INVESTMENT UPDATE: COLEMAN FOUNDATION November 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 September 30, 2017**

Allocation and Performance *(please see the asset allocation spreadsheet **as of October 31, 2017**, which is at the end of this report)*

US equity markets have had a relatively smooth journey so far, this year, with the 3rd Quarter continuing the trend. Those who thought it wise to "sell in May and go away" would have missed out on strong returns over the summer. During the steady positive returns this year, the biggest pullback that US equities have seen has been less than 3.0%. The S&P 500 index gained 4.5% for the quarter and is now up 14.2% YTD. Healthy U.S. stock market gains combined with low volatility, are being driven by the fact that companies are producing decent, if subdued, earnings growth combined with low expectations of any near-term risk of a recession. Consumer confidence remains buoyant and corporate spending has been rising. There is also renewed hope for some tax reform coming from Washington. Whether or not Washington can deliver any stimulus, either through corporate and personal tax reform or through increased infrastructure spending, the market will have to wait and see. Company earnings expectations for the end of 2018 are lower today than they were before the US election, yet remain positive. And it could be argued that a constructive backdrop, where market expectations for delivery of stimulus remain quite conservative, and having the markets rising and holding gains, fits into a "Goldilocks" framework.

It was a good quarter for global equity markets, with the economic data continuing to point to a healthy global economic expansion. Emerging markets lead the way, with the MSCI EM index up 7.7% in the 3rd quarter and is now up 23.9% YTD. The Japan TOPIX index gained 4.7% in Q3 and YTD is now up 12.5%. In Japan, there are now more jobs available per applicant than at any point since 1974. Japanese companies were driven by an acceleration in global growth, lifting exports to be up 18% year-on-year. Impressively, Japanese equities produced the results in the face of a weaker yen, which was flat against the dollar over the quarter. In the UK, the unemployment rate is the lowest since 1975 and Eurozone consumer confidence is at its highest since 2001. Despite the continued Brexit negotiations, the UK FTSE 100 gained 1.8% in Q3 and is up 6.6% YTD. In Europe, demand and economic activity has continued to improve, providing a positive backdrop for strong corporate profit growth as stronger sales drive margin expansion. We have seen a rebound in consumption as an improving labor market supports consumer confidence: for example, car sales in Spain and Italy have been bouncing back strongly. In response to the improved growth picture and lower deflation risks, ECB President Mario Draghi

has led markets to expect an announcement in October of a further reduction in the pace of QE purchases, the markets will wait and see if this proves to be the case.

CFI Equity: (Current 72.2% 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 (6.20% vs. 4.43%) for the third quarter.

Small Cap **-** performed in-line with the Russell 2000 index (5.19% vs. 5.57%) for the first quarter.

(+) In-House Equities: CFI at 10-31-17 owns 18 stocks in the In-House account; The best performing stocks in this group have been 3M and Amazon.

(+) **Pinnacle Associates:** Pinnacle outperformed the Russell 2500 index (6.85% vs. 4.63%) during the quarter.

(+) **Fuller & Thaler (F&T)**: The F&T Micro-cap portfolio outperformed the Russell Microcap index (12.73% vs. 6.65%) for the quarter.

CFI International Equity:

(-) **Oakmark Global Select:** The Oakmark Global Select underperformed the MSCI EAFE index (4.71% vs. 5.40%) for the quarter. This was mostly attributable to the strategy's exposure in the US vs. International only stocks – its "Global" nature. 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 outperformed the MSCI EAFE index (4.60% vs. 5.40%) for the quarter.

Since the last meeting CFI has initiated investments in the WCM International Value strategy and the Blackrock (passive) International strategy. At the same time, the foundation has terminated its investment in the Oakmark Global strategy.

CFI Private Equity:

(This Section update to be handed out at meeting.)

CFI Fixed Income: (Current 24.6% vs. Target 29%)

(=) Wasmer Schroeder (WS) Traditional: WS performed in-line with the Barclays Agg. 3-5 yr. index (0.77% vs. 0.58%) for the quarter.

(=) Wasmer Schroeder CMBS: The CMBS account returned 0.25% for the third quarter, performing in-line with the Barclays 1-3.5 Year CMBS AAA Index 0.29%, gross of fees. This strategy is being would down and redeployed into an expanded credit and security account to be managed by Wasmer.

(+) **Goldman Sachs Broad Street Realty Fund:** For the Third Quarter of 2017, yet annualized distributions are providing income at approximately 8% (income Return).

(+) **Lord Abbett Short Duration Funds –** Holder of cash until Capital Calls on investments. Current daily Yield 4%.

Open Items:

NONE

Daniel B. Wanzenberg

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Trevor C. Davies

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Dana Investment Advisors

Market Commentary:

Equities marched on with a solid S&P 500 Index return of +4.48% during Q3, marking the 17th positive return for the Index in the past 18 quarters. The markets showed brief concern in mid-August on news about North Korea and ongoing struggles from many retailers, but the S&P 500 Index recovered its modest losses before month end. Despite a temporary spike in August, the VIX (volatility index) remained near historic lows. From its inception in 1990 through the end of 2016, the VIX closed below 10 only 9 times. In the first 9 months of 2017, we have seen 24 closing values below 10. Yet beneath the surface, individual stocks are showing rising divergence. According to BlackRock, Inc., the dispersion of weekly individual stock returns is at the highest level since 2008. Large-cap stocks and growth stocks continued to be leaders, though smaller companies and value stocks encouragingly showed strength in September. On average, companies continued to deliver earnings ahead of expectations helping to raise S&P 500 Index operating earnings to an all-time high, up 18% in the past year alone.

Large Cap – Strategy Commentary

The Dana Large Cap Equity Strategy added meaningful return on top of a strong market and posted a total return of +6.20% during Q3 and +18.95% YTD versus +14.24% for the S&P 500 Index. As usual, individual stock selection drove relative performance. The Strategy held 11 positions that posted double-digit gains during the quarter. The Strategy continued to show better valuation metrics relative to the S&P 500 Index benchmark, a consistent trait of Dana's investment process. Growth metrics, both forward and trailing on earnings and sales, are universally above the benchmark. This combination of attractive value and growth metrics helps to ensure that the Dana Large Cap Equity Strategy is well positioned for a variety of possible market environments.

SMID Cap – Strategy Commentary

The Dana Small Cap Equity Strategy generated a solid positive return of +5.19%, slightly lagging the benchmark. Year-to-date the Strategy returned +8.13% versus +10.94% for the benchmark. The Strategy's holdings have consistently provided quarterly earnings surprises at a rate greater than the benchmark, an encouraging key metric of Dana's investment process. While August was another harsh month for value and quality factors, these factors improved in September as the prospects for tax reform expanded valuations across the board. The Dana Small Cap Equity Strategy remains positioned in companies generating higher earnings, cash flow and ROEs at a valuation discount versus benchmark peers. We are very pleased with the characteristics of the Strategy and remain optimistic that this disciplined investment process will produce solid risk-adjusted long-term results for investors.

Pinnacle Associates

Strengths

1. Information Technology

2. Health Care

Weaknesses

1. Consumer Discretionary

2. Telecommunication Services

3. Industrials

The Russell 2500 Growth Index returned +5.78%* in the third quarter and the Small/Mid Cap portfolio outperformed with a total return of +7.01%.

Portfolio outperformance was driven by strong returns in the Technology and Health Care sectors. In Technology, top holdings Lam Research, Cognex Corp. and Qorvo rose 31%, 30% and 12% respectively. Lam Research, a leading semiconductor capital equipment company, continues to enjoy healthy demand from the memory chip industry which is experiencing a strong pricing environment. Cognex Corp., a top factory automation product manufacturer, continues to benefit from strength from traditional end markets like Industrials and Autos while expanding into a significant new market - wireless handset production. Qorvo, a leading supplier of radio frequency (RF) technology to the wireless communications industry, is expected to continue to benefit from advances in wireless technology standards, which require more of the RF semiconductor content the company provides. Healthcare performance was propelled by extraordinary gains in several holdings. Kite Pharmaceuticals, which was due to gain FDA approval of a revolutionary new cancer treatment, agreed to be acquired by Gilead Sciences for $180 per share cash, resulting in a 73% advance in Kite shares for the quarter. Fibrogen soared 66% as this development stage company reported very promising phase 2 results for its experimental treatment for the lung disease idiosyncratic pulmonary fibrosis. Array Biopharma Inc. advanced 47% after the company released updated trial data on its drug for melanoma and colorectal cancer (CRC). The data increased confidence that Array will gain FDA approval for the melanoma indication (expected by mid-2018) and may very well have a second indication to expand into in CRC. Myriad Genetics, a leading provider of diagnostic tests for hereditary diseases such as breast cancer, rose 40% after renewing an insurance coverage agreement with United Healthcare while providing revenue guidance that relieved fears of detrimental price pressure. Myriad has made several acquisitions in recent years which have broadened the product line and the company seems to be gaining traction in terms of growth of new products outside of breast cancer. Finally, Sarepta Therapeutics increased 34% after the company reported better than expected revenues for its new

treatment for a form of Duchenne Muscular Dystrophy (DMD). Shares advanced further after the company reported promising trial data for a follow-on drug for a different form of DMD.

Partially offsetting the positive factors noted above were weak returns in the Consumer Discretionary, Telecommunications and Industrials sectors. In Consumer Discretionary, media holdings came under renewed pressure after cable operator Comcast announced at an investor conference that it would incur a net loss of TV subscribers in the 3rd quarter due to increased competitive pressure and the impacts of hurricanes Maria and Irma. Comcast's announcement raised cord cutting fears once again, although it is unclear at this point the primary drivers of the sub losses. Switches to satellite TV or temporary losses due to the hurricanes would be viewed as less concerning. In Telecom, portfolio holding Level 3 Communications, due to be acquired by CenturyLink, came under pressure due to concerns that the deal may be delayed. Additionally, some CenturyLink peers reported particularly weak 3rd quarter earnings casting doubt upon the health of Level 3's acquirer. Positively, in early October the DOJ cleared the CenturyLink/Level 3 merger. In Industrials, the negative performance contribution was primarily due to the portfolio's underweight in this outperforming sector during the quarter.

During the third quarter, we initiated new positions in Cytokinetics Inc., a biotech firm with drugs targeting ALS and heart disease; Alder Pharmaceuticals, a biotech company with a promising treatment for migraine prevention; and Finisar Corp., a supplier of fiber optic components and 3D sensing technology. We also increased weightings in Ambarella Inc. and Macrogenics Inc. The portfolio exited Endocyte Inc., Infinity Pharmaceuticals and Tribune Media Co. We also reduced Lam Research, as this holding exceeded our single position weighting limit of 5%.

Fuller & Thaler

Thaler wins Nobel Prize in Economics

"Trump Bump, Version 2.0" is an increasingly common description of the market's September rally. The Russell Microcap Index was up 8.15%, its best month since last November, and those are the two best-performing months for the asset class in the last five years.

The similarities end there. As seen in the chart below, the post-election move in Microcaps was led disproportionately by Financials, mostly small regional banks, expected to benefit from pro-business policies. The September move, driven by a potential tax overhaul, has not benefitted Financials nearly so much.

The disparity in performance of active management during these two periods is similarly stark. While active Microcap managers performed poorly during Q4 because, on average, they are underweight the less-liquid Financials, Q3 will likely tell a different story. Trump 2.0 has been a tailwind thus far, not a headwind.

Given Trump 2.0 has yet to bolster Microcap Financials, and the most liquid stocks in the benchmark performed best, the backdrop was good for our portfolio. Big winners, though, were the driver, as is typically the case when performance is significantly above the index.

The portfolio had four stocks – two in Technology and one in Industrials and Health Care – gain more than 50% during the quarter. Those four accounted for most of the outperformance, as the portfolio returned +12.43% net of fees, compared to +6.65% for the index. Year-to-date the portfolio is at +21.30% net of fees vs. +11.16% for the index. We hope the seven names added during the quarter will help sustain performance the rest of the year.

Wasmer Schroeder

Main Foundation Account

- The Coleman Foundation account outperformed its primary benchmark, gross of management fees, for the quarter. The account returned 0.97% against 0.60% for the index. For the year, the account has returned 3.09% vs. 2.34% for the benchmark. **
- Corporate credit continues to be the best performing sector across all fixed income markets led by the lowest quality issuers. The account has a higher quality bias in the corporate allocation, which has held back performance somewhat. However, the higher overall allocation to corporate bonds has offset higher quality drag. Credit quality remains strong and above expectations given where we are in the business cycle.
- While taxable municipal bonds trailed corporate performance most of the year, they had a solid third quarter outpacing the US Treasury component of the benchmark. We still believe that they offer value against many corporate bonds in the marketplace. Credit quality remains strong overall in the sector despite headline risk in a small number of large issuers.
- Duration and curve placement remain relatively neutral to the benchmark.
- Sector allocation at quarter end was 47% corporate bonds, 47% taxable municipal bonds and a small allocation to government-related (3%), mortgage backed securities (1%) and the remainder in cash. We anticipate maintaining these allocation for the foreseeable future, except for letting the MBS securities pay down over time and reinvesting back into corporate or taxable municipal bonds.

CMBS Foundation Account

- The CMBS account returned 0.25% for the third quarter, underperforming the Barclays 1-3.5 Year CMBS AAA Index, which returned 0.29%. For the year, the account has returned 0.83% vs. 1.33% for the benchmark. The lower returns reflect the high cash balance in the account as the CMBS continue to payoff but returns are tracking slightly below expectations.

** The quoted performance numbers are preliminary and subject to change as our GIPS processes are not complete for 3Q 2017.