COMMUNITY FOUNDATION for SOUTHERN ARIZONA

THE ECONOMIC CLIMATE

US GDP has continued to grow, although at rates that leave many feeling the economy continues to perform below potential levels. Short term pressures on GDP growth have included the weather, pressure on the energy industry due to lower oil prices, and potentially the effects on the economy of a significantly stronger US dollar. While GDP growth rates in the 2% to 3% range are lower than ideal, they still represent positive real growth. Any lower-than-expectation GDP numbers can also provide justification to the Fed for delay in the speed and scale of future interest rate rises. Abroad, GDP growth in major international markets remains lower than in the United States. The introduction of Quantitative Easing in Europe and the continuation of Abenomics in Japan has led to significant currency moves against the US dollar.

MARKET PORTFOLIO IMPACTS

Domestic equity valuations remain relatively high on many metrics, although not to such an extent as to suggest an immediate challenge. Forward P/E ratios look remarkably reasonable compared to history, but are dependent on companies actually achieving earnings growth. US companies have managed to achieve positive earnings surprise during the period since the financial crisis and discontinuing this trend would create a headwind for the market. International equity valuations look relatively expensive on a historical basis. When looked at more regionally it becomes clear that there is a greater diversity of valuation levels. Developed European markets are at exceptionally high 12 months forward P/E levels, and are close to the very top of the range for that metric. In both Japan and Asia Ex Japan the story is quite different, with 12 month forward P/E levels right in the middle of the historical range. Emerging market valuation levels remain relatively cheap on an historical basis.

THE INVESTMENT CLIMATE

Within the US, Shiller P/E levels remain at relatively high levels, seen during the middle of the 2000's and then in the latter part of the 1990's before the market rapidly increased post Greenspan's "irrational exuberance" comment. While this valuation level is clearly towards the higher end of the historical range, it is important to note that it does not in itself presage a crash. The 10 year period for which earnings are included contains the results of the financial crisis, while the price the market is paying today looks forward to recovery. We are also in an extremely low bond-yield environment, which presumptively increases the present value of the future earnings stream. Elsewhere, flattening and dropping yield curves have resulted in negative nominal interest rates overseas, which may require investors to reconsider assumptions of rapid rate rises. The introduction of Quantitative Easing in the Eurozone has helped with lower yields, and has also caused currency depreciation as well as risk asset rises.

In the U.S., the broad S&P 500 Index gained 0.9%, while small-cap stocks outperformed their larger counterparts with the Russell 2000 Index returning 4.3%. International equities rose over the quarter with the MSCI EAFE (Europe, Australia, Far East) Index returning 4.9% and the MSCI Emerging Markets Index was up 2.3%. Within domestic credit markets, the Barclays Capital Aggregate Index returned 1.6%. The Treasury Inflation-Protected Securities (TIPS) index was up 1.4%.

FISCAL YEAR TO DATE PERFORMANCE

With respect to the fiscal year, the Endowment portfolio increased in the third quarter ending March 31, 2015. During the period both domestic equity and international equity composites realized meaningful gains with international outperforming domestic. However, on a fiscal year to date basis domestic equities have been the best performing asset class. All portfolios advanced during the period due to strong equity performance and are now positive for the current fiscal year. Partially offsetting performance in both the current quarter and fiscal year to date has been the performance of liquid alternative investments.

COMMUNITY FOUNDATION for SOUTHERN ARIZONA

Investment Pools	Three months ended 3/31/15	Year to Date	Fiscal Year to Date	One (1) Year Return	Three (3) Year Return	Five (5) Year Return
Cash Equivalent 100% Cash Equivalents	*0.0*	*0.0*	*0.2*	*0.4*	*0.5*	*0.6*
Global Constrained Income & Growth 22% Equity, 61% Fixed Income, 7% Real Estate, 10% Alternative Investments	*2.0*	*2.0*	*1.7*	*5.2*	*6.2*	*6.8*
Global Constrained Balanced 43% Equity, 39% Fixed Income, 8% Real Estate, 10% Alternative Investments	*2.4*	*2.4*	*1.9*	*5.8*	*8.4*	*8.5*
Global Growth & Income 56% Equity, 22% Fixed Income, 10% Real Estate, 12% Alternative Investments	*2.4*	*2.4*	*1.1*	*5.2*	*8.8*	*8.8*
Endowment	*2.4*	*2.4*	*0.9*	*4.5*	*8.3*	*8.2*
Market Benchmarks						
Cash - *90-Day Treasury Bills*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
Bonds - *Barclays Capital Aggregate*	*1.6*	*1.6*	*3.6*	*5.7*	*3.1*	*4.4*
International Stocks - *MSCI ACWI ex U.S. Gross*	*3.6*	*3.6*	*-5.5*	*-0.6*	*6.9*	*5.3*
Domestic Stocks - *S&P 500*	*1.0*	*1.0*	*7.1*	*12.7*	*16.1*	*14.5*
Blended Benchmark - Endowment[1]	*2.1*	*2.1*	*1.2*	*4.9*	*8.2*	*8.3*

1. 30% Russell 3000, 26% MSCI ACWI ex US, 22% BC Aggregate, 10% NCREIF Property Index, 5% DJ UBS Commodity Index, 7% CPI +6.5% Index.

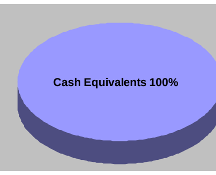
Notes: *The above are the historical returns for each of the five investment pools.* ***Investment performance of individual funds may vary from the total pool return due to the timing of contributions and grants. Historical returns are not a predictor of future returns. The returns above are net of fees paid to investment managers. This fee represents the plans' blended expense ratio and is between 50 and 60 basis points annually. The fee for our investment consultant, Verus, is not reflected in the returns.***

Underlying Investment Managers

Domestic Equity: Vanguard 500 Index, T. Rowe Price Large Cap Growth, Barrow Hanley Large Cap Value, Vanguard Extended Market ETF
International Equity: Dodge & Cox International Stock, EuroPacific Growth, DFA International Small Cap, DFA Emerging Market Core
Fixed Income: Dodge & Cox Income, Met West Total Return, JP Morgan High Yield, Vanguard Inflation Protected Securities
Real Assets: Gresham Commodity, TownSquare Real Estate, Penn Square, UBS Trumbull, Vanguard REITs
Liquid Alternatives: PIMCO All Asset All Authority
Note: Performance is preliminary for Penn Square Global Real Estate II and is subject to change

CASH EQUIVALENT

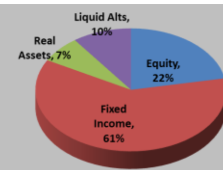
A cash-equivalent pool designed for donors or nonprofits that wish to make grants immediately or for funds that cannot sustain any loss of principal over any time horizon.



During the quarter, the Short Term Pool returned 0.0% given the tepid yields available across the CD and money market universes. Over the past year, the Short-Term Pool has returned 0.1% as the Federal Reserve continues to keep rates near historic lows. When the Fed starts raising short-term interest rates, the yield for the Short-Term Pool should improve.

GLOBAL CONSTRAINED INCOME & GROWTH

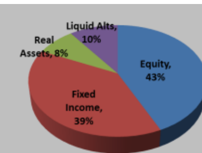
Designed for donors or nonprofits with medium-term objectives (3-5 years). While moderately conservative, this pool will have a risk of loss. A moderate portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.



The Global Constrained Income & Growth Pool was up 2.0 % during the quarter and is up 5.2% over the past year. During the quarter, somewhat of a reversal from 2014 occurred in the equity markets with international outperforming domestic and small cap domestic out performing large cap equities. Total equities account for 22% of the portfolio, both domestic equity and international equity benefited from active management during the period. The Pool's Fixed Income securities, which comprises 61% of its total assets, posted a modest gain for the quarter. The allocation to REITs during the first quarter was a strong contributor on an absolute & relative basis but is a small percentage of the overall portfolio at 7%.

GLOBAL CONSTRAINED BALANCED

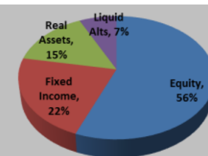
Designed for donors or nonprofits with longer-term objectives (7+ years) and spending rates of less than 4% of assets per year. A portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.



The Global Constrained Balanced pool was up 2.4% during the quarter and is up 5.8% over the past year. During the quarter, somewhat of a reversal from 2014 occurred in the equity markets with international outperforming domestic and small cap domestic out performing large cap equities. Total equities account for 43% of the portfolio, both domestic equity and international equity benefited from active management during the period. The allocation to Fixed Income which represents 39% of assets had modest contribution during the period. The allocation to REITs during the first quarter was the strongest performer on an absolute basis and was modestly accretive to overall gains with a small percentage of the overall portfolio at 8%.

GLOBAL GROWTH & INCOME

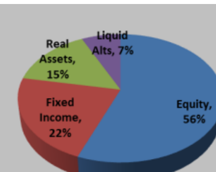
Designed for donors or nonprofits with long-term objectives (10+ years) yet with liquidity requirements and with spending objectives of approximately 4% of assets per year. A large portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.



The Global Growth & Income pool was up 2.4% during the quarter and is up 5.2% over the past year. During the quarter, somewhat of a reversal from 2014 occurred in the equity markets with international outperforming domestic and small cap domestic out performing large cap equities. Total equities account for 56% of the portfolio, both domestic equity and international equity benefited from active management during the period. The allocation to Fixed Income which represents 22% of assets had a modest contribution during the period. Within alternatives, commodities was the worst performing investment during the period on an absolute basis and modestly detracted from the overall given the small percentage of the overall portfolio at 4%. The REITs allocation helped offset losses in commodities and provided a modest contribution to the overall gain at 10% of the overall portfolio.

ENDOWMENT POOL

Designed for donors or nonprofits with endowment-like objectives (20+ years), willing to accept moderate illiquidity and with spending objectives of approximately 4% of assets per year. A large portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool may include an allocation to illiquid alternative investments. The management of this pool will be consistent with endowment best practices.



The Endowment pool gained 2.4% during the quarter which ranked in the 48th percentile. For the trailing one year the Endowment has gained 4.5%. Both domestic and international equities advanced during the quarter with international outperforming, total equities represented 56% of the overall portfolio. The direct real estate investments report on a lag compared to their REIT counterparts and will provide additional return once those results have been finalized. Within Fixed Income, high yield bounced back from a weak fourth quarter and was the strongest performer within the composite.