

### **Recap of Foundation Investment Performance for the Quarter Ended September 30, 2006:**

For the first quarter of the 2006-07 fiscal year (the 3-month period ended September 30, 2006), the Foundation's rate of return was 2.2%, which is equivalent to approximately \$2.5 million of realized and unrealized gains. For this three-month period, the Foundation's total fund underperformed the comparable financial indexes, which was 3.6%. The Foundation's fiscal year-to-date gains are comprised of a 3.0% gain on equities, a 2.6% gain on fixed income investments, and a 0.2% gain on alternative investments.

### **Foundation Investment Policies:**

The Foundation's current asset allocation consists of 50.6% of the total amount invested in equities, 25.3% of the total amount invested in fixed income, and 24.1% of the total amount invested in alternative investments. This is in line with our asset allocation policy, which establishes a target allocation of 50% of the assets invested in equities (of which 10% are to be international equities), 25% of the assets invested in fixed income, and 25% of the assets invested in alternative investments.

As a reminder, the Foundation's unrestricted, temporarily restricted and permanently restricted funds are pooled together so that any gains/losses affect all funds in accordance to the ratio of those funds to the total amount invested. It is the Board of Directors' policy to assume responsibility for the unrealized and realized gains/losses related to unrestricted and temporarily restricted accounts. In the same manner, all endowment gains/losses affect endowment balances.

### **Historical Data:**

The following are Foundation **annual** investment gains/losses made in previous years:

06/30/06:	8.5% (gain)
06/30/05:	9.3% (gain)
06/30/04:	14.5% (gain)
06/30/03:	3.7% (gain)
06/30/02:	- 4.66% (loss)
06/30/01:	- 10.9% (loss)
06/30/00:	11.7% (gain)
06/30/99:	11.6% (gain)
06/30/98:	13.6% (gain) *
12/31/97:	15.8% (gain)
12/31/96:	13.1% (gain)

\* The Foundation switched from a December 31<sup>st</sup> year-end to a June 30<sup>th</sup> fiscal year-end, resulting in a six-month fiscal year ended June 30, 1998.

### **Quarterly Commentary:**

Stocks and bonds performed well in the quarter ending September 30, 2006, which was supported by the Federal Reserve Board's decision to hold interest rates steady, falling crude oil prices, and favorable key inflation figures. After struggling for much of May, June and July, stocks experienced a strong rebound in August and September.

Crude oil fell due to higher supplies than expected, partly due to a calm hurricane season. Crude oil fell below \$60 per barrel by September 30th, the lowest since the end of 2005. The decline in price

throughout September helped gasoline prices to fall by about 50 cents a gallon since the previous month. Oil prices in September were also down 24% since their peak in July. Declining oil and gas prices certainly helped increase the stock market during the quarter ending September 30, 2006.

The residential real estate market continued to slow during the quarter. Reports on housing starts were weaker than expected. As of September 30, 2006, existing homes had fallen 1.7% from a year earlier, a first since 1995.

The Consumer Price Index for August rose 0.2% and the Producer Price Index climbed only 0.1% in September. Moderate inflation and indications of a slowing economy impacted the bond market as Treasury yields declined. For example, the 10 year Treasury yield declined to 4.63%. With the shorter term federal funds rate at 5.25%, an inverted yield curve developed. Normally, longer terms have higher yields than short terms.

Since the Fed's last 0.25% rate increase at the end of June, there was much uncertainty about rates for the next FOMC (Federal Open Market Committee) meeting in August. Weaker employment reports, a slowing housing market, and moderate inflation figures caused the Fed to cease its efforts regarding credit-tightening and rates remained unchanged.

With the Fed holding interest rates steady and oil prices falling, stocks increased. The Dow Jones Industrial Average showed returns of 4.74% and the S&P 500 Index returned 5.66% for the quarter.

The Foundation's investment performance increased throughout the first quarter of the 2006-07 fiscal year. Monthly investment performance closed in July, August, and September at -0.1%, 1.1%, and 2.2%, respectively.

It is always a good practice when experiencing good returns to be prudent regarding spending and save operating dollars when possible because it is not expected that returns will consistently remain good and negative returns are foreseeable in the future. Additional information on Foundation investments may be obtained by calling Marisel Lieberman in the Foundation office at 305-348-3338. Thank you.