-Manager Alternative – Mutual Fund**: The GS portfolio outperformed the IQ Hedge Multi-Strategy Index (1.38% vs. -2.32%) for the quarter.

(+) Lord Abbett Short Duration Funds – Holder of cash until Capital Calls on investments. 2016 Official Net 3.62%.

Potential Investment changes 2017 (for discussion):

Sell OAKMARK GLOBAL (Approx. $11M)

- $7M SSgA International Hedged (.45 bps all-in): rational is cost savings, and to have a percentage of our international exposure hedged against the US dollar.
- $3M JOHCM (ticker JOHIX) – concentrated International Value Manager, all in expense ratio of 1.57 – pretty much same pricing as OAMARK fund
- $1M additional to WCM International Focused Growth
- These overall moves should cut our expense ratio on the $11M just about in half.

Sell (let roll down) CMBS position (Approx. $3M)

- $3M to GS Short duration High-Yield Fixed Income separate account + $2M additional from Lord Abbott short duration – total investment **$5M into High Yield**. Remain in a separate account as opposed to a comingled fund.

Sell Pinnacle Associates SMID (Approximately $3.5M)

- $2M to Dana SMID
- $1M to Fuller & Thaler Micro Cap
- $500K additional investment into Wells Fargo stock in the In-house account

With any rebalancing needed due to an increase in our overall Equity exposure throughout the course of 2017 it should be anticipated that the rebalance will occur between either equity managers that have run or out of the In-house equities, with the proceeds either being placed into the Lord Abbott short duration or the High Yield separate account depending on the general outlook and risk appetite. I still believe that the co-mingled nature of the Lord Abbott account poses a small risk and could be better managed as an ultra-short, high credit, separate account at a like fee. This would take us away from any problems that may occur based on liquidations that we would not wish to be forced to participate with.

Daniel B. Wanzenberg

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Trevor C. Davies

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Dana Investment Advisors

(please see attached piece from Dana)

Pinnacle Associates

Market Commentary

A long-standing tradition on Wall Street is the year-end forecast. Every year in December, investment strategists and portfolio managers discuss the results of the year that just ended and predict what will happen in the new year. A recently popular device is "10 predictions (or surprises) for the upcoming year."

2016 was an especially difficult year for these reports. Looking back to December of 2015, few people predicted that Donald Trump would be the Republican nominee and then would be elected president. Britain's vote to leave the European Union (Brexit) was another big surprise, as well as computer hacking by the Russians, the defeat of reform proposals in Italy, and most important, the World Series victory by the Chicago Cubs who had not won the title since 1908. In the financial markets, stocks plunged in January, rallied in the spring and summer and, again confounding expectations, rose to record levels after Trump was elected. For the full year, the S&P 500 total return was 11.9%, the NASDAQ 9.0% and the Russell 2000 small cap index rose 21.3%.

The bond market was very volatile as well. At the end of 2015, 10-Year Treasury yields were 2.27%. Following a deflation scare in the spring, the yield fell to a record low of 1.47% on June 30. Following Trump's election and better economic growth in the second half of 2016, the yield ended the year at 2.45% resulting in a total return of less than 1%. During the year, however, some sovereign debt issues in Europe, Germany and Japan traded at yields below zero. This anomaly was caused by a frantic flight to safety and a fear that deflationary conditions in the worldwide economy would lead to even lower (i.e. more negative) interest rates.

Since the U.S. elections, the Federal Reserve Board raised interest rates by 0.25% for the second time in a year. This represented three fewer increases than was expected a year ago. However, economic growth seems to be picking up slightly with diminishing concerns about deflation. Paradoxically, consumer and business measures of future confidence in the economy have picked up since Trump was elected. Our economy appears to be entering a period of reflation where deflationary forces are in retreat but fears of excess inflation have not yet surfaced. Leading economic indicators have turned higher and falling unemployment here and in major economies abroad, is boosting confidence fueling a cycle of rising spending and hopefully a further decline in joblessness. Generally, interest rates are expected to rise in 2017 based on projected growth in the economy of 3.0% and higher inflation rates.

In the commodity markets, oil rose 20% and gold 8%. Most commodities fell earlier in the year, but also recovered after the election based on reflationary expectations.

In 2016, active managers had a tough time outperforming the indexes. Investors' cash flows continued to move away from active to passive management. According to *Bloomberg News*, active equity mutual funds had outflows of $286 billion in 2016; meanwhile, passive and exchange traded funds had inflows of $428 billion. At Pinnacle, we also lagged the indexes primarily due to our overweighted positions in media and biotechnology. While these

groups underperformed in 2016 for mostly political reasons, we are optimistic about their prospects in 2017 and have selectively added to our holdings in both groups.

As to what will happen in 2017, the late, great baseball player Yogi Berra reportedly once said "Making predictions is hard, especially about the future." The world is very uncertain with terrorism, cracks in the European community, renewed Russian and Chinese imperialism and a new, inexperienced U.S. president who is unlike any leader we have had before. Investing is, by definition, characterized by uncertainty. It is greater today than usual, but we will continue to invest our client's funds as we have for over 30 years: balancing risk and opportunity in the best interest of our clients.

Small/Mid Cap Growth – Strategy Commentary

Strengths

1. Health Care
2. Telecom Services
3. Energy

Weaknesses

1. Industrials
2. Information Technology

The Russell 2500 Growth Index returned +2.60%* in the fourth quarter and the Small/Mid Cap portfolio outperformed with a total return of +3.28%.

The portfolio outperformed the Russell 2500 Growth Index primarily due to strong stock selection in the Healthcare, Telecom and Energy sectors. Healthcare was the top contributor despite the fact that this sector was a notable laggard relative to the overall market. Healthcare stocks in the Russell 2500 Growth Index were -6.54%* relative to the total index return of +2.60%* as uncertainty persisted regarding potential government influence on drug pricing. Better stock selection resulted in a negative return of less than 1% for the portfolio's Healthcare holdings. Leading the way was Ionis Pharmaceuticals, which rose 30% after the company and its partner Biogen Inc. announced that its new therapy for spinal muscular atrophy (SMA) gained FDA approval some six months earlier than market expectations. The drug was also granted a broad label, where it will be available to all SMA patients. Array Biopharmaceuticals advanced 30% as well following FDA approval of its new drug for melanoma. Lastly Progenics Pharmaceuticals rose 36% after it gained FDA approval for its new oral drug Relistor for opioid induced constipation. The company also released a positive update for its second most advanced program targeting prostate cancer. In Telecom, local and long haul fiber optic network operator Level 3 agreed to be acquired by CenturyLink for cash and stock valued at $66.50 per share at the time of the announcement (LVLT stock had rallied to $56 per share prior to the deal). Satellite communications provider Iridium Communications outperformed on solid earnings results and news that the launch of the first 10 satellites for its new constellation was rescheduled for early in 2017. Wireless telecom provider U.S. Cellular also outperformed as some believe further consolidation in the U.S. wireless industry could take place under a Trump administration. In Energy, uranium miner Cameco Corp. rebounded from low levels after reporting its third quarter with guidance that soothed investors. Cameco's long term contracts have blunted the impact from lower near term spot uranium prices. Oil service firms Rowan Companies and Helmerich & Payne rose strongly on the heels of OPEC's agreement to cut production in an attempt to raise prices. While exploration & production companies outperformed prior to

Q4 on expectations of an OPEC cut, energy service firms led the way in the fourth quarter after the cut was announced. Rowan also benefitted from renewal of its service agreement with Saudi Aramco.

Partially offsetting the positive sector performance noted above were poor showings in the Industrials and Technology sectors. In Industrials, railroad operator Kansas City Southern fell after Trump's win, as the railroad operates within Mexico and represents the main rail link between the U.S. and its southern neighbor. Trump's comments on trade and his open disdain for relocations of manufacturing to Mexico are seen as a threat to KSU's growth. Ford recently cancelled plans for a new plant in Mexico, fueling these fears. However, when one delves deeper into the details, Ford's decision to cancel the plant likely had more to do with changes in the U.S. auto industry rather than political pressure. Due to low oil prices, sales of larger cars and SUVs have surged while small car demand has fallen sharply. The Mexican plant involved in the Ford announcement would have produced small compact vehicles. Significant auto manufacturing from American and foreign companies has already moved to Mexico, so much of KSU's auto related growth is set in place. Additionally, Mexico is deregulating its energy industry which should lead to accelerating domestic production of oil, much of which will be transported by rail. Since Trump's victory the Mexican peso has fallen in value considerably, leading to a surge in local gasoline prices. This should only work to accelerate the need for increased domestic oil production. In Technology, positions in consumer product companies Fitbit and GoPro fell sharply after disappointing holiday sales results. We initiated

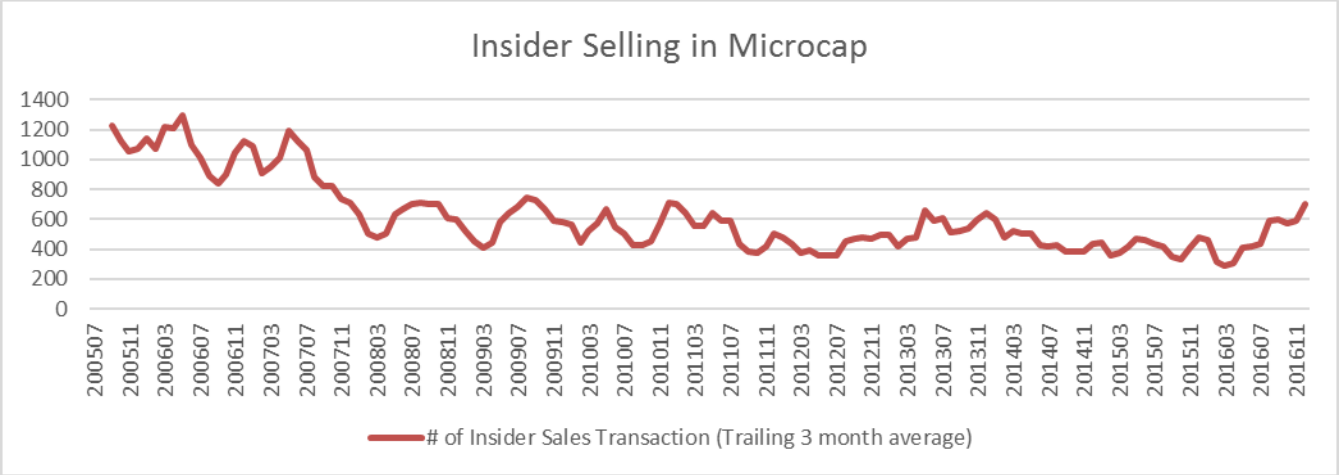
positions in both companies after the stocks had fallen significantly, while each were introducing new products in advance of the 2016 holiday selling season. As it turned out, our expectations for improved sales trends from these new products failed to materialize. Ambarella Inc., a supplier of advanced video compression and camera technology, also fell as the company is a supplier to GoPro. A far larger proportion of the Ambarella's sales come from security cameras, and the company's subsequent quarterly report was solid despite the GoPro disappointment.

During the quarter we initiated a new position in biotechnology company Kite Pharmaceuticals, a leader in a novel approach to cancer called CART (Chimeric Antigen Receptor T cell Therapy), which strives to activate the body's own T cells to attack and kill cancer cells. Kite's pipeline has shown promising results for patients with end stage disease. We also increased our weightings in CyrusOne Inc., EW Scripps Co., Medicines Co., and TEGNA Inc. We exited Gannett Co. Inc., after the company failed to acquire Tribune Publishing. We also reduced our weighting in Valspar Corp. (subject to a takeover by Sherwin Williams) and Cummins Inc. The portfolio received cash and shares of Lions Gate Entertainment, after the company closed on its acquisition of portfolio holding Starz.

Fuller & Thaler

Corporate executives – CEOs, CFOs, CMOs, etc. – have better information about their companies than other investors. Several studies have shown these "insiders" use that information to their benefit when buying and selling their own stock. Aggregating that data across asset classes can be informative as well, particularly during times of extreme buying (mid/late 2008) and selling (mid-2005 to late-2007).

So far, as seen in the chart below, insiders within the Microcap space have not moved to a position of extreme bearish-ness despite the post-election market rally. Insider selling is up compared to early 2016, but not nearly to the degree seen prior to the Financial crisis a decade ago. The one exception is the Financials sector, where, according to one well-reputed data aggregator, insider selling in banks reach an all-time high during the quarter.



Source: Washington Insider

Fuller & Thaler Quarter Review

While the perceived benefit of a Trump presidency was great for absolute performance, it was a huge headwind for relative performance. The day before the election, the portfolio was 1.86% *ahead* of the benchmark for Q4. It finished 4.79% *behind* (on a gross-of-fee basis), returning 5.00% net-of-fees compared to 10.05% for the Russell Microcap Index.

The biggest reason? Financials – and banks in particular. The portfolio is consistently significantly underweight this area due to its illiquidity. Small-cap banks rallied approximately 30% during the quarter and the portfolio's underweight to Financials cost it ~ 3% of relative performance.

4Q-2016	Port Weight	Port Return	Port Contrib	Bm Weight	Bm Return	Bm Contrib	Alloc Effect	Select Effect	Total Attrib
Cash	0.53	0.00	0.00	0.00	0.00	0.00	-0.04	0.00	-0.04
Consumer Discretionary	19.07	-5.26	-1.40	13.15	11.36	1.49	0.11	-3.35	-3.24
Consumer Staples	6.20	12.65	0.86	1.96	9.11	0.18	-0.05	0.21	0.16
Energy	2.74	1.81	0.06	3.88	18.24	0.72	-0.10	-0.42	-0.52
Financials	3.08	-3.09	-0.09	24.99	24.75	6.02	-3.04	-0.84	-3.88
Health Care	13.98	7.98	0.90	19.67	-6.49	-1.50	1.00	1.86	2.86
Industrials	14.26	13.79	2.00	11.40	13.96	1.59	0.09	-0.19	-0.10
Information Technology	32.88	4.04	1.27	14.65	3.74	0.53	-1.14	0.22	-0.91
Materials	2.45	5.69	0.00	2.86	9.92	0.29	0.00	-0.23	-0.23
Real Estate	0.00	0.00	0.00	4.28	7.65	0.32	0.09	0.00	0.09
Telecomm Services	3.13	43.62	1.74	1.35	12.98	0.17	0.05	1.26	1.31
Utilities	1.68	1.21	0.01	1.53	16.82	0.25	0.02	-0.28	-0.25
Total	**100.00**		**5.35**	**100.00**		**10.01**	**-2.89**	**-1.77**	**-4.66**

Those well-informed insiders were a little early before the last Financial crisis, but they were right, as they frequently are when insider buying/selling reaches extreme levels. Here's hoping their current accuracy is largely confined to the Financials sector their selling suggests.

Wasmer Schroeder

Main Foundation Account

- The Coleman Foundation account outperformed its primary benchmark, gross of management fees, for the quarter. The account returned -2.01%% against -2.07% for the index. For the year, the account has returned 3.05% vs. 2.08% for the benchmark.
- Like the previous two quarters, the higher credit quality of the corporate bonds in the account versus the index detracted from performance. Credit spreads continued their move tighter after the 1st quarter and the higher "BBB" allocation in the benchmark (approximately 17% vs. 6%) led to better performance of the corporate sector in the index versus the portfolio. However, the overweight to corporate bonds by the portfolio (41% vs 33%) contributed to positive performance.
- The other component of outperformance came from the allocation to taxable municipal bonds in place of U.S. Treasury bonds. This sector continues to exhibit a strong credit profile while pricing at attractive spread levels.
- Duration management of the portfolio was neutral to the benchmark from both an overall standpoint and yield curve placement.
- Sector allocation at quarter end was 41% corporate bonds, 53% taxable municipal bonds and a small allocation to government-related (4%) and agency MBS bonds (1%). We anticipate maintaining these allocations for the foreseeable future, with the exception of letting the MBS securities pay down over time and reinvesting back into corporate bonds.

CMBS Foundation Account

- The CMBS account returned 0.34% for the fourth quarter, beating the Barclays 1-3.5 Year CMBS AAA Index, gross of fees. For the year, the account has returned 2.21%, in line with expectations.