

Feoffees of the Grammar School Trust Performance Summary

July 1-September 30, 2013

Part 1: Trust Overview and Performance Summary

The Feoffees oversee two distinct funds, as stipulated in the Trust Administration Order (TAO):

- 1) Endowment: net proceeds received from the sale of Little Neck. These include:
 - a. Funds received at closing
 - b. Mortgages and loans to the Little Neck cottage owners (as required in the Settlement Agreement)

- 2) Usage & Occupancy Funds: \$2.4 Million, to be held in short term deposits by the Feoffees and NOT considered part of the Permanent Endowment.
 - a. The U&O funds will be distributed to the School Committee in three annual installments of \$800,000 (plus interest).

Endowment Growth

For the quarter, the Endowment increased in value from \$22,423,693 to \$23,335,848 for a gain of 4%.

For the year to date, the Endowment has increased in value from \$22,021,388 to \$23,335,848, for a gain of 6%. The changes in the Endowment for the last quarter are shown in Table 1.

Table 1: Endowment Summary

Summary	Loans & Working Capital	Aureus Total	High Vista Total	Total Fund
Market Value as of June 30, 2013	\$6,024,605	\$10,907,143	\$5,491,945	\$22,423,693
Interest & Dividends ⁽¹⁾		\$36,832		\$36,823
Mortgage & Loan Payments	(\$1,273,431)			(\$1,273,431)
Transfers to Working Capital	\$1,273,431			\$1,273,431
Fees & Expenses ⁽²⁾	(\$27,435)	(\$22,069)		(\$49,504)
Contributions (Distributions)	(\$599,178)	\$599,178		
Net Asset Appreciation (Depreciation)		\$700,034	\$224,793	\$924,827
Market Value as of September 30, 2013	\$5,326,170	\$12,221,118	\$5,716,738	\$23,335,848

(1) Interest & Dividends are not broken out for Aureus Fund and High Vista Fund. Mortgage and U&O Interest is included in Working Capital.

(2) Fees are not broken out for High Vista Fund.

Mortgage and Loan Update

During the quarter, the Mortgage and U&O Loans held by the Feoffees changed from \$5,374,528 to \$4,101,097. This change of \$1,273,431 reflects principal payments on mortgages and U&O loans during the quarter. The Trust also received interest payments on the outstanding mortgages and U&O loans of \$75,023 during the quarter. The payoff and interest receipts are then actively invested via Aureus and High Vista.

Table 2: Mortgage & Loan Summary

Item	Amount
Mortgages and U&O loan balance on 7/1/13	\$5,374,528
Mortgage balance on 7/1/13	\$4,992,352
- Principal payments &(mortgages paid off	\$1,205,093
Mortgage balance on 9/30/13	\$3,787,259
U&O loan balance on 7/1/13	\$382,176
- Principal payments & loans paid off	\$68,338
U&O loan balance on 9/30/13	\$313,838
Mortgages and U&O loan balance on 9/30/13	\$4,101,097
Mortgage Interest received (7/1/13 -9/30/13)	\$61,523
U&O loan Interest received 7/1/13 -9/30/13)	\$13,500
Total interest received (7/1/13 -9/30/13)	\$75,025

Usage and Occupancy Fund Update

The Feoffees have made two annual distributions of \$800,000 (plus interest) as part of a \$2.4 million U&O payment received in the Settlement Agreement. As specified in the Trust Administration Order, these U&O funds are not part of the Permanent Endowment. The Feoffees are required distribute the funds in three installments of \$800,000 each (plus interest). The first two installments have been made in August 2012 and August 2013. The final U&O fund installment of \$800,000 (plus interest) will be distributed to the School Committee in August 2014.

Table 3: U&O Funds Summary

Item	Balance	Note
U&O Funds balance as of 7/1/13	\$1,606,022	
+ Interest on short-term CD	\$7,500	<i>estimate</i>
- Distribution to Ipswich Schools	\$806,022	
U&O Funds Balance as of 9/30/13	\$807,500	

Part 2: Managed Investment Performance, June 30-September 30, 2013

The Feoffees have retained Aureus and High Vista as investment managers. Collectively, the two managers combine to achieve a single investment strategy consistent with the Feoffees’ Investment Policy (detailed in Part 3). For the quarter, the Aureus equities were up 9.7% . The Aureus Fund, which invests in a diversified group of long/short, credit, absolute return and commodity managers, rose 3.4% in the quarter. In total, Aureus managed assets were up 6.9% for the period. High Vista managed assets were up 4.0%.

Since inception, the assets managed by Aureus and High Vista have risen 8.3% when combined. In detail, the Aureus portfolio is up 9.4% and the High Vista portfolio has risen 5.9%. The year-to-date performance essentially equals the benchmarks set at the beginning of the year. Performance detail for the investment managers is listed in Table 4.

Table 4: Investment Performance Summary

Investment Performance Net of Fees (1) Periods Ending 9/30/2013 Manager	Latest Quarter	Since Inception (2)	
		Aureus	High Vista
Aureus Equity	9.7%	13.8%	
<i>S&P 500</i>	5.2%	13.9%	
Aureus Fund II, LLC	3.4%	4.9%	
<i>HFRI Fund of Funds Composite (3)</i>	1.8%	3.4%	
Aureus Total (4)	6.9%	9.4%	
<i>Custom Benchmark (5)</i>	3.4%	8.1%	
High Vista V LP	4.0%	5.9%	
<i>Custom Benchmark (6)</i>	4.3%	6.6%	
Total Managed Assets (Net)	6.0%	8.3%	
<i>Custom Benchmark (7)</i>	3.3%	8.2%	

(1) Excludes mortgages and working capital

(2) Aureus inception date 2/1/13; High Vista inception date 1/1/2013

(3) HFRI Fund of Funds Composite is an equal weighted composite of over 600 Fund of Funds tracked by Hedge Fund Research, Inc.

(4) Includes Equities, Aureus Fund II, Fixed Income and Cash

(5) 50% S&P 500, 40% HFRI Fund of Funds Composite, 10% Cash

(6) 50% MSCI ACWI (Net), 30% Merrill Lynch 5-7 year Treasury Index, 20% Cash

(7) 27% S&P 500, 18% MSCI ACWI (Net), 20% HFRI FoF Composite, 25% Merrill Lynch 5-7 year Treasury Index, 10% Cash

Part 3: Managed Investment Portfolio Composition

The Endowment investment portfolio, managed by Aureus and High Vista, is based upon the Investment Policy established by the Feoffees in 2013. The policy seeks solid growth with an emphasis on managing risk. Simply put, the investment policy seeks to minimize any reduction in Endowment value when the market is down, even if that means slower growth when the market is up. The assets are allocated to comply with the Investment Policy. The Feoffees work with the investment managers on a regular basis to adjust allocations to meet policy guidelines. The current allocations of are shown in Table 5.

Table 5: Investment Fund Allocations vs. Investment Policy

Investment Fund Allocation (%) vs. Investment Policy		9/30/2013	9/30/2013	Policy Range (1)	
Asset Class	\$ Total	% Total	Low	High	
Traditional Equity	\$ 11,142,080	50.4%	40.0%	—	50.0%
Non-Traditional Equity	\$ 3,889,185	17.6%	15.0%	—	25.0%
Total Equity	\$ 15,031,265	68.0%	55.0%	—	75.0%
Total High Quality Fixed Income	\$ 4,444,100	20.1%	10.0%	—	20.0%
<i>Mortgages</i>	\$ 4,101,096	18.5%			
<i>Fixed Income</i>	\$ 343,004	1.6%			
Credit Opportunities	\$ 1,631,068	7.4%	0.0%	—	10.0%
Cash/MMF	\$ 329,843	1.5%	5.0%	—	10.0%
Total Fixed Income/Cash	\$ 6,405,010	29.0%	15.0%	—	40.0%
Illiquid Investments	\$ -	0.0%	0.0%	—	5.0%
Real Assets	\$ 674,499	3.1%	5.0%	—	10.0%
Total Illiquid & Real Assets	\$ 674,499	3.1%	5.0%	—	15.0%
Total	\$ 22,110,774	100.0%			

(1) Investment Policy Guidelines established January 10, 2013. Reviewed annually.

Traditional Equity	Investments in both US and International stocks
Non-Traditional Equity	Investments in long/short hedge funds both US and International
Mortgages	Represents the holdings in direct mortgages
Fixed Income	Investments in high quality fixed income debt instruments
Credit Opportunities	Investments in high yield debt, distressed debt, and similar debt instruments
Cash/MMF	Investments in high quality, short-term debt instruments. Does NOT include \$1,225,974 cash in Feoffee bank account on 9/30/13 (later transferred to investment managers).
Illiquid Investments	Investments in any asset where liquidity is beyond one year such as private equity or venture capital
Real Assets	Investments in commodities, inflation-adjusted bonds , and real estate