

Feoffees of the Grammar School Trust Performance Summary

April 1, 2014-June 30, 2014

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: Initially \$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 second quarter of 2014, the Endowment increased in value from \$25,108,529 to \$26,085,965 for a gain of 3.8%.

The changes in the Endowment and U&O funds combined for the last quarter are shown in Table 1. For the quarter, total expenses attributed to mortgage servicing and general bookkeeping were \$1,500. The Endowment numbers listed below are net of portfolio management fees.

Table 1: Endowment Summary

Endowment Items	Value as of March 31, 2014	Net gain (loss)	Value as of June 30, 2014
Actively Invested Funds and cash held in accounts	\$21,807,298	\$1,283,710 ¹	\$23,091,008
Mortgages + Usage & Occupancy Loans	\$3,301,231	(\$306,274) ⁽²⁾	\$2,994,957
Total	\$25,108,529	\$977,436	\$26,085,965

(1) Includes investment gains/losses net of fees, interest and payouts of mortgages and U&O loans

(2) Payoffs of mortgages and U&O loans during the quarter.

Mortgage and Loan Update

During the quarter, the Mortgage and U&O Loans held by the Feoffees changed from \$3,301,231 to \$2,994,957. This change of \$306,274 reflects principal payments on mortgages and U&O loans during the quarter.

Table 2: Mortgage & Loan Summary

Item	Amount
Mortgages and U&O loan balance on 3/31/2014	\$3,301,231
Mortgage balance on 3/31/2014	\$3,076,032
- Principal payments & mortgages paid off	\$299,830
Mortgage balance on 6/30/2014	\$2,776,202
U&O loan balance on 3/31/2014	\$225,199
- Principal payments & loans paid off	\$7,024
U&O loan balance on 6/30/2014	\$218,755
Mortgages and U&O loan balance on 6/30/2014	\$2,994,957

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. The U&O Fund balance as of June 30, 2014 is approximately \$816,080.

Part 2: Managed Investment Performance, March 31, 2014-June 30, 2014

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 7.2%. The Aureus Fund, which invests in a diversified group of long/short, credit, absolute return and commodity managers, was up 0.7% for the quarter. The Aureus Fixed Income strategy returned .3% for the quarter. In total, Aureus managed assets were up 3.9 % for the period. High Vista managed assets gained 4.6% for the quarter.

Since inception, the assets managed by Aureus and High Vista have an annualized gain of 14%. In detail, the Aureus portfolio has an annualized return of 16.2 % vs. High Vista's 11.1% annualized gain. Both managers have outperformed our custom benchmark (see Table 3).

Table 3: Investment Performance Summary

Investment Performance				
Net of Fees (1)				
Manager	Latest Quarter	Last	Annualized Since Inception (2)	
	6/30/2014	12 months	Aureus	High Vista
Aureus Equity-only	7.2%	33.9%	25.8%	
<i>S&P 500</i>	5.2%	24.6%	22.8%	
Aureus Fixed Income (BCA)	0.3%	0.8%	0.9%	
<i>Barclays US Aggregate</i>	2.0%	4.4%	1.9%	
Aureus Fund II, LLC	0.7%	8.1%	6.8%	
<i>HFRI Fund of Funds Composite (3)</i>	1.4%	7.5%	6.2%	
Aureus Total (4)	3.9%	20.9%	16.2%	
<i>Custom Benchmark (5)</i>	3.3%	15.1%	14.0%	
High Vista V LP	4.6%	15.1%		11.1%
<i>Custom Benchmark (6)</i>	3.7%	14.3%		11.1%
Total Feoffees	4.1%	19.0%	14.0%	
<i>Custom Benchmark (7)</i>	3.1%	12.6%	11.6%	

(1) Excludes mortgages

(2) Aureus inception date 2/1/2013; High Vista inception date 1/1/2013; Total Feoffees 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 4.

Table 4: Investment Fund Allocations vs. Investment Policy

Allocation vs. Investment Policy Asset Class	6/30/2014	6/30/2014	Policy Allocation Range	
	\$ Total	% Total	Low	High
Traditional Equity	\$ 12,737,282	50.3%	40.0%	50.0%
Non-Traditional Equity	\$ 4,852,746	19.2%	15.0%	25.0%
Total Equity	\$ 17,590,028	69.5%	55.0%	75.0%
Total High Quality Fixed Income	\$ 5,238,739	20.7%	10.0%	20.0%
Mortgages	2,994,957	11.8%		
Fixed Income	2,243,782	8.9%		
Credit Opportunities	\$ 1,629,251	6.4%	0.0%	10.0%
Cash/MMF	\$ (512,069)	-2.0%	5.0%	10.0%
Total Fixed Income/Cash	\$ 6,355,921	25.1%	15.0%	40.0%
Illiquid Investments	\$ -	0.0%	0.0%	5.0%
Real Assets	\$ 1,353,228	5.3%	5.0%	10.0%
Total Illiquid & Real Assets	\$ 1,353,228	5.3%	5.0%	15.0%
Total	\$ 25,299,177	100.0%		

**Does not include cash held in bank accounts which is accrued from mortgage payments and loan payoffs. This cash is swept to the investment managers on a quarterly basis.*

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.
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