

# Feoffees of the Grammar School Trust Performance Summary

## June 30, 2014-September 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 third quarter of 2014, the Endowment had a decrease in value from \$26,085,965 to \$25,654,823 which amounted to a loss of 1.65%

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 \$750. The Endowment numbers listed below are net of portfolio management fees.

Table 1: Endowment Summary

Endowment Items	Value as of June 30, 2014	Net gain (loss)	Value as of September 30, 2014
Actively Invested Funds and cash held in accounts	\$23,091,008	(\$224,694) <sup>(1)</sup>	\$22,866,314
Mortgages + Usage & Occupancy Loans	\$2,994,957	(\$206,447) <sup>(2)</sup>	\$2,788,510
<b>Total</b>	<b>\$26,085,965</b>	<b>(\$431,142)</b>	<b>\$25,654,824</b>

(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 \$2,994,957 to \$2,788,510. This change of \$206,447 reflects principal payments on mortgages and U&O loans during the quarter. As of 9/30/2014, the Feoffees Trust holds 18 mortgages and 13 U&O notes.

Table 2: Mortgage & Loan Summary

Item	Amount
<b>Mortgages and U&amp;O loan balance on 6/30/2014</b>	<b>\$2,994,957</b>
Mortgage balance on 6/30/2014	\$2,776,202
- Principal payments & mortgages paid off	\$160,450
Mortgage balance on 9/30/2014	\$2,615,752
U&O loan balance on 6/30/2014	\$218,175
- Principal payments & loans paid off	\$45,417
U&O loan balance on 9/30/2014	\$172,758
<b>Mortgages and U&amp;O loan balance on 9/30/2014</b>	<b>\$2,788,510</b>

### **Usage and Occupancy Fund Update**

During the quarter, The Feoffees made the third and final annual distributions of \$800,000 (\$816,000 including 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 were required to distribute the funds in three installments of \$800,000 each (plus interest

## **Part 2: Managed Investment Performance, June 30, 2014-September 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 down 1.4%. The Aureus Fund, which invests in a diversified group of long/short, credit, absolute return and commodity managers, was also down 1.4% for the quarter. The Aureus Fixed Income strategy returned .2% for the quarter. In total, Aureus managed assets were down 1.3% for the period. High Vista managed assets lost 2.8% for the quarter.

Since inception, the assets managed by Aureus and High Vista have an annualized gain of 10.8%. Since inception, the Aureus portfolio has an annualized return of 12.7 % vs. High Vista's 7.7% annualized gain. The combined performance of both managers has exceeded the return of our custom benchmark (see Table 3).

Table 3: Investment Performance Summary

**Investment Performance**

Net of Fees (1) Manager	Latest Quarter	2014	Last	Annualized Since Inception (2)	
	9/30/2014	YTD	12 months	Aureus	High Vista
Aureus Equity-only	-1.4%	7.5%	20.4%	20.5%	
<i>S&amp;P 500</i>	<i>1.1%</i>	<i>8.3%</i>	<i>19.7%</i>	<i>19.8%</i>	
Aureus Fixed Income (BCA)	0.2%	1.3%	1.0%	0.9%	
<i>Barclays US Aggregate</i>	<i>0.2%</i>	<i>4.1%</i>	<i>4.0%</i>	<i>1.7%</i>	
Aureus Fund II, LLC	-1.4%	-0.7%	3.2%	4.8%	
<i>HFRI Fund of Funds Composite (3)</i>	<i>0.7%</i>	<i>2.7%</i>	<i>6.5%</i>	<i>5.6%</i>	
Aureus Total (4)	-1.3%	3.5%	11.7%	12.7%	
<i>Custom Benchmark (5)</i>	<i>0.7%</i>	<i>5.1%</i>	<i>12.2%</i>	<i>12.2%</i>	
High Vista V LP	-2.8%	2.5%	7.5%	7.7%	
<i>Custom Benchmark (6)</i>	<i>-1.4%</i>	<i>3.4%</i>	<i>7.4%</i>	<i>8.6%</i>	
<b>Total Feoffees</b>	<b>-1.7%</b>	<b>3.2%</b>	<b>10.4%</b>	<b>10.8%</b>	
<i>Custom Benchmark (7)</i>	<i>-0.1%</i>	<i>4.1%</i>	<i>8.8%</i>	<i>9.8%</i>	

(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) 60% MSCI ACWI (Net), 40% Merrill Lynch 5-7 year Treasury Index

(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 are shown in Table 4.

**Table 4: Investment Fund Allocations vs. Investment Policy**

Allocation vs. Investment Policy Asset Class	9/30/2014	9/30/2014	Policy Allocation Range	
	\$ Total	% Total	Low	High
Traditional Equity	\$ 12,641,934	50.1%	40.0%	50.0%
Non-Traditional Equity	\$ 4,666,882	18.5%	15.0%	25.0%
<b>Total Equity</b>	<b>\$ 17,308,816</b>	<b>68.6%</b>	<b>55.0%</b>	<b>75.0%</b>
Total High Quality Fixed Income	\$ 4,695,477	18.6%	10.0%	20.0%
<i>Mortgages</i>	2,788,510	11.1%		
<i>Fixed Income</i>	1,906,967	7.6%		
Credit Opportunities	\$ 1,578,333	6.3%	0.0%	10.0%
Cash/MMF	\$ 343,646	1.4%	5.0%	10.0%
<b>Total Fixed Income/Cash</b>	<b>\$ 6,617,456</b>	<b>26.2%</b>	<b>15.0%</b>	<b>40.0%</b>
Illiquid Investments	\$ -	0.0%	0.0%	5.0%
Real Assets	\$ 1,289,899	5.1%	5.0%	10.0%
<b>Total Illiquid &amp; Real Assets</b>	<b>\$ 1,289,899</b>	<b>5.1%</b>	<b>5.0%</b>	<b>15.0%</b>
<b>Total</b>	<b>\$ 25,216,171</b>	<b>100.0%</b>		

*\*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