APPLETON GROUP WEALTH MANAGEMENT, LLC

THE APPLETON GROUP WEALTH MANAGEMENT DISCIPLINE™

Improving Endowment Efficiency:

Combining multiple investment strategies in a single endowment account to produce more meaningful returns through both cooperative and uncooperative economic environments.

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Summary:

During unfavorable economic and investment market environments, charitable foundations and endowments are relied upon more heavily to support basic community needs than during periods of economic and market expansion. These needs may be in the form of college tuition assistance payments, grants to non-profit organizations (such as homeless shelters, meal assistance programs, etc.), facilities maintenance (such as museum, performing arts center and low-income housing projects) or to support the ongoing operations of the institution itself, among others. In large part, the needs of the community and other beneficiaries don't simply vanish during periods of economic weakness; in fact, those needs tend to escalate, creating significant challenges for charitable foundations and endowments.

Often, investment strategies employed by foundations and endowments are subject to significant principal deterioration at the same time that corporate and individual donors are forced to cut back on charitable giving due to unfavorable economic conditions. Breaking (or substantially mitigating) the inherent link between the deterioration of invested assets and the community's increased reliance on foundation distributions is critically important in meeting the long-term charitable goals of these institutions. Doing so can significantly strengthen the grant-making ability of foundations and endowments through all economic environments, most notably helping to better meet community needs during periods of sustained economic stress.

Wealth management disciplines that favor a more flexible and efficient allocation process and that can systematically adjust the asset mix of the portfolio in real time as market conditions change offer endowments and foundations significant advantages over static (buy and hold) asset allocation disciplines. Among the key features is a significantly improved risk/reward profile, which has historically resulted in higher portfolio returns with measurably less portfolio risk. The additional benefit for foundations and endowments comes in working to mitigate portfolio losses during periods of prolonged economic weakness.

The Issue

"It was the best of times, it was the worst of times." Familiar text from the beginning of Charles Dickens' *A Tale of Two Cities*, which reminds us that we continue to live in a world of ups and downs. Since the turning of the millennium, the global investment markets have served as an excellent example of booms and busts, with three years of prolonged economic and market contraction, followed by five years of prolonged expansion, and the beginning stages of another period of likely contraction. For charitable foundations and endowments, beneficiary needs (such as tuition assistance, food kitchen staples, domestic abuse shelter staffing, facilities maintenance, etc.) often don't vanish during periods of economic contraction; rather, it is more often the case that beneficiary needs actually increase during periods of economic stress.

In a recent edition of *Philanthropy News Digest*, Tiziana Dearing, President and CEO of Catholic Charities for the Archdiocese of Boston wrote, "As the economy worsens (as it appears it will) and more people begin to experience some of the strain that the poor feel every day, I believe calls for doing more to provide for people's immediate needs will get louder." She added, "In many of our locations, we run out of funds for heat and utility assistance by the third week of the month. Just one of our six food pantry locations serves 14,000 pounds of food a month to 600 families. Five new families join that pantry each week — and we are the ones who limit the increase to five. Demand is rising. We had to turn away 50 percent of the people who came to our Brockton location for rent and mortgage assistance last year. Of those who came to us, 90 percent were facing eviction."

Today's real-life examples cited by Ms. Dearing are abundant:

- At least 1.3 million more people have enrolled in the Federal Food Stamp Program from March 2007 – March of 2008.[1]
- 37 million people in America are poor.[2]
- Between 2000 and 2004, the number of people living in poverty increased by 5.3 million. [3]
- Food prices rose 6.2 percent in the first half of 2007 alone, while wages rose only 1.9 percent during the same period.[4]

Dearing continued, "Demand for social services is rising and far outstrips what we can provide. Government contracts intended to provide support to those in need do not cover the cost of services. For Catholic Charities Boston, contracts fall short of need by as much as 35 percent and often do not allow for cost adjustments for five (or even ten) years. The financial markets are shaky and seem to be getting shakier. Fundraising competition is fierce, and with many corporations consolidating and/or relocating their headquarters, traditional sources of private funding are decreasing."

At the same time that constituent needs are increasing during periods of economic contraction, the ability of both corporate and individual donors to maintain or to increase charitable contributions is often diminished due to their own economic realities. A painful and inconvenient "double whammy" is that the institution's reliance on income and growth from invested endowment assets may also be negatively impacted. As is typical of many invested endowment funds, the cycle of economic contractions can meaningfully diminish the ability of those endowments to meet basic needs due to concurrent portfolio losses. It makes sense: if the economy is weak, it stands to reason that corporate earnings tend to decline and in turn stock prices fall. At the same time, interest rates decline (currently at or near all-time lows) further reducing income from the bond assets of the portfolio. This inherent link between endowment performance and the overall health of the domestic economy is well documented; however, much work has yet to be done with many institutions in adopting more flexible and proactive investment management disciplines that can work to break or significantly mitigate this economic link.

"An analysis of new data from over 6,500 mid-sized nonprofits released earlier this month by the New York City-based Nonprofit Finance Fund reveals that it took years for many nonprofits to recover from the economic downturn in the U.S. that started in 2001 (and was exacerbated by the 9/11 attacks). According to NFF, the number of all nonprofits in the sample that suffered deficits grew by 20 percent in fiscal year 2001 and had not returned to 2000 levels by 2005. Over 40 percent of the nonprofits reported a deficit in 2001, as well as in the two years immediately thereafter. From 2001-2003, nonprofit expenses in general grew at a faster pace than revenue, suggesting that organizations were providing more services than they could afford in response to increased need from their constituencies. It was not until 2004 that expense growth rates among nonprofits reflected a full adjustment to the lower revenue growth rates.[5]

For many endowments and foundations, critical work has been done on identifying the minimum investment return necessary over time to meet distribution spending goals, keep up with inflation and offset administrative expenses of managing the foundation. For many organizations, the minimum required return often falls in a range between 7.00 – 9.00% per year. A typical example would be a community foundation meeting an annual spending goal of 5.00% of fund assets, along with a typical inflation adjustment of 3.00% (or higher), and all-in administrative and asset management expenses of 1.00%, bringing the minimum required annual rate of return to an even 9.00%. Meeting or exceeding this return goal over time would likely result in an endowment portfolio being sustainable in perpetuity without the need to raise additional funds from donors.

For any investor (be it institutions or individuals), meeting or exceeding their identified minimum required rate of return with the least amount of risk along the way should be the most important consideration. Whether using a portfolio of individual stocks and bonds, mutual funds, or a fully diversified investment portfolio, an investor is likely to face any number of market environments over time that are favorable, and certainly any number of market environments that are unfavorable. Successfully navigating both kinds of market environments can be a challenge, especially with the realities of increased risk and volatility in today's global markets.

Over reasonable periods of time, it is critical for an investment portfolio to achieve real returns that are positive, and that meet or exceed the investors minimum required return. With this number in mind, it is the responsibility of the appropriate decision maker (foundation director and/or investment committee chair) to objectively select an investment portfolio that has historically produced the minimum required return (or greater) in the most efficient way possible. In layman's terms, selecting a portfolio that has demonstrated the ability to achieve a given return over a reasonable time period with the least amount of real risk along the way.

For a small number of investors, their minimum required return can be achieved while incurring no investment risk. For these lucky few, there are risk-free investment vehicle such as U.S. Government bonds, FDIC Insured CDs, money market assets, insured municipal bonds, etc. However, for the vast majority of investors whose minimum required return requires some element of portfolio risk, (any required return higher than the return you can get on risk-free investments) there are simply two possible paths:

1) accept investment risk (and all of the possible rewards that might accompany that risk), or

2) manage investment risk.

The process of accepting risk for many institutions typically involves utilizing an investment portfolio that in large part has a static mix of investments which remains constant through all market environments, and fully experiences all of the positive benefits of accepting the risk of the portfolio along with the full experience of the risk itself. The decision to simply accept investment risk implies the use of a static, unchanging and largely inflexible investment approach that is designed to potentially reward the investor over time for that risk. In theory, the higher the risk the higher the reward with the assumption that markets only rise in value. The reality over the past eight years, however, has been quite different.

Limitations of Static Asset Allocation Portfolios

In today's modern global markets, merely accepting investment risk carries the increased likelihood that at some point in time, some or all of the investments that are held in the portfolio may experience significant losses. Since the turn of the millennium, the global economy has experienced market extremes (both favorable and unfavorable) in global equities, investment grade bonds, currencies, private equity, commodities, mortgage-backed securities, money market rates, and in real estate, among others. For the period 2000 - 2005, investors that have undertaken strategies that prescribe static, unchanging allocations to these asset classes have largely underperformed their minimum required rates of return due largely to the significant losses incurred along the way.

Static Asset Allocation Category	Average Annual Return 2000-2005	Average Worst One-Year Loss
Aggressive Allocation	0.78%	-17.83%
Moderate Allocation	2.86%	-10.78%
Conservative Allocation	3.90%	-3.76%

*Source: Morningstar Principia, Dec. 2005 Release

Investors that have been over weighted in favorable market sectors for this time period (such as energy, commodities, etc.) or have demonstrated sufficient flexibility to rotate sectors over time have likely demonstrated greater success. However, for many investors the losses incurred in more common asset classes along the way have either been so extreme that the initial investment has been abandoned, or the amount of time that it has taken to recover from these losses has left investors significantly at or near breakeven over lengthy periods of time.

Given the successful emergence of more efficient wealth management disciplines over the past eight years, the likelihood of achieving a foundation's minimum required rate of return over reasonable periods of time has increased meaningfully, mitigating the extreme risk and unpredictability that has been present for so many investors. Portfolio performance data for static asset allocation portfolios strongly suggest that many are simply ill-equipped to address the realities of today's market environment, having failed to achieve investors' minimum required rates of return over the past eight-and-a-quarter years. Permanently allocating portfolio assets to any particular market segment or type of investment has exposed investors to all of the ups, but also all of the downs along the way.

Worse still, advisors who build static asset allocation portfolios may often recommend allocating dollars to those market segments that have already experienced significant advances, on the belief that yesterday's best performing sector will continue to do well (real estate is an excellent example of this). Time and time again we see market segments advancing that attract more and more capital just as the asset begins a period of sustained declines (real estate, structured products, technology stocks, etc.). Without a way to systematically harvest assets gains when they are present (an unfortunate consequence of many static portfolios), investors simply watch the market take back what it has given.

The reality of today's global market environment is that numerous asset classes have become so volatile and momentum oriented that achieving an investor's minimum required rate of return is becoming increasingly difficult through traditional "buy and hold" strategies alone. Perhaps the most obvious example of this difficulty lies in the actual performance of one of the most common equity benchmarks, the S&P 500 Index. During the period of December 31, 1999 through March 31, 2008, the S&P 500 Index experienced negative growth, trading lower at the end of this period than at the beginning (Source: Standard & Poor's). In fact, over the course of this period the S&P 500 Index dropped by over 44% from peak to trough during a three-year stretch (April 2000 – March 2003) and much of the subsequent five years simply to end up at breakeven.

For asset allocation portfolios that prescribe static, unchanging investment allocations (even to diverse asset classes), the cruel reality is that while assets may appreciate significantly over multi-year periods of time, those gains are likely to be completely dissolved when the asset class succumbs to severe selling pressure. As such, static asset allocation portfolios have become significantly more inefficient, risky, volatile and are likely to be incapable of achieving returns above those offered by risk-free investments. In layman's terms, "buy and hold" investment strategies have become "buy and hope" investment strategies.

We believe that the key to achieving or exceeding most investor's minimum required returns over the next generation will require using next generation investment disciplines that are better equipped to address the realities of today's global investment environment. Combining traditional static strategies along with proactive and flexible strategies in a single portfolio offers investors significant advantages over static asset allocation portfolios alone.

We believe it is critical for investors (most notably institutional investors) to recognize that eight years of little or no gains in equity markets (as one example) is an unreasonable period of time during which to participate in an inefficient strategy, no matter how ingrained that strategy has become in common practice. It is also our belief that institutional investors who embrace the benefits of combining multiple asset allocation strategies will be better able to meet the increased demands on foundation assets during periods of economic weakness.

Combining Static and Proactive Strategies in a Single Portfolio

Our firm's experience in combining multiple asset allocation strategies in a single portfolio is simply one example of this practice available in the marketplace today. Over the past market cycle, a small handful of industry leaders have recognized the limitations of static disciplines, and have worked to deliver novel, fully transparent and effective solutions to both the institutional and retail marketplace. Other examples of flexible and transparent asset allocation offerings include *PIMCO's All Asset All Authority Series, Janus Contrarian Fund*, and new offerings from the *Lipper Smart Growth Series*.

Increasingly, foundations and institutions are being introduced to investment partnerships (also known as Hedge Funds); however, due to the inherent lack of transparency and lack of regulation, these offerings face the added difficulty of meeting many institutions investment policy statement requirements.

Our firm's solution to addressing the inefficiencies of static asset allocation portfolios alone is to add a proactively managed segment which addresses the realities of today's global investment environment in a very different way. The existing static discipline is used to manage 50% of the assets in the portfolio, and an additional proactive discipline is used to manage the remaining 50%. This is truly special.

The existing static discipline continues to address the issue of what to own in the portfolio, and it largely accepts the risk that is inherent in owning a particular investment asset. Adjustments to the asset allocation of this segment of the portfolio are done on a calendar year basis, often by simple and effective rebalancing protocols.

In contrast, the additional proactive discipline primarily addresses the issue of when to own a particular investment asset, and it works to successfully execute a management discipline to keep the overall portfolio "on the right side of the market." Systematic adjustments to the overall asset allocation of this segment of the portfolio are done in real time as market conditions change, addressing the realities of today's momentum-based global markets.

Each discipline is managed independently using separate assets, and each is expected to be successful during two out of the three possible market environments. It is expected that the static portion of the portfolio will appreciate primarily during a favorable market environment, and that it will also add some element of value during flat markets. We also expect (and accept) that it will participate to a large degree in market losses during unfavorable environments.

The actively managed side of the portfolio is designed to appreciate in market-like fashion during favorable market environments, and to work to insulate the overall portfolio from significant deterioration during unfavorable environments by profiting from sustained market declines. We also expect (and accept) that it will add little or no value during flat markets, and that it may occasionally lose a modicum of value during trendless markets.

	Static Segment	**Active Segment**
Advancing Market	Favorable	Favorable
Flat Market	Favorable	Unfavorable
Declining Market	Unfavorable	Favorable

Used simultaneously, the combination of the two disciplines has historically provided significant portfolio gains during periods of sustained market advance, it has significantly insulated the portfolio from large losses during periods of sustained market declines, and it has kept portfolios at or near breakeven during non-trending flat market environments. The benefits of combining these two disciplines in a single portfolio have produced a unique combination of meaningfully higher returns over reasonable periods of time along with significantly lower real risk than static asset allocation strategies alone.

The static segment of the portfolio is comprised largely of institutional mutual funds whose managers have historically demonstrated a reasonable amount of skill is managing risk within the constraints of being fully invested in that manager's core investment arena (i.e. emerging markets, large cap value, fixed income, etc.). This segment is responsible for determining whether the portfolio is categorized as assertive, moderate or conservative in nature, largely due to whether it over weights in bonds or over weights in equities. By itself, this side of the portfolio is periodically rebalanced, diversifies by asset class (stocks, bonds, real estate, cash, etc.) by market segment (growth vs. value) and by region (domestic vs. international).

The actively managed segment of the portfolio is comprised almost exclusively of exchange traded index funds (ETFs) that enable the portfolio to easily overweight or underweight in any particular investable asset. These can include indexes of equities, real estate, fixed income, and high dividend-paying sectors as well as risk-free assets. Additionally, we systematically utilize bear-market ETFs that have the unique advantage of being able to profit from sustained market declines. Use of these indexes tends to be somewhat infrequent; however, their use during periods of sustained market declines has proven to be especially valuable as they can help to offset market weakness that may be experienced by the static segment of the overall portfolio. It is this flexibility that can help to largely insulate foundation and endowment assets from the negative effects of sustained market declines, working to keep overall portfolio losses to reasonable and expected levels when they do occur.

From time to time, one particular side of the portfolio may meaningfully outperform the other side. The additional benefit of diversifying the portfolio by utilizing two distinct and separate disciplines lies in our ability to rebalance the overall portfolio, selling assets from the outperforming side and reallocating it to the underperforming side. In other words, buy low and sell high by enabling the outperforming strategy to fund the other.

Statistical Comparisons

The key portfolio efficiencies over a full market cycle have been demonstrated in multiple areas: increased net portfolio performance, reduced maximum portfolio drawdown, reduced portfolio risk (measured by Beta), reduced reliance on market environment for performance (measured by R-squared), and increased value added by management (measured by Alpha).

Net Portfolio Performance

Measures annualized performance for an investment net of all fees for a particular period of time.

	2000-2005 Annualized Net Return
Combining Active & Passive Disciplines	
Appleton Group Assertive Composite	+8.94%
Appleton Group Moderate Composite	+8.71%
Appleton Group Conservative Composite	+8.01%
Active Discipline Alone	
Appleton Group PLUS Portfolio	+9.50%
Passive Disciplines Alone	
S&P 500 Index	-2.55%
Dow Jones Moderately Assertive U.S. Allocation Index	+4.55%
Dow Jones Moderate U.S. Allocation Index	+5.36%
Dow Jones Moderately Conservative U.S. Allocation Index	+6.02%

Maximum Portfolio Drawdown

Measures the amount of cumulative portfolio loss experienced by a particular investment at any time in history (measured annually).

	2000-2005 Annualized Net Return
Combining Active & Passive Disciplines	
Appleton Group Assertive Composite	-5.09%
Appleton Group Moderate Composite	-3.86%
Appleton Group Conservative Composite	-3.69%
Active Discipline Alone	
Appleton Group PLUS Portfolio	-5.76%
Passive Disciplines Alone	
S&P 500 Index	-37.59%
Dow Jones Moderately Assertive U.S. Allocation Index	-19.23%
Dow Jones Moderate U.S. Allocation Index	-10.57%
Dow Jones Moderately Conservative U.S. Allocation Index	-4.07%

Portfolio Risk (Beta)

Beta measures portfolio risk against a benchmark, expressed as a percentage. A Beta of 1.00 implies 100% of the risk of the benchmark, a Beta of 0.50 implies 50% of the risk of the benchmark, and so on.

	2000-2005 Period Beta vs. S&P 500	2000-2005 Period Beta vs. Benchmark
Combining Active & Passive Disciplines		
Appleton Group Assertive Composite*	0.3446	0.4320
Appleton Group Moderate Composite**	0.2633	0.4541
Appleton Group Conservative Composite***	0.1990	0.5233
Active Discipline Alone		
Appleton Group PLUS Portfolio**	-0.0415	0.0120

Benchmarks

* Dow Jones Moderately Assertive U.S. Allocation Index

** Dow Jones Moderate U.S. Allocation Index

*** Dow Jones Moderately Conservative U.S. Allocation Index

Reliance on Market Environment for Performance (R-squared)

R-squared measures the amount of performance attributable to the market itself (S&P 500 Index). An R-squared of 100 implies that 100% of the results of an investment were a direct result of whether the benchmark was favorable or not and is useful in determining to what degree a favorable market is required in order to achieve positive returns.

	2000-2005 Period R-squared vs. S&P 500	2000-2005 Period R-squared vs. Benchmark
Combining Active & Passive Disciplines		
Appleton Group Assertive Composite*	25.05	30.78
Appleton Group Moderate Composite**	17.24	22.21
Appleton Group Conservative Composite***	11.18	14.77
Active Discipline Alone		
Appleton Group PLUS Portfolio**	0.16	0.01

Benchmarks

* Dow Jones Moderately Assertive U.S. Allocation Index
** Dow Jones Moderate U.S. Allocation Index
*** Dow Jones Moderately Conservative U.S. Allocation Index

Value Added Through Management (Alpha)

Alpha is used to measure the value added or subtracted by a manager or strategy when compared to a benchmark. A positive Alpha measurement implies value added, a negative Alpha implies value taken away (benchmark carries an Alpha of 0.00).

	2000-2005 Period Alpha vs. S&P 500	2000-2005 Period Alpha vs. Benchmark
Combining Active & Passive Disciplines		
Appleton Group Assertive Composite*	10.06	7.03
Appleton Group Moderate Composite**	9.61	6.41
Appleton Group Conservative Composite***	8.74	5.06
Active Discipline Alone		
Appleton Group PLUS Portfolio**	10.71	10.70

Benchmarks

* Dow Jones Moderately Assertive U.S. Allocation Index
** Dow Jones Moderate U.S. Allocation Index
*** Dow Jones Moderately Conservative U.S. Allocation Index

All portfolio performance data represents model portfolio performance over a six year period of time (2000 – 2005), has been reviewed by a nationally recognized independent certified public accounting firm, and meets all of the requirements of model portfolio performance reporting as required by the United States Securities and Exchange Commission (Clover Capital Management no action letter). Statistical performance and risk information for the period 2000 – Q1 2008 which links model portfolio data and GIPS compliant performance reporting data is available as supplemental information on request.

Limitations of Combining Multiple Asset Allocation Disciplines in a Single Portfolio

The most important limitation on all asset allocation strategies (whether efficient or not) is the presence of risk and uncertainty in the portfolio. <u>This condition is not for all investors</u>. All asset allocation offerings (whether used individually or in combination with complimentary disciplines) are designed for investors who know they have to incur some risks to achieve their minimum required return and who want those risks along the way to be as reasonable as possible.

<u>Given the realities of today's low returns on risk-free investments (such as U.S. Government Treasuries, FDIC insured CDs, etc.) the key to achieving minimum required returns through both cooperative and uncooperative economic environments lies not in eliminating risk, but in successfully managing risk.</u>

For any investment that is put at risk (including multiple allocation strategies), there is an element of uncertainty for which investors are expected to be compensated in the form of higher returns when compared to risk-free investing. As discussed earlier, it is certainly possible that an investor may be in the envious position of needing to incur NO risk in order to meet their long-term goals. With interest rates on risk-free assets at or near historic lows, risk-free investing becomes a great challenge. The difficulty with eliminating risk from a portfolio comes in the form of historically low returns (albeit with the benefit of a whole lot of certainty). The inescapable reality of our current point in history is that risk-free investing will almost certainly lead many investors to achieve returns that fail to meet their long-term needs. With this in mind, the overwhelming majority of investors are in the position of having to incur some risk, and it is critically important for all investors to choose portfolios that are as effective at managing those risks as possible.

Because it is the goal of efficient portfolios to have returns that are occasionally unlike or significantly different than the returns of the markets (during periods of sustained economic contraction, for example), an additional limitation of multiple strategies is that from time to time portfolios WILL have returns that are unlike the markets. Historically, combining multiple disciplines in a single portfolio has demonstrated meaningfully divergent returns at critical market junctures, which is exactly the goal. One important limitation to this discipline, however, is that during trendless markets that have resulted in short-term (and largely unsustainable market advances), multiple allocation strategies have a demonstrated tendency to lag the markets by reasonable amounts. Given the choice of a static portfolio that requires an investor to accept ALL of the downside risks of whatever it invests in, occasionally trailing the markets by reasonable amounts during essentially flat markets is perhaps a reasonable tradeoff.

Additionally, it may be important to note that the ability of benefactors to continue to make regular and perhaps sizable contributions to foundations and endowments during flat market environments may more than offset any reasonable short-term underperformance. Demonstrating an commitment to effective risk-management protocols (which a two-discipline system offers) can also result in additional comfort for donors, which in turn can often result in increased funding over time.

Implementation

Implementing a two-discipline asset allocation strategy is quite simple.

Once the decision has been made to implement a flexible asset allocation strategy, it may be necessary to amend the foundation's investment policy statement. In many cases, existing policy statement language pertaining to long term objectives and diversification statements are already consistent with the use of multiple-discipline strategies. However, modifications to specified holding ranges of assets may be needed. Often, advisors who are experienced in fiduciary issues will be able to provide sample language that can be adopted either "as-is" or which can be easily modified to meet the needs of the particular institution.

Best practices for implementation can include the following arrangements:

Engaging a single qualified advisor to implement the multiple-discipline strategy with all foundation assets. Under this arrangement, a single firm accepts the responsibility for overseeing manager selection and implementation under the modified investment policy statement. This firm may be chosen to manage a portion of the foundation assets in-house, and is responsible to the executive director, board of directors and/or the investment committee. Qualifications for this firm should include GIPS certified performance reporting, a commitment to full transparency, the ability to demonstrate net-of-fee performance for the discipline over a full market cycle, and sufficient capacity and staffing to implement and manage the discipline. Additionally, this firm should serve the institution as a Registered Investment Advisor (not a broker) and be able to demonstrate a culture of compliance that seeks to address and eliminate any potential conflicts of interest before they arise. Lastly, this firm should be able to document the extent to which other investors are utilizing the proposed portfolio, ensuring that your institution is not the first nor the only (typical investor use should exceed 5.00% of the firm's total assets under management)

Dividing the advisory responsibilities among two separate firms. Under this arrangement, the existing investment mix would remain intact for 50% of the endowment, with the remaining 50% utilizing a multiple-discipline approach as outlined above. To address continuity issues, an institution may decide that this arrangement is an appropriate first step. Over a specified period of time (typically three to five years), the two firms compete against one another as advisor and/or manager of their particular segment. Performance data can then be compared over time, with the foundation typically reallocating assets to either firm as warranted.

Adding a proactively managed segment with the current advisor remaining in place. This arrangement adds a specific manager to the existing advisory relationship, with the new firm serving solely as an additional asset manager, not as an advisor. The existing advisor is responsible for selecting the newly added manager, not the executive director nor foundation board members. Great care must be taken under this arrangement to ensure that the existing advisor is objective in the manager selection process, that there are no conflicting relationships exist (i.e. brokerage relationships, firm affiliations, etc.), and that the advisor fully embraces the multiple-discipline process. Under this arrangement, there is more flexibility in allocating assets to the proactive segment and would typically represent between 15 – 50% of the institution's total investable assets. Also, the newly added manager would be responsible for only delivering the proactive discipline and not be responsible for managing any assets in a passive fashion.

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[1]Source: America's Second Harvest
[2] Source: Catholic Charities: http://www.catholiccharitiesusa.org/NetCommunity/Page.aspx?pid=905&srcid=897
[3] ibid
[4]Source: Food and Water Watch: http://www.foodandwaterwatch.org/food/agricultural-policy/us-farmbill/retail-realities/introduction/?searchterm=food%20prices
[5]Source: Philantopic: http://www.massnonprofit.org/news.php?artid=976&catid=13

1. Performance quoted represents past performance and is no guarantee of future results.
2. The Appleton Group Portfolio performance information provided indicates what effect the portfolio adjustments generated by the Appleton Group Wealth Management Discipline™, strictly implemented, have had on a model portfolio as such portfolio adjustments were implemented. Although the portfolio adjustments are actual recommendations which have been generated by the Appleton Group Portfolio Management Discipline™ since December 31, 1999, the performance results are for a model portfolio and do not represent the actual performance of accounts managed using the Appleton Group Portfolio Management Discipline.
3. The Appleton Group Portfolio performance information reflects weighted historic performance, rebalanced monthly.
4. Performance statistics have been calculated net of management fees, net of applicable expenses and net of brokerage costs using the internal iterative rate of return (dollar weighted) calculation method. While performance is compared to the benchmark indicated, client accounts may be fully invested, partially invested in cash equivalents, or invested in inverse ("bear market") funds, depending on the portfolio selected. The actual amount of time invested in the market will vary with market conditions. Unlike an actual performance record, these performance results do not reflect the impact a client's economic circumstances might have had on the investment adviser's decision making if the investment adviser were managing a client's money. Investors should not consider the performance data a substitute for the performance of actual client accounts, nor should investors consider this data as an indication of future performance. A complete history of our performance analysis is available upon request.
5. The principal value and return of exchange traded mutual funds and other mutual funds will fluctuate with changing market conditions, and may be worth more or less than your initial investment. All dividend, interest, and capital gain distributions assume reinvestment into the targeted investment. Performance statistics do not consider potential tax liabilities as a result of management activity. Please consult your tax advisor for further information. Appleton Group Wealth Management, LLC became the investment advisor for The Appleton Group Portfolios on April 5, 2002, with Mark C. Scheffler serving as the sole portfolio manager. Prior to that date, Mr. Scheffler managed The Appleton Group Portfolios on a non-discretionary basis while employed as a broker with Robert W. Baird & Company, Inc.
6. Deviation from the models has produced and will produce substantially different results. The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.