



2017 Annual Report





## THE FOUNDATION'S BELIEFS HAVE THEIR ROOTS IN THE GUIDING PRINCIPLES OF THE BRINSON PARTNERS INVESTMENT MANAGEMENT FIRM. THEY HAVE BEEN REFINED AND EXPANDED OVER THE LIFE OF THE FOUNDATION TO REFLECT THE PHILOSOPHICAL UNDERPINNINGS OF OUR GRANTMAKING.

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- » There are no higher values than integrity, truth and honesty.
- » Strong, collegial and collaborative relationships with grantees are central to effective philanthropy.
- » Individuals, families and communities are best positioned to define and solve their own problems.
- » Sustainable, long-term solutions to societal problems require comprehensive and multi-disciplined approaches.
- » Programs that rely on the incentives of the free enterprise system provide significant potential for long-term success and sustainability and have many advantages over government programs.
- » Initiatives that pursue preventative measures rather than the treatment of existing symptoms offer greater opportunities for long-term impact.
- » Education is essential to the human mind and spirit and provides the basis for people to reach their full potential.
- » Advances in science and technology can be harnessed to materially improve the human condition.
- » Successful programs need to be communicated to broader audiences to maximize the potential impact on society.





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SCIENTIFIC RESEARCH  
GRANTEE

**Cornell University**

The University's faculty and students have used the Arecibo telescope in Puerto Rico to complete a decade-long census of gas-bearing galaxies in the local universe.



## PRESIDENT'S LETTER

Dear Friends and Colleagues:

Late in 2017, I posted a letter on our website that offered observations about why the work of the non-profit sector should inspire all of us. That letter, which can be found at [brinsonfoundation.org/presidents-letter](http://brinsonfoundation.org/presidents-letter), led me to think about the positive impact that longer term commitments

Over the years, I have read dozens of columns that expressed strong views about what private philanthropy should be doing differently or better. These commentaries often promote strategies their authors find compelling even though they may not align with the perspectives of many of the philanthropists they target. Equally common are pleas for philanthropy to fill the gap left by the deficit- and debt-ridden public sector as funding cuts target important social needs and priorities. These appeals overlook the fact that the total assets of private philanthropy represent a fraction of total annual spending on these issues at federal, state and local levels. No matter how the statistics are cut, there is no way private philanthropy

cautious admonitions contained in this Report's investment commentary.

If these calls for change were widely implemented, they would seriously undermine private philanthropy's impact. If the sector were compelled to focus on a small subset of social issues that regulators, for example, believe are most important, the country would lose the benefit of one of philanthropy's greatest strengths – the broad diversity of ideas and strategies that are creatively pursued in a variety of contexts. If philanthropic time frames were drastically shortened, the sector's ability to bring about change in the many areas in which a longer term view and resource commitment is essential could be seriously compromised.

financial support. Perhaps most importantly, if significant change is mandated, non-profit organizations that require sustained financial support to accomplish their goals will likely be the first to suffer.

Of course, private philanthropy should not be immune to criticism and must always strive to improve. Furthermore, I do not mean to suggest that maintaining a perpetual lifespan is a panacea. We must not lose sight, however, of the benefits that come from the consistent but flexible allocation of resources to issues that are carefully investigated. Encouraging a departure from this approach will eviscerate philanthropy's and the non-profit sector's ability to make a difference over the long term. It is for

Private philanthropy is at its best when there is freedom to carefully evaluate issues and thoughtfully deploy resources.

from private philanthropy can have on the amazing work of our non-profit colleagues. Despite our collective good intentions, private philanthropy is often the subject of hypercritical examination. In that context, the strong investment market performance that allowed philanthropic portfolios, including ours, to experience healthy growth in 2017 could well lead to renewed critiques and calls for reform.

can effectively replace even a small portion of public sector funding.

Finally, it is not unusual to hear the proposition that private philanthropy would be more effective if resources were spent down more quickly – not just over lifetimes or even decades, but over years. Not surprisingly, these opinions are more often expressed during times when investment returns are strong. I would suggest that proponents of this view refer to the

Private philanthropy is at its best when there is freedom to carefully evaluate issues and thoughtfully deploy resources. Complex problems are unlikely to be tackled effectively if public pressure or legislative mandates compel rethinking of strategies and priorities. Philanthropy's aggregate impact will unquestionably be diluted if its resources are diverted to fight battles that can only be won with concerted public sector policy and

this reason that the Foundation is committed to thoughtful and consistent support of grantees who are deeply invested in positively impacting the communities in which we live and work.

Sincerely,



James D. Parsons  
President





The Foundation has supported Lurie Children's dedication to scientific discovery and the transformation of pediatric medicine since 2004.



ENDORSEMENT  
GRANTEE

## FOUNDER'S STATEMENT

I was born in 1943 and raised in a small home just south of Seattle, Washington. My father was a bus driver and my mother a store clerk. My parents had meager financial income and little resources to cover the costs of raising three boys. I was an average student early in life but realized that I needed an advanced education if I was to break away and achieve my goals of financial independence. I was fortunate to be able to achieve success in the investment management world and eventually formed Brinson Partners where I applied my experience and training until my retirement in 2000. The Brinson Foundation was created in 2001 as the residual result of my decisions regarding wealth transfer to my heirs. After addressing the

largest diminish individual initiative and self esteem. If I had no opinion with respect to limiting the size of wealth transfer to my heirs, there would be no Foundation.

The Brinson Foundation has been funded to date with approximately \$110 million and is likely to receive considerable future funding; the size of which will be a function of investment returns, targeted allocations for my heirs and deductions for estate taxes and administrative expenses. The government's estate tax policy will not impact the size of the wealth transfer to my heirs, but will impact the remaining residual for philanthropy. Higher estate tax rates will mean less for philanthropy; lower rates will mean more. If estate taxes become onerous, there will be no further

» The Foundation can have more of a targeted and focused set of priorities that can evolve with the family's growing knowledge and understanding of philanthropic initiatives. In this sense, my personal beliefs stand a better chance of surviving with the passing of time.

The assets of the Foundation must be considered a scarce resource with an investment objective of moderate risk that should satisfy the goal of earning a 4.0% to 4.5% real (inflation adjusted) return over time. This moderate risk objective is to be defined at the aggregate portfolio level and derived from a globally diversified asset mix across all investible asset classes. I am not concerned with the risk of individual securities or asset

The embracement of philanthropy is different than that of charity. The Foundation should avoid "charitable grantmaking," by which I mean grants that deal with symptoms rather than causes.



interests of my family, including a limited generational line of heirs that follow; the remaining fraction of my wealth goes to the Foundation for philanthropic purposes.

In point of fact, I am placing limits on the size of wealth transfer to my heirs. My reasons for limiting the size of the wealth transfer for my heirs stem from my strong belief that "excessive" amounts of this form of

funding for the Foundation at my expiration other than that already included in my estate plan.

My reasons for creating the Foundation as distinct from pursuing personal philanthropic activity are twofold:

» The Foundation provides a formal structure for the family to interact as members of the board of directors and to work cooperatively with each other in shaping the direction of our philanthropic interests.

classes, but only with the aggregate risk of the entire portfolio which is "optimal," expressed in terms of return per unit of risk. With a payout requirement set by law at 5%, this investment goal suggests that there will likely be some diminishment in the real value of the assets for future years. Adopting a more aggressive risk profile is not appropriate as I view the





**Council for the Advancement of Science Writing**  
CASW was a primary host of the 2017 10th World Conference of Science Journalists, the first ever held in America.

  
EDUCATION  
GRANTEE





EDUCATION  
GRANTEE

**Chicago Public Library Foundation**

The Chicago Public Library Foundation has supported early literacy training for children's library staff for over a decade.



risk of shortfalls in returns to be more detrimental for grantees than any benefits from higher returns. I believe foundations should always keep this “utility function,” as economists call it, firmly in mind.

» I am a libertarian who values individual liberty and what Ayn Rand calls objectivism. I am convinced of the merits of Darwinism and deeply troubled by the general societal ignorance of this reality as it relates

failure is evident is appropriate for a moderate portion of the grantmaking portfolio.

» I have worked closely with the other directors to ensure that my personal convictions are reflected in the



My hope is that, over time, the Foundation will operate with a limited set of priorities and strive to make an impact and contribution within that self constrained focus.

Some of my personal beliefs which guide the grantmaking activities of The Brinson Foundation are noted below

» The embracement of philanthropy is different than that of charity. The Foundation should avoid “charitable grantmaking,” by which I mean grants that deal with symptoms rather than causes.

» The scope of the Foundation’s activities should be as narrow as possible given the diverse interests of its directors. My hope is that, over time, the Foundation will operate with a limited set of priorities and strive to make an impact and contribution within that self constrained focus. These priorities will likely change and evolve over time. Maintaining a discipline of a narrow set of focus areas will be a necessary challenge.

to the development of mankind. I am opposed to all forms of egalitarianism that try to diminish individual freedom in the name of some misplaced societal notion. Equal opportunity, which I support, does not mean equal results for all, which I oppose. The Foundation should stress the importance of individual accountability for action or inaction.

» Science, scientific research and rational thinking should always receive the Foundation’s attention and grantmaking support.

» The fact that the Foundation is a U.S.-based organization should not prevent it from defining its role in a global context if that can be accomplished without compromising our standards of practice.

» Sensible funding of “higher risk” programs where the likelihood of

Foundation’s grantmaking guidelines. These include my view that we should avoid funding religious and “faith based” programs; my preference for market-based solutions over government programs; my belief that medical research should focus on quality of life rather than the extension of life; and my opposition to racial, ethnic and gender specific programs (excluding medical) as a result of my fervent belief that discrimination of any form is antithetical to mankind’s progress and further evolution.

Gary P. Brinson  
*Founder and Chairman of the Board*

## FOUNDER’S STATEMENT

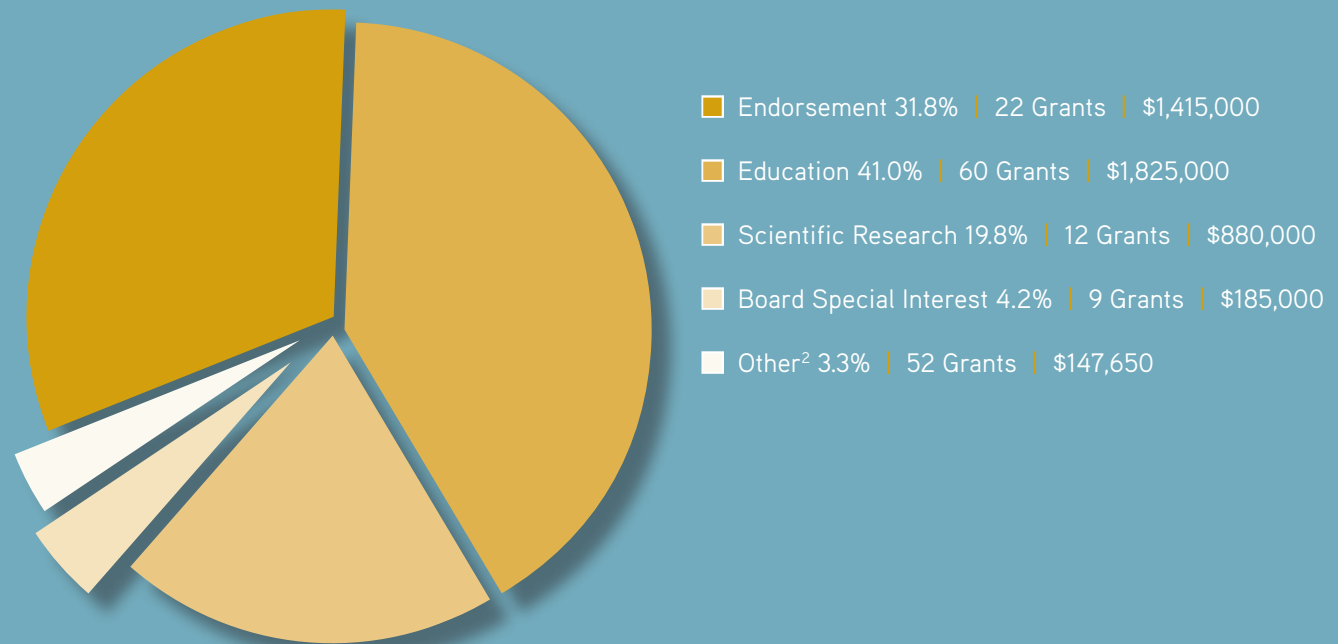
**Our Mission** The Brinson Foundation is a privately funded philanthropic organization that provides an opportunity to focus our family's common interests in encouraging personal initiative, advancing individual freedoms and liberties and positively contributing to society in the areas of education and scientific research.

#### GRANTMAKING OVERVIEW

##### 2017 Grants by Priority<sup>1</sup>

Total Grants 155

Total Amount \$4,452,650



<sup>1</sup> Percentage totals do not add due to rounding.

<sup>2</sup> The Foundation provided Professional Development and Technical Assistance grants and funded a peer skill sharing micro-grants program (through Forefront) which benefitted 40 existing grantees. These grants totaled \$85,000.



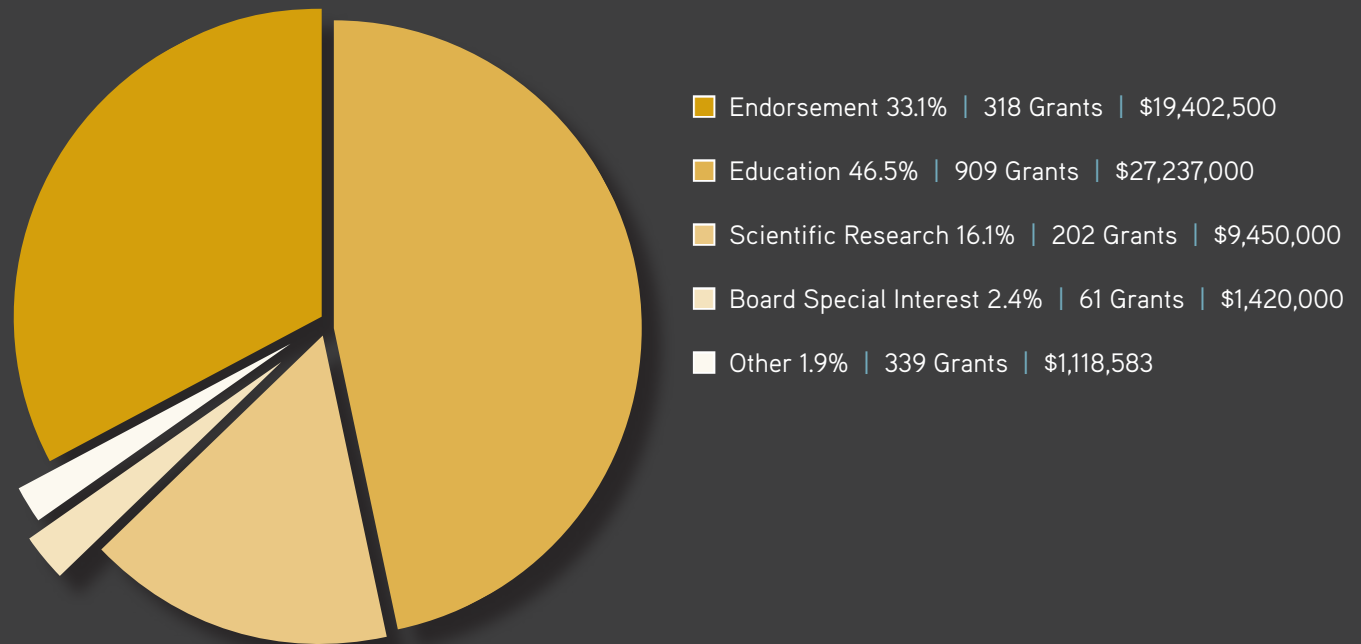
**Our Vision** We envision a society that cares for all of its members and endeavors to enhance individual self worth and dignity. We also envision a world where every individual is a valued and productive member of society, where all people are committed to improving their lives and the quality of their environments.

#### GRANTMAKING OVERVIEW

##### Total Grants by Priority Since Inception<sup>3</sup>

Total Grants 1,829

Total Amount \$58,628,083

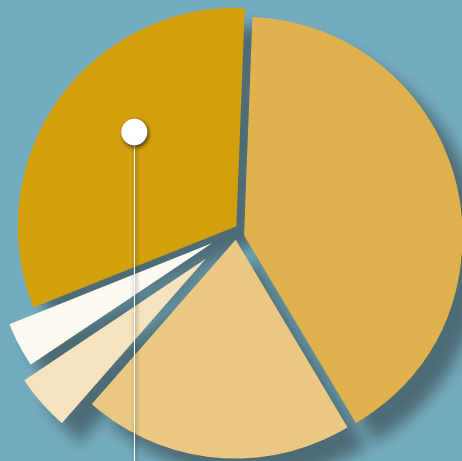


<sup>3</sup> Inception date of December 31, 2000

## 2017 ENDORSEMENT GRANTS



Endorsement grants are made to a limited number of leading institutions selected by the Foundation's Directors. These grants often involve ongoing core support of the institution rather than specific programmatic support pursuant to the Foundation's grantmaking priorities. The Foundation does not accept inquiries or applications relating to the Endorsement grant category, as decisions to include grants in this category are solely within the discretion of the Foundation's Board of Directors.



Endorsement

22 Grants | \$1,415,000

31.8%





**Adler Planetarium**

Chicago, IL  
 adlerplanetarium.org  
*Cosmology and Astrophysics Research*  
 \$80,000

**America's Foundation for Chess**

Bellevue, WA  
 af4c.org  
*General Support and First Move in Chicago Public Schools*  
 \$40,000

**Ann & Robert H. Lurie Children's Hospital of Chicago**

Chicago, IL  
 luriechildrens.org  
*Medical Research - Junior Investigator Award*  
 \$65,000

**Art Institute of Chicago**

Chicago, IL  
 artic.edu  
*General Support*  
 \$80,000

**Chicago Architecture Foundation**

Chicago, IL  
 architecture.org  
*General Support*  
 \$50,000

**Chicago History Museum  
Chicago Historical Society**

Chicago, IL  
 chicagohistory.org  
*General Support*  
 \$60,000

**Chicago Botanic Garden  
Chicago Horticultural Society**

Glencoe, IL  
 chicagobotanic.org  
*Education and Community Programs*  
 \$50,000

**Chicago Symphony Orchestra**

Chicago, IL  
 cso.org  
*General Support*  
 \$60,000

**Eisenhower Medical Center**

Rancho Mirage, CA  
 eisenhowerhealth.org  
*Nursing Education and General Support*  
 \$50,000

**The Field Museum**

Chicago, IL  
 fieldmuseum.org  
*General Support*  
 \$80,000

**The Joffrey Ballet**

Chicago, IL  
 joffrey.org  
*General Support*  
 \$40,000

**La Rabida Children's Hospital**

Chicago, IL  
 larabida.org  
*General Support*  
 \$80,000

**Lincoln Park Zoological Society**

Chicago, IL  
 lpzoo.org  
*General Support*  
 \$60,000

**Lyric Opera of Chicago**

Chicago, IL  
 lyricopera.org  
*NEXT - Discount Student Tickets for the Next Generation*  
 \$60,000

**Museum of Science and Industry**

Chicago, IL  
 msichicago.org  
*General Support and Community Initiatives*  
 \$80,000

**Northwestern Memorial Foundation**

Chicago, IL  
 nm.org  
*Neonatal Nurse Practitioner and Neuroscience Nursing Education Programs, and the Nursing Research Symposium at Northwestern Memorial Hospital*  
 \$70,000

**Peggy Notebaert Nature Museum  
Chicago Academy of Sciences**

Chicago, IL  
 naturemuseum.org  
*General Support*  
 \$40,000

**Rush University Medical Center**

Chicago, IL  
 rush.edu  
*Medical Research - Junior Investigator Award*  
 \$65,000

**Shedd Aquarium**

Chicago, IL  
 sheddaquarium.org  
*General Support*  
 \$80,000

**Shirley Ryan AbilityLab  
Rehabilitation Institute of Chicago**

Chicago, IL  
 sralab.org  
*Brinson Stroke Fellowship*  
 \$75,000

**Special Olympics Illinois**

Normal, IL  
 soill.org  
*General Support*  
 \$50,000

**The University of Chicago Medicine**

Chicago, IL  
 medicine.uchicago.edu  
*Medical Research - Junior Investigator Award*  
 \$100,000

**Peggy Notebaert Nature Museum**

The Foundation provides general operating support to the Nature Museum as well as funding for STEM teacher professional development and student programs at Namaste Charter School.

➤ **Museum of Science and Industry**  
 MSI's Community Initiatives programming provides Chicago teens from diverse backgrounds a chance to explore science and career paths and inspires Museum visitors through hands-on science activities.

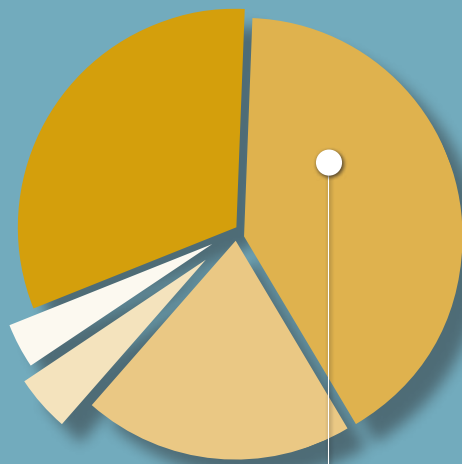
2017

PROGRAMMATIC GRANTS

EDUCATION GRANTS



We believe education provides people with the opportunity to expand their talents and capabilities. Through our grantmaking, we hope to inspire them to reach their full potential both as individuals and as contributing citizens of a greater community. We are especially interested in programs that make quality education accessible to those who are personally committed.



Education

60 Grants | \$1,825,000

41.0%

**Our Education Grants fall into seven focus areas:**

***Financial Literacy*** – programs that provide middle and high school students and adults with basic financial skills to help them become financially self-sufficient.

***Health Care Career Development*** – programs that spark interest among high school and college students in health care-related career paths or enhance the skills of health care professionals to equip individuals to have careers that offer opportunities for economic advancement while also positively impacting societal health.

***High School, College and Career Success*** – programs that provide motivated students and young adults of limited means with the academic support, personal skills and financial resources needed to reach their full potential in school and careers.

***Liberty, Citizenship and Free Enterprise*** – programs that educate and promote the principles of liberty, citizenship and free enterprise to elementary through graduate school students and adults.


***Literacy*** – programs that develop the literacy skills of children, birth through elementary school age, improve the pedagogy of teachers and ensure support for this learning among parents so that young children become functionally literate and are prepared for success in their future education and in life.

***Science, Technology, Engineering and Math (STEM)*** – programs that provide STEM education to pre-school through graduate school students or professional development for teachers, promote STEM careers or deliver engaging STEM content to the general public.

***Student Health*** – programs that foster the physical health of pre-school through high school students to help them stay enrolled and be productive in school.






**Communities In Schools of Chicago**  
 CIS of Chicago leverages community resources and health and human services to address Chicago Public Schools students' health needs so they can focus on learning.

#### **A Better Chicago**

Chicago, IL  
 abetterchicago.org  
*General Support*  
 \$25,000

#### **Accion**

Cambridge, MA  
 accion.org  
*Microfinance Initiatives in Africa*  
 \$30,000

#### **Acumen**

New York, NY  
 acumen.org  
*Leadership Planning*  
 \$50,000

#### **Advance Illinois**

Chicago, IL  
 advanceillinois.org  
*General Support*  
 \$25,000

#### **After School Matters**

Chicago, IL  
 afterschoolmatters.org  
*Science Out-of-School Time Programming*  
 \$25,000

#### **Alan Alda Center for Communicating Science Stony Brook Foundation**

Stony Brook, NY  
 aldacenter.org  
*General Support*  
 \$30,000

#### **The Ayn Rand Institute**

Irvine, CA  
 aynrand.org  
*Free Books to Teachers Program – Chicago Area*  
 \$35,000

#### **Bottom Line**

Chicago, IL  
 bottomline.org  
*General Support*  
 \$25,000

#### **Cara**

Chicago, IL  
 carachicago.org  
*General Support*  
 \$30,000

#### **Carole Robertson Center for Learning**

Chicago, IL  
 crcl.net  
*General Support*  
 \$25,000

#### **Cato Institute**

Washington, DC  
 cato.org  
*Student Briefing Program and Student Seminar*  
 \$25,000

#### **Center for Economic Progress**

Chicago, IL  
 economicprogress.org  
*Financial Capability Program*  
 \$25,000

#### **CERGE-EI Foundation**

Teaneck, NJ  
 cerge-ei.cz/donors/foundation  
*Brinson Fellows Ph.D. Scholarship Program*  
 \$30,000

#### **Chicago Community Foundation Chicagoland Workforce Funder Alliance**

Chicago, IL  
 cct.org  
*Progressive Pathways Support Fund*  
 \$10,000

#### **Chicago Literacy Alliance**

Chicago, IL  
 chicagoliteracyalliance.org  
*General Support*  
 \$25,000

#### **Chicago Public Library Foundation**

Chicago, IL  
 cplfoundation.org  
*Early Literacy Training for Children's Library Staff*  
 \$25,000

#### **Chicagoland Entrepreneurial Center 1871**

Chicago, IL  
 1871.com/about-cec  
*General Support*  
 \$25,000

#### **Communities In Schools of Chicago**

Chicago, IL  
 cisofchicago.org  
*General Support for Student Health Programs*  
 \$35,000

#### **Constitutional Rights Foundation Chicago**

Chicago, IL  
 crfc.org  
*Lawyers in the Classroom Program – U.S. Constitution and Legal System Education for Grades 2-8*  
 \$25,000

#### **Council for the Advancement of Science Writing**

Hedgesville, WV  
 casw.org  
*Graduate School Science Writing Fellowship Stipends, General Support and the 10th World Conference of Science Journalists*  
 \$45,000

#### **Daniel Murphy Scholarship Fund**

Chicago, IL  
 dmsf.org  
*General Support*  
 \$45,000

#### **DuPage Children's Museum**

Naperville, IL  
 dupagechildrens.org  
*General Support*  
 \$35,000

#### **Erie Family Health Center**

Chicago, IL  
 eriefamilyhealth.org  
*General Support for the Teen Center*  
 \$30,000



**Harvard T.H. Chan School of Public Health**  
 Boston, MA  
[hsph.harvard.edu](http://hsph.harvard.edu)  
*Harnessing Private Enterprise for Public Health Project*  
 \$20,000

**Healthy Schools Campaign**  
 Chicago, IL  
[healthyschoolscampaign.org](http://healthyschoolscampaign.org)  
*General Support – Chicago*  
 \$35,000

**High Jump**  
 Chicago, IL  
[highjumpchicago.org](http://highjumpchicago.org)  
*General Support*  
 \$45,000

**The Horatio Alger Association**  
 Alexandria, VA  
[horatioalger.org](http://horatioalger.org)  
*Illinois College Scholarship Program*  
 \$50,000

**Illinois Caucus for Adolescent Health**  
 Chicago, IL  
[icah.org](http://icah.org)  
*General Support*  
 \$25,000

**Illinois Institute of Technology**  
 Chicago, IL  
[blogs.iit.edu/global-leaders](http://blogs.iit.edu/global-leaders)  
*Illinois Tech Global Leaders Program*  
 \$25,000

**Inner-City Computer Stars Foundation**  
 Chicago, IL  
[icstars.org](http://icstars.org)  
*General Support*  
 \$30,000

**Institute for Humane Studies**  
 Arlington, VA  
[theihs.org](http://theihs.org)  
*Student Programming*  
 \$30,000

**Jack Miller Center for Teaching America's Founding Principles and History**  
 Bala Cynwyd, PA  
[jackmillercenter.org](http://jackmillercenter.org)  
*Chicago Program Coordinator and Newberry Library Series on American Political Thought*  
 \$35,000

**Lake Forest Academy**  
 Lake Forest, IL  
[lfanet.org](http://lfanet.org)  
*Class of '93 Scholarship Fund for High School Students*  
 \$25,000

**Literacy Works**  
 Chicago, IL  
[litworks.org](http://litworks.org)  
*General Support*  
 \$25,000

**Loyola University Medical Center**  
 Maywood, IL  
[loyolamedicine.org](http://loyolamedicine.org)  
*Pediatric Mobile Health Unit*  
 \$25,000

**Mercatus Center at George Mason University**  
 Arlington, VA  
[mercatus.org](http://mercatus.org)  
*F. A. Hayek Program for Advanced Study in Philosophy, Politics and Economics*  
 \$25,000

**Merit School of Music**  
 Chicago, IL  
[meritmusic.org](http://meritmusic.org)  
*General Support*  
 \$30,000



**The Partnership for College Completion**  
 The Foundation collaborated with over a dozen other Chicago foundations to help create The Partnership for College Completion in 2016 to accelerate action to close the college graduation gap.



**MetroSquash**

Chicago, IL  
metrosquash.org  
*General Support*  
\$35,000

**Mikva Challenge Grant Foundation**

Chicago, IL  
mikvachallenge.org  
*Teen Health Council*  
\$25,000

**Miller Center Foundation**

Charlottesville, VA  
millercenter.org  
*Presidential Research Agenda Planning*  
\$25,000

**Moneythink**

Chicago, IL  
moneythink.org  
*General Support*  
\$25,000

**The Morton Arboretum**

Lisle, IL  
mortonarb.org  
*STEM Programs*  
\$35,000

**One Million Degrees**

Chicago, IL  
onemilliondegrees.org  
*General Support*  
\$35,000

**OneGoal**

Chicago, IL  
onegoalgraduation.org  
*General Support*  
\$25,000

**Ounce of Prevention Fund**

Chicago, IL  
theounce.org  
*General Support for Educare*  
\$25,000

**The Partnership for College Completion**

Chicago, IL  
partnershipfcc.org  
*General Support*  
\$25,000

**The Posse Foundation – Chicago**

Chicago, IL  
possefoundation.org  
*General Support*  
\$50,000

**Room to Read**

San Francisco, CA  
roomtoread.org  
*General Support for International Literacy Programs*  
\$25,000

**Rush University Medical Center**

Chicago, IL  
rush.edu  
*Adolescent Family Center Reproductive Health Program*  
\$40,000

**St. John's Hospital Foundation**

Jackson, WY  
stjohnshospitalfoundation.org  
*Nursing Education Program*  
\$40,000

**Scholarship America**

Minneapolis, MN  
scholarshipamerica.org  
*Atlantic Hurricane Recovery Scholarship Program*  
\$25,000

**Teach For America – Chicago**

Chicago, IL  
chicago.teachforamerica.org  
*General Support*  
\$35,000

**CERGE-EI Foundation**

CERGE-EI Foundation supports education for students from countries in transition, primarily through the Center for Economic Research and Graduate Education - Economics Institute in Prague.

**Teton Science Schools**

Jackson, WY  
tetonscience.org  
*General Support*  
\$30,000

**The University of Chicago Consortium on School Research**

Chicago, IL  
consortium.uchicago.edu  
*General Support*  
\$25,000

**The University of Chicago Urban Education Institute**

Chicago, IL  
uei.uchicago.edu  
*Literacy Teaching and Coaching*  
\$25,000

**WTTW****Window to the World Communications, Inc.**

Chicago, IL  
wttw.com  
*Local Broadcast of NOVA and NOVA ScienceNOW*  
\$70,000

**Namaste Funding Initiative**

*Namaste is a K-8 charter school in the McKinley Park neighborhood on the southwest side of Chicago.*

**Namaste Charter School**

Chicago, IL  
namastecharterschool.org  
*Alumni Support, Behavioral Health, Technology and General Support*  
\$75,000

**Peggy Notebaert Nature Museum Chicago Academy of Sciences**

Chicago, IL  
naturemuseum.org  
*STEM Teacher Professional Development and Student Science Learning*  
\$15,000

**Spark Chicago**

Chicago, IL  
sparkprogram.org  
*Workplace Apprenticeship and Mentoring Program*  
\$10,000





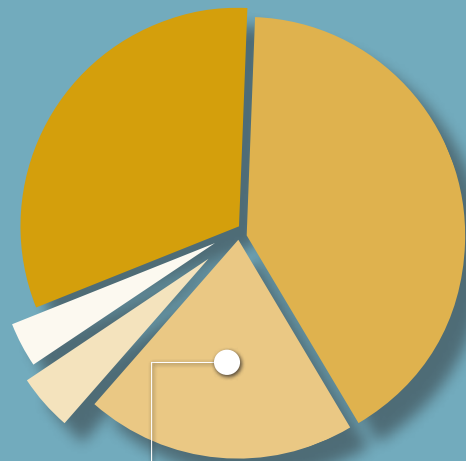
2017

PROGRAMMATIC GRANTS

SCIENTIFIC RESEARCH



We are interested in programs on the cutting edge of research in specific areas of interest to our Directors that are underfunded or not yet eligible for funding by governmental programs. These programs are typically sponsored by top research institutions, which provide quality assurance oversight and accountability that may not be possible in a less structured environment. Further, the programs often involve pre-doctoral and post-doctoral scientists who are beginning their research careers. We are particularly interested in programs that encourage early-career scientists to remain engaged in research in their field.



Scientific Research

12 Grants | \$880,000

19.8%

Our Scientific Research Grants are made in the following focus areas:

**Physical Sciences**

***Astrophysics*** – the study of the behavior, physical properties and dynamic processes of celestial objects and related phenomena.

***Cosmology*** – the study of the origin, structure and space-time relationships of the Universe.

***Evolutionary Developmental Biology*** – a field of biology which synthesizes embryology, molecular and population genetics, comparative morphology, paleontology and molecular evolution to understand the evolution of biodiversity at a mechanistic level.

***Geophysics*** – the study of the physical processes and phenomena occurring in and on the Earth and in its vicinity.

**Medical Research**

We partner with leading medical research institutions to fund promising studies conducted by junior investigators that have the potential to cultivate new, innovative clinical interventions for chronic conditions as well as highly treatable conditions which negatively impact the productivity of large segments of the population.

In all cases, we focus our medical research funding in areas that improve the quality of life as distinct from solely extending life.

*The Foundation does not accept grantseeker inquiries in medical research.*

**California Institute of Technology**  
Pasadena, CA  
astro.caltech.edu  
*Theoretical Gravitational Wave Research*  
\$70,000

**Carnegie Institution for Science**  
Washington, DC  
carnegiescience.edu  
*Seismology Monitoring Research*  
\$55,000

**Columbia University**  
**Lamont-Doherty Earth Observatory**  
Palisades, NY  
ldeo.columbia.edu  
*Anticipating Earthquakes Initiative*  
\$60,000

**Cornell University**  
**Center for Astrophysics and Planetary Science**  
Ithaca, NY  
egg.astro.cornell.edu  
*Arecibo Legacy Fast ALFA Cosmology Research Program*  
\$45,000

**National Geographic Society**  
Washington, DC  
nationalgeographic.org/explorers  
*Early Career Grants Program*  
\$30,000

**Northwestern Memorial Foundation**  
Chicago, IL  
nucats.northwestern.edu  
*Medical Research – Junior Investigator Award*  
\$65,000

**Rush University Medical Center**  
Chicago, IL  
rush.edu  
*Breast Cancer Research*  
\$300,000

**Smithsonian Astrophysical Observatory**  
Cambridge, MA  
cfa.harvard.edu/sao  
*Exoplanet Biosignature Programming Project*  
\$40,000

**The University of Arizona Foundation**  
Tucson, AZ  
spacewatch.lpl.arizona.edu  
*Spacewatch – Asteroid Composition Research*  
\$30,000

**The University of Chicago**  
**Department of Astronomy and Astrophysics**  
Chicago, IL  
astro.uchicago.edu  
*Brinson Fellowship Program*  
\$85,000

**The University of Chicago**  
**Department of Organismal Biology and Anatomy**  
Chicago, IL  
pondside.uchicago.edu/oba  
*Evolutionary Developmental Biology Research*  
\$40,000

**The University of Utah**  
Salt Lake City, UT  
www.uusatrg.utah.edu  
*Yellowstone Seismology and Tectonophysics Research*  
\$60,000

**California Institute of Technology** >  
Faculty and graduate students  
utilizing the LIGO operated  
40 Meter prototype gravitational  
wave interferometer on the  
Caltech campus.



2017

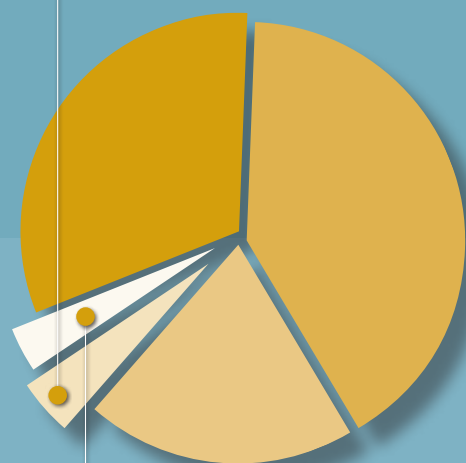
BOARD SPECIAL INTEREST  
& OTHER GRANTS

These grants represent special family interests and are either one time grants or fall outside of the Foundation's grantmaking priorities. The Foundation does not accept inquiries related to this category.

Board Special Interest

9 Grants | \$185,000

4.2%



Other

52 Grants | \$147,650

3.3%

2017 Board Special Interest Grants

**American Writers Museum**  
Chicago, IL  
americanwritersmuseum.org  
*General Support*  
\$15,000

**Boys and Girls Club of Chicago**  
Chicago, IL  
bgcc.org  
*General Support*  
\$15,000

**Frank Lloyd Wright Trust**  
Chicago, IL  
flwright.org  
*Robie House Initiative*  
\$10,000

**Hobart and William Smith Colleges**  
Geneva, NY  
hwsathletics.com  
*Lacrosse Program*  
\$15,000

**Jackson Hole Land Trust**  
Jackson, WY  
jhlandtrust.org  
*General Support*  
\$35,000

**The Living Desert**  
Palm Desert, CA  
livingdesert.org  
*General Support*  
\$20,000

**National Museum of Wildlife Art**  
Jackson, WY  
wildlifeart.org  
*General Support*  
\$20,000

**Teton County Integrated Solid Waste & Recycling Jackson Community Recycling**  
Jackson, WY  
tetoncountywy.gov/recycl  
*General Support*  
\$30,000

**WE Charity**  
Chicago, IL  
WE.org  
*WE Schools – Illinois*  
\$25,000

2017 Other Grants

**American Association for the Advancement of Science**  
Washington, DC  
aaas.org  
*General Support*  
\$1,000

**Association of Fundraising Professionals**  
Naperville, IL  
afpchicago.org  
*Awards Luncheon Sponsorship*  
\$4,500

**The Chicago Public Education Fund**  
Chicago, IL  
thefundchicago.org  
*Honorarium*  
\$5,000

**Forefront**  
Chicago, IL  
myforefront.org  
*General Support*  
\$26,000

**Grantmakers for Education**  
Portland, OR  
edfunders.org  
*General Support*  
\$1,000

**Grantmakers for Effective Organizations**  
Washington, DC  
geofunders.org  
*General Support and Conference Sponsorship*  
\$12,250

**GuideStar**  
Washington, DC  
guidestar.org  
*General Support*  
\$500

**National Center for Family Philanthropy**  
Washington, DC  
ncfp.org  
*General Support and 20th Anniversary Celebration Programs*  
\$9,900

**Pennsylvania State University**  
University Park, PA  
psu.edu  
*Honorarium*  
\$2,500

**Professional Development and Technical Assistance Grants** *The Foundation provided Professional Development and Technical Assistance grants and funded a peer skill sharing micro-grants program (through Forefront) which benefitted 40 existing grantees.*  
\$85,000



## STATEMENT OF FINANCIAL POSITION (UNAUDITED)

### Modified Cash Basis

December 31, 2017

| ASSETS                         |                       |
|--------------------------------|-----------------------|
| Cash                           | \$ 82,683             |
| Investments, at Fair Value     | 115,999,743           |
| Property and Equipment, Net    | 123,865               |
| <b>TOTAL ASSETS</b>            | <b>\$ 116,206,291</b> |
| NET ASSETS                     |                       |
| <b>UNRESTRICTED NET ASSETS</b> | <b>\$ 116,206,291</b> |

**Note to the Reader:** In an effort to comply with best practices for private foundations, The Brinson Foundation will be undergoing a financial statement audit for the year ended December 31, 2017. Audited financial statements will be available upon request later in 2018.

See Notes to Financial Statements (Unaudited)

## STATEMENT OF ACTIVITIES (UNAUDITED)

### Modified Cash Basis

For the Year Ended December 31, 2017

| REVENUES  |                       |
|---|-----------------------|
| Contribution Income                                   | \$ 3,872              |
| Investment Income                                     | 2,193,718             |
| Realized and Unrealized Gains (Losses) on Investments | 12,554,771            |
| <b>Total Revenues</b>                                 | <b>14,752,361</b>     |
| EXPENSES  |                       |
| Grants and Donations                                  | 4,452,650             |
| Private Foundation Excise Tax                         | 5,000                 |
| Investment Management Fees                            | 354,999               |
| Employee Services                                     | 710,914               |
| Rent  | 51,200                |
| Professional Fees                                     | 113,400               |
| Other Administrative Expenses                         | 65,176                |
| Depreciation Expense                                  | 8,481                 |
| <b>Total Expenses</b>                                 | <b>5,761,820</b>      |
| <b>CHANGE IN NET ASSETS</b>                           | <b>8,990,541</b>      |
| Net Assets, Beginning of Year – Unrestricted          | 107,215,750           |
| <b>NET ASSETS, END OF YEAR – Unrestricted</b>         | <b>\$ 116,206,291</b> |

**Note to the Reader:** In an effort to comply with best practices for private foundations, The Brinson Foundation will be undergoing a financial statement audit for the year ended December 31, 2017. Audited financial statements will be available upon request later in 2018.

See Notes to Financial Statements (Unaudited)



## NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

### Modified Cash Basis

For the Year Ended December 31, 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Basis of Accounting*

The financial statements of The Brinson Foundation (the "Foundation") are prepared on a modified cash basis; consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

##### *Investments*

Investments in mutual fund and exchange-traded fund investments are stated at fair value based on quoted market prices. The estimated fair values of alternative investment securities that do not have readily

determined fair values (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications or exchanges) are based on estimates developed by external investment managers. Realized gains and losses are determined on the basis of the carrying value of specific securities sold and investment transactions are recorded on a trade-date basis.

Investments in property and equipment held for charitable purposes are stated at cost or the value at the date of acquisition less applicable accumulated depreciation. Leasehold improvements are depreciated using the MACRS method over an estimated useful life of 39 years. Furniture and computer equipment are depreciated using the MACRS method over useful lives of 7 and 5 years, respectively.

#### 2. GRANT AND DONATION COMMITMENTS

As of December 31, 2017, the Foundation's Board of Directors has approved grants and/or donations of \$280,000 payable through 2021. Disbursements are scheduled to be made as follows:

| Year Ending December 31, |            |
|--------------------------|------------|
| 2018                     | \$ 145,000 |
| 2019                     | \$ 85,000  |
| 2020                     | \$ 25,000  |
| 2021                     | \$ 25,000  |

#### 3. TAX STATUS

The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation is, however, liable for the private foundation excise tax of 1% or 2% on its net investment income. In addition, the Foundation is required to make minimum qualifying distributions based on a percentage of its assets.

#### 4. NET ASSETS

Beginning of the year Net Assets represent the value from the audited financial statements for the year ended December 31, 2016. This balance differs from the amount in the prior year annual report which was estimated prior to completion of the audit.

**Note to the Reader:** In an effort to comply with best practices for private foundations, The Brinson Foundation will be undergoing a financial statement audit for the year ended December 31, 2017. Audited financial statements will be available upon request later in 2018.

**OBJECTIVES**

The objectives of the Foundation's investment portfolio are to produce a long-term rate of return that provides sufficient funds to meet the Foundation's required grantmaking target, cover all reasonable and necessary expenses and compensate for inflation. The assets will be invested in a well-diversified global investment portfolio that accepts reasonable risk consistent with the desired return.

**GENERAL STANDARDS OF CARE**

The Foundation's Investment Policy provides that the management and investment of the Foundation's assets shall meet the standards of care outlined by the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) and U.S. Treasury Regulations Section 53.4944-1(a)(2)

(regarding "jeopardizing investments"). Pursuant to these standards, the Foundation's assets must be managed and invested with reasonable care and prudence. Decisions regarding individual investments must not be made in isolation but in context of the portfolio as a whole and as part of an overall investment strategy.

**BENCHMARK**

The Foundation has adopted a globally diversified benchmark, the Global Diversified Index (GDI), comprised of stocks, bonds, real estate and private markets. The actual portfolio's risk and return will be measured against this benchmark over full market cycles. The Foundation's benchmark composition and ranges are shown below.

**GLOBAL DIVERSIFIED INDEX (GDI) COMPONENTS** (As of December 31, 2017)

| ASSET CLASS          | BENCHMARK INDEX COMPONENT   | NORMAL WEIGHT  | RANGES (95% FREQUENCY) |
|----------------------|---|----------------|------------------------|
| Global Equity        | MSCI All Country World Index  | 55.00%         | +/- 30%                |
|                      | <i>Developed Markets</i>  | 48.50%         |                        |
|                      | <i>Emerging Markets</i>   | 6.50%          |                        |
| Private Markets      | Cambridge Associates Private Equity Index                           | 5.00%          | +/- 5%                 |
| Real Estate          | NCREIF Property Index   | 10.00%         | +/- 5%                 |
| Global Bonds         | Bloomberg Barclays Global Aggregate Bond Index                      | 25.00%         | 0 to +30%              |
|                      | <i>Bloomberg Barclays Capital U.S. Aggregate Bond Index</i>         | 12.50%         |                        |
|                      | <i>Bloomberg Barclays Global Aggregate ex USD Corporate Index</i>   | 12.50%         |                        |
| High Yield Bonds     | Bloomberg Barclays High Yield Very Liquid Bond Index                | 3.00%          | 0 to +10%              |
| Emerging Market Debt | Bloomberg Barclays USD Emerging Markets Government RIC Capped Index | 2.00%          | 0 to +10%              |
| Cash Equivalents     | ICE BofA Merrill Lynch U.S. 3-Month Treasury Bill Index             | 0.00%          | 0 to +50%              |
| <b>TOTAL</b>         |   | <b>100.00%</b> |                        |

Source: BISAM, Bloomberg, GP Brinson Investments, MSCI



### INVESTMENT MARKET CONDITIONS

Investment markets in 2017 were characterized by increasingly optimistic forward-looking growth rates discounted by historically low rates and subdued risk premia. Synchronous global growth and improving fundamentals were underpinned by unnaturally low, and sometimes negative, nominal and real interest rates resulting from central bank intervention. This combination supported elevated valuations and resulted in attractive realized returns for risk assets last year. Despite turbulent political headlines, bottom line investment performance was remarkably tranquil, as individual asset class volatilities experienced record or near record lows in combination with negative correlations between government bonds and stocks that dampened volatilities for diversified portfolios. As a result of subdued observed volatilities, low correlations, and negative real risk-free cash rates in 2017, risk adjusted returns for individual asset classes and diversified portfolios were even more impressive than the observed asset returns.

Since the Great Recession, markets and investors have been forced to focus on both exogenous risks associated with central bank policy and traditional endogenous risks. Endogenous risks are variables from *inside* the financial and economic system, such as cash flows, discount rates, and inflation, whereas

exogenous risks are associated with risks *outside* the financial system such as central bank intervention. Central bank intervention, justifiably initiated during the depths of the Great Recession, successfully staved off a financial market meltdown during that period of time.

After a meltdown was averted, central banks pursued a policy of Quantitative Easing (QE) in increasing measures. QE is a monetary policy whereby central banks expand their balance sheets by purchasing government bonds and other securities to stimulate economic growth and create a wealth effect by inflating asset values. QE is an unconventional policy without historical precedent. QE introduced central banks as a new agent to financial markets. This new agent, which had set the price for overnight money historically, became the most significant buyer of global government bonds and telegraphed their volume based – and price indiscriminate – purchase intentions. As part of QE, developed market central banks set some overnight rates at or below zero and announced sizable bond purchase programs, expanding their collective balance sheets by nearly \$10 trillion over the last 10 years. While the investment world is too complex to summarize in a single statistic, aggregate central bank balance sheet expansion goes a long way toward explaining negative nominal interest rates, and the past decade's asset returns, volatilities, and correlations.

Negative nominal interest rates in some regions of the world have been a hallmark of QE. Because negative nominal interest rates are unprecedented and unnatural, they can only exist in an environment where powerful agents dominate the price discovery process by communicating their willingness to be the marginal buyer of securities at indiscriminate prices. The existence of negative nominal interest rates underscores the difficulty associated with analyzing or modeling these policies; which is why exogenous risks are more aptly termed uncertainties. Although QE policies have been readily observable and communicated clearly, they have distorted the price discovery mechanism for default free assets. Central bank policies that directly repress the default free rates used to discount future cash flows inflate asset values. Furthermore, QE has been extant for so long it has also influenced other inputs imbedded in investment models, specifically volatilities and correlations. QE suppressed volatility in government bond markets directly and in equity markets indirectly. The implied “central bank put” is evident in the existence and stability of the negative correlation between equities and long-dated government bonds since the Great Recession.

Last year witnessed an epochal event for central bank intervention: the initial withdrawal from QE by the Federal

Reserve (Fed). The U.S. economic recovery drove unemployment rates to pre-crisis lows, allowing the Fed to begin removing policy accommodation by raising the Fed Funds rate in three distinct 25 basis point increments in 2017 and announcing it would reduce its \$4.5 trillion balance sheet, replacing QE with Quantitative Tightening (QT). Somewhat surprisingly, long-term interest rates fell, and the term premium compressed in 2017. 10-year U.S. Treasury (UST) yields declined a bit from 2.45% to 2.41%, while 30-year UST yields fell more substantially from 3.07% to 2.74%. Real 10-year yields fell slightly from 0.48% to 0.43%, meaning 10-year implied inflation was almost unchanged over the year, at 1.97% and 1.98%. Real 30-year yields accounted for most of the year over year decline in yields, falling from 0.99% to 0.72%, resulting in 30-year implied inflation of 2.08% and 2.02%. The significant characteristics of the U.S. government bond market in 2017 can be summarized as: fair implied inflation compensation consistent with the Fed's stated objectives, low and declining real yields that contributed to term premium compression, record low volatility and persistently negative correlations to equity markets. Inflation expectations in U.S. government bonds had normalized but real interest rates remained repressed.

Ex-U.S. developed government bond markets were dominated by the activities

of the new agents QE introduced to their bond markets: the Bank of Japan (BOJ), the European Central Bank (ECB) and the Bank of England (BOE). Economic growth in these regions has lagged the U.S., and each of the central bank policies reflect their own circumstances. The BOJ made no policy changes in 2017, keeping its short-term rate at -0.1% and continuing its balance sheet expansion to achieve a 10-year bond yield target of 0.0%. The ECB announced a reduction in its monthly purchases from €60B to €30B while keeping its main refinancing rate at 0.0% and its deposit facility unchanged at -0.40%. In November the BOE raised its policy rate for the first time in over a decade from 0.25% to 0.50% and maintained its Asset Purchase Facility. These policy initiatives help define the agents, or marginal buyers, in their respective markets and explain both the reality and magnitude of negative-yielding debt and exceptionally low government bond volatility. Negative-yielding debt increased slightly in 2017, ending the year at just over \$8 trillion.

Government bond markets provide the discounting mechanism, the denominator in present value calculations, for risk asset classes. For the first time since the Great Recession, global economic growth appeared to gain sustainable traction, which translated into expectations for increased earnings growth, the numerator in present value calculations. Above trend

earnings growth rates discounted at suppressed real interest rates and supplemented with record low volatility is a powerful tonic for risk asset valuations. In the U.S., optimism surrounding the anticipated fiscal stimulus provided by the Tax Cuts and Jobs Act further accelerated expectations for economic and earnings improvement. Global equity markets imbedded optimistic growth rates into the numerator of valuation models but left the denominator – interest rates – unchanged, closing out 2017 on a strong note: record highs for equity levels and, like their government bond counterparts, record lows for volatility.

In retrospect, 2017 was a notable year for central bank augmentation of both nominal and risk adjusted investment returns. Repressed real interest rates used to discount improving fundamentals increases the present value of future cash flows and produces attractive risk asset returns. Pervasive central bank influence since the Great Recession, an exogenous uncertainty, has influenced other endogenous investment variables, such as volatilities, correlations, and risk-free cash rates, that are used to calculate risk adjusted returns. QE's powerful cocktail of repressed and often negative nominal and real interest rates, declining volatility, and negative correlation between stocks and bonds has been extant for years. Improving fundamentals were an

accelerant that produced extremely attractive risk adjusted returns, contributing to escalation of pro-cyclical, self-reinforcing investor behavior throughout 2017.

### INVESTMENT RETURNS IN 2017

Investment market performance in 2017 followed the narrative outlined above: risk assets provided investors attractive returns with suppressed volatility while government bonds provided investors coupon like returns with equally low volatility. As in past years and illustrated in Exhibit A, currencies played a pronounced role between unhedged and dollar hedged asset returns.

In 2017, Cash provided a nominal return of 0.57%, well below the inflation rate of 2.11%. Investors holding cash knowingly accept a negative real return, a “financial repression tax” imposed on all savers and a transfer to the government and the financial system. In exchange for this known “tax,” cash is an asset with no duration risk or volatility. These characteristics provide investors holding cash attractive optionality should other asset classes experience a dislocation. As indicated earlier, government bond market returns were driven by central bank policy and provided coupon like returns on a dollar hedged basis. The difference between the 7.29% return for unhedged Global Government Bonds compared to the 2.14% return for the

dollar hedged index was attributable to U.S. dollar weakness versus the other major currencies. Consistent with the theme of attractive risk asset returns, credit spreads in U.S. Investment Grade Bonds, U.S. High Yield Bonds, and Emerging Market Debt all contracted throughout 2017 to their tightest levels since the Great Recession, producing above coupon returns of 6.42%, 6.81%, and 8.46%, respectively.

U.S., Global, and ex-U.S. equity markets had respective returns of 21.83%, 18.48%, and 16.75% on a dollar-hedged basis in 2017. Over the last several years U.S. equities performance relative to other geographies resulted from investors paying a premium multiple for U.S. earnings. Encouraging economic growth in other economies combined with improving fundamentals resulted in more aligned performance among all the developed equity markets last year. Emerging Market Equities posted a strong 37.28% return in reflection of their higher beta to synchronous global growth as well as catching up after lagging the initial stages of the global equity market recovery.

Real Estate and Private Markets had respective returns of 6.96% and 19.01% in 2017. Real Estate returns continued to dampen in 2017 from previous years as this market is influenced negatively by the specter of rising interest rates. Investors need to be mindful that the attractive

Private Markets returns cannot be viewed in isolation nor as sustainable. Realized returns in both these markets tend to lag their liquid counterparts and are highly correlated with liquid alternatives in these otherwise illiquid asset classes. Like other risk assets, Private Markets returns have been influenced positively by multiple expansions resulting from improving fundamentals discounted by repressed real interest rates as well as an abundance of liquidity alternatives throughout the last couple years.

As mentioned earlier, non-dollar currency exposure had a notable impact on global asset returns in 2017, attributable to U.S. dollar weakness versus all the other major currencies, the Japanese yen, the pound sterling, and especially the euro. Non-dollar currency in global bonds (ex-U.S.) had a contribution of 8.58% versus the dollar-hedged portfolio, while the impact of currency exposure in global equities (ex-U.S.) was 6.39%.

### CURRENT INVESTMENT CONDITIONS

Starting points matter for prospective investment returns. Endogenous and exogenous risks, or uncertainties, were tranquil throughout 2017. Central bank intervention in the form of QE presented a powerful and increasing tailwind for return focused managers and investment product development but has been confounding for risk managers. Optimistic growth rates discounted by low real

interest rates and subdued risk premia increase valuations and accelerate investment returns, but the numerator and denominator in this equation are incongruous. One or the other must prevail; they cannot coexist in perpetuity. Equity and U.S. government bond volatility touched record lows in 2017, but volatility itself is volatile. Stock and government bond correlations had been negative and remarkably stable since the Great Recession and contrary to their historical relationship. These observable endogenous variables accelerated the present value of cash flows and combined to produce alluring risk adjusted returns but form an unattractive starting point for prospective intermediate to long term returns. As Hyman Minsky argued, “stability is destabilizing.” How the future unfolds is unknown, but early 2018 provided investors a glimpse of how exogenous uncertainties may intersect with endogenous risks specific to the influence of real interest rates and on volatilities and correlations.

Pro-cyclical forces from 2017 carried through to early 2018 as the S&P 500 posted its best January return since 1997. U.S. interest rates, especially real interest rates, increased appreciably in early 2018. In the 40 days from the end of the year through February 9<sup>th</sup>, UST 10- and 30-year yields increased 44 and 42 basis points to 2.85% and 3.16% respectively, with real yields – not inflation

expectations – representing 80% and 71% of those increases. The impact of rising real discount rates impacted stocks, catalyzing a counter cyclical “volatility tantrum” and an appreciable drawdown in global equities during February. Volatility, measured by the VIX, touched 50 after having been less than 9 in early January. For the first time since the beginning of QE, interest rates continued to rise as stock prices fell; the correlation between interest rates and stock prices was positive, not negative.

Investors are faced with two predominant paths forward towards normalization. Optimistic growth rates cannot be discounted at historically low real interest rates in perpetuity. Neither path forward suggests historical returns will be predictive of future returns, but it is more likely that historical returns were accelerated at the expense of future returns. One predominant path forward might be considered a null hypothesis, or glide path, where growth rates and real interest rates normalize gradually through the passage of time, over a five- to ten-year window. Should this glide path unfold, investments will provide meager real and nominal returns until assets are priced to deliver satisfactory real returns. Returns will be disappointing along this glide path, and investors will be unlikely to achieve their return objectives during this time frame. Afterwards, however, assets will once again be priced to deliver

satisfactory returns from that point forward. Early 2018 provided investors a possible preview of the alternative predominant path, the opposite of a glide path. In this alternative, assets reprice abruptly, possibly resulting from real interest rates moving abruptly along the path to normalization. Although this path entails painful drawdowns associated with the recalibration of valuations, as well as an unwind of pro-cyclical effects on volatilities and correlations, it provides an improved starting point for prospective returns for all assets much sooner than the glide path alternative. Neither of these predominant paths is comfortable for investors, and both anticipate normalizations of real interest rates, volatility, and government bond and equity correlations. The only question is the timing and duration of the normalization and attendant discomfort.

Interest rates are a critical input for asset valuations, and their path forward will play an integral role in asset valuations and returns. Negative nominal interest rates are unnatural and without precedent. Repressed real interest rates are unsustainable without continued intervention. QE is a central bank’s experiment and unlikely to stand the test of time. Unintended consequences associated with this experiment, whether QE or QT, may be judged harshly by history.



A starting point comprised of an optimistic numerator – which *may* be correct – and unrealistic denominator – which is *dependent* upon QE – suggests that an attractive, self-reinforcing, and stable path forward for investment returns is unlikely. The direction of the path forward may hinge on the intersection between central bank exogenous uncertainties and endogenous risks specific to real interest rates and their impact on volatilities and correlations.

### INVESTMENT STRATEGY

Relative to our Global Diversified Index (GDI) benchmark (see GDI Components on page 24), The Brinson Foundation began 2018 with a significant above policy weight in Cash and High Yield Bonds that was funded by below policy weights in Global Bonds, Emerging Markets Debt, Real Estate, and Global Equities, specifically U.S. Equities. The Cash overweight coordinates with strategy underweights to substantially reduce the portfolio's duration risk. Our High Yield Bonds exposure was increased further in 2018 in response to an idiosyncratic floating rate high yield opportunity and not the attraction of the asset class itself. As illustrated in Exhibit B, the portfolio ended the year with a decidedly less than neutral risk posture, attributable to the meaningful underweight in Global Bonds

in combination with smaller underweights in U.S. Equity, Real Estate, and Emerging Market Debt, all offset by the meaningful Cash position. The sizable Cash position reduces overall portfolio duration risk and volatility and provides option value should a period of volatility and disruption occur. This risk posture reflects our concerns regarding how the aforementioned exogenous uncertainties may intersect with endogenous risks. Prudent risk management is often indistinguishable and can act as a drag on performance in risk seeking environments. Nonetheless, sensible risk management is the distinguishing characteristic that enables investors to be risk seeking when markets are in risk avoidance – and *prospective* returns are most attractive.

2017's market environment of elevated risk adjusted returns appears unsustainable both relative to history and relative to the risks we judge to be extant. As we write this in late February, 2018 we find real interest rates on long duration default free Treasury bonds are 1.01% with inflation expectations set at 2.15% for a nominal rate of 3.16%. If this were to be the new normal, then equity valuations are not dangerously elevated as their expected real return of around 4.5% and 6.5% nominal is not out of line with the bond market although the implied risk premium of around 3.5% could be considered on the low side. However, it

seems to us that a more sensible and sustainable state of affairs would have long duration Treasuries with a real interest rate approaching 2.0% and inflation expectations around 2.5% suggesting a nominal rate of around 4.5%. The equity market in this setting would need to produce a nominal return of around 8.0%. As discussed earlier, the repricing adjustment in markets to equilibrate with these circumstances may be rapid or gradual but in either case rather unpleasant.

### PERFORMANCE RESULTS

For the calendar year, the portfolio experienced a 14.31% return, versus 16.01% for our GDI benchmark (see Exhibit C). The inflation rate, using the Consumer Price Index, was 2.11% for the year, making the portfolio's real (inflation adjusted) return 11.95% versus 13.61% for the GDI. Compared to the benchmark, the portfolio's performance was positively influenced by security selection in Real Estate and High Yield Bonds and was negatively impacted by market allocation, specifically the significant Cash position that offsets the sizable Global Bond and small U.S. Equity underweights.

The Brinson Foundation's real return objective is 4.0% to 4.5% with moderate risk exposure. From today's starting point we are reconciled to the fact that neither of the two predominant paths forward is

likely to satisfy our real return objectives without a substantial increase in risk. Increasing risk at this juncture would impinge the portfolio's ability to produce acceptable returns over a full market cycle and potentially challenge The Brinson Foundation's ability to fulfill its grantmaking mission even after normalization has occurred.

The portfolio's real annualized performance since inception (12/31/00) has been 5.12%, compared to the benchmark's 4.09%, producing 1.03% of added value with most of this contribution coming from market allocation decisions. The portfolio's annualized nominal return since inception has been 7.30% versus the benchmark's 6.25% return. Since inception, the portfolio's volatility is 8.86% compared to the benchmark's 8.99%. Please refer to Exhibit D for a graphic display that includes a wealth index for both the benchmark and the portfolio.

We expect improvement relative to the benchmark specific to security selection after we receive final end of year valuations from our managers in the Private Markets and Real Estate asset classes. Performance revisions take place for *both* the portfolio and the benchmark from the original estimates published in this report each year. Revised historical performance and volatility statistics for the portfolio and the benchmark are included in Exhibit E.

## INVESTMENT MARKET OVERVIEW

2017 and Inception to Date  
Global Capital Market Returns

| EXHIBIT A                      |  |         |   |
|--------------------------------|--|---------|---|
| NOMINAL RETURNS                | INDEX  | 2017    | ANNUALIZED 12/31/00<br>THROUGH 12/31/17 |
| Global Diversified Index (GDI) | GDI (Unhedged)   | 16.01 % | 6.25 %                                  |
|                                | GDI (\$ Hedged)  | 13.63 % | 6.16 %                                  |
| U.S. Inflation (CPI)           | CPI  | 2.11 %  | 2.07 %                                  |
| REAL RETURNS                   |  |         |   |
| Global Diversified Index (GDI) | GDI (Unhedged)   | 13.53 % | 4.09 %                                  |
|                                | GDI (\$ Hedged)  | 11.28 % | 4.01 %                                  |
| MARKET INDEX                   |  |         |   |
| Cash Equivalents               | ICE BofA Merrill Lynch U.S. 3-Month Treasury Bill Index          | 0.57 %  | 1.49 %                                  |
| Global Government Bonds        | Bloomberg Barclays Global Aggregate Treasuries Index (Unhedged)  | 7.29 %  | 4.57 %                                  |
|                                | Bloomberg Barclays Global Aggregate Treasuries Index (\$ Hedged) | 2.14 %  | 4.34 %                                  |
| Ex-U.S. Government Bonds       | Bloomberg Barclays Global Treasury ex-U.S. (Unhedged)            | 10.82 % | 4.64 %                                  |
|                                | Bloomberg Barclays Global Treasury ex-U.S. (\$ Hedged)           | 2.07 %  | 4.45 %                                  |
| U.S. Bonds (Investment Grade)  | Bloomberg U.S. Corporate Bond Index                              | 6.42 %  | 4.98 %                                  |
| U.S. High Yield Bonds          | Bloomberg Barclays High Yield Very Liquid Bond Index             | 6.81 %  | 7.93 %                                  |
| Emerging Market Debt           | Bloomberg Barclays USD EM Government RIC Capped Index            | 8.46 %  | 8.63 %                                  |
| Global Equities                | MSCI World Free Index (Unhedged)                                 | 22.40 % | 5.24 %                                  |
|                                | MSCI World Free Index (\$ Hedged)                                | 18.48 % | 4.73 %                                  |
| U.S. Equities                  | S&P 500  | 21.83 % | 6.33 %                                  |
| Ex-U.S. Equities               | MSCI World Free ex-U.S. Index (Unhedged)                         | 24.21 % | 4.64 %                                  |
|                                | MSCI World Free ex-U.S. Index (\$ Hedged)                        | 16.75 % | 4.02 %                                  |
| Emerging Market Equities       | MSCI Emerging Markets Net Index                                  | 37.28 % | 10.20 %                                 |
| Real Estate                    | NCREIF Property Index  | 6.96 %  | 8.78 %                                  |
| Private Markets                | Cambridge Associates Private Equity Index                        | 19.01 % | 8.98 %                                  |

Source: BISAM, Bloomberg, GP Brinson Investments, MSCI

## INVESTMENT STRATEGY

### Market & Currency Allocation

As of December 31, 2017

| EXHIBIT B                   |                 |                        |               |
|-----------------------------|-----------------|------------------------|---------------|
| MARKET ALLOCATION           | BENCHMARK       | THE BRINSON FOUNDATION | DIFFERENCE    |
| Global Equity               | 55.00 %         | 51.30 %                | -3.70 %       |
| <i>Developed Markets</i>    | 48.50 %         | 44.39 %                | -4.11 %       |
| <i>Emerging Markets</i>     | 6.50 %          | 6.91 %                 | 0.41 %        |
| Private Markets             | 5.00 %          | 3.88 %                 | -1.12 %       |
| Real Estate                 | 10.00 %         | 7.09 %                 | -2.91 %       |
| Global Bonds                | 25.00 %         | 4.18 %                 | -20.82 %      |
| <i>U.S. Bonds</i>           | 12.50 %         | 4.18 %                 | -8.32 %       |
| <i>Global ex-U.S. Bonds</i> | 12.50 %         | 0.00 %                 | -12.50 %      |
| High Yield Bonds            | 3.00 %          | 5.49 %                 | 2.49 %        |
| Emerging Market Debt        | 2.00 %          | 0.00 %                 | -2.00 %       |
| Cash Equivalents            | 0.00 %          | 28.06 %                | 28.06 %       |
| <b>TOTAL</b>                | <b>100.00 %</b> | <b>100.00 %</b>        | <b>0.00 %</b> |
| CURRENCY ALLOCATION         | BENCHMARK       | THE BRINSON FOUNDATION | DIFFERENCE    |
| North America               | 65.70 %         | 77.16 %                | 11.46 %       |
| <i>U.S.</i>                 | 62.92 %         | 75.43 %                | 12.51 %       |
| <i>Canada</i>               | 2.52 %          | 1.52 %                 | -1.00 %       |
| <i>Mexico</i>               | 0.26 %          | 0.21 %                 | -0.05 %       |
| Euro                        | 12.57 %         | 5.01 %                 | -7.56 %       |
| UK                          | 4.79 %          | 2.87 %                 | -1.92 %       |
| Other Europe                | 3.01 %          | 2.41 %                 | -0.60 %       |
| Japan                       | 5.97 %          | 4.15 %                 | -1.82 %       |
| Asia (ex-Japan)             | 2.95 %          | 3.61 %                 | 0.66 %        |
| Australia / New Zealand     | 1.71 %          | 1.18 %                 | -0.53 %       |
| China / Hong Kong           | 2.01 %          | 2.32 %                 | 0.31 %        |
| Other Emerging Markets      | 1.29 %          | 1.30 %                 | 0.01 %        |
| <b>TOTAL</b>                | <b>100.00 %</b> | <b>100.00 %</b>        | <b>0.00 %</b> |

Source: BISAM, FactSet,  
GP Brinson Investments



## INVESTMENT PERFORMANCE (Net of Fees)

For the Period Ending December 31, 2017

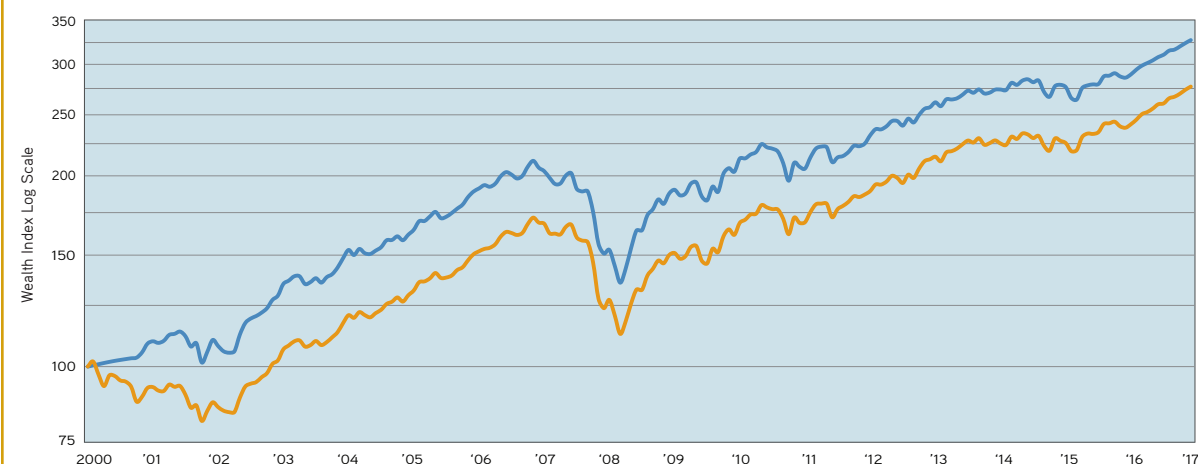
### EXHIBIT C

| 2017 PORTFOLIO PERFORMANCE   | 2017            | INFLATION RATE | REAL RETURN |             |
|--|-----------------|----------------|-------------|-------------|
| The Brinson Foundation Portfolio                                   | 14.31 %         | 2.11 %         | 11.95 %     |             |
| Global Diversified Index   | 16.01%          | 2.11 %         | 13.61 %     |             |
| Added Value  | -1.70%          |                | -1.66%      |             |
| SINCE INCEPTION (12/31/2000)<br>PORTFOLIO PERFORMANCE (Annualized) | SINCE INCEPTION | INFLATION RATE | REAL RETURN | VOLATILITY* |
| The Brinson Foundation Portfolio                                   | 7.30%           | 2.07 %         | 5.12 %      | 8.86%       |
| Global Diversified Index   | 6.25%           | 2.07 %         | 4.09%       | 8.99%       |
| Added Value  | 1.05%           |                | 1.03%       |             |

### EXHIBIT D

#### THE BRINSON FOUNDATION PORTFOLIO & GLOBAL DIVERSIFIED INDEX BENCHMARK

December 31, 2000 – December 31, 2017



|                   | <u>Portfolio</u> | <u>Benchmark</u> |
|-------------------|------------------|------------------|
| Annualized Return | 7.30%            | 6.25%            |
| Volatility*       | 8.86%            | 8.99%            |

— The Brinson Foundation Portfolio  
— GDI

\* Annualized standard deviation of monthly logarithmic returns

Source: BISAM, GP Brinson Investments

THE BRINSON FOUNDATION PORTFOLIO &  
GLOBAL DIVERSIFIED INDEX BENCHMARK

Historical Performance and Volatility

December 31, 2000 - December 31, 2017

EXHIBIT E

The Brinson Foundation Portfolio and Global Diversified Index Benchmark return numbers that are **bold** and *italicized* remain subject to revision. The Global Diversified Index is subject to revision for five months.

|      | The Brinson Foundation Portfolio |                                   |  | Global Diversified Index Benchmark |                                   |  |
|------|----------------------------------|-----------------------------------|--|------------------------------------|-----------------------------------|--|
|      | Annual Return                    | Annualized Return Since Inception | Annualized Volatility Since Inception* | Annual Return                      | Annualized Return Since Inception | Annualized Volatility Since Inception* |
| 2001 | 9.70 %                           | 9.70 %                            | 0.00%                                  | -7.13 %                            | -7.13 %                           | 0.00%                                  |
| 2002 | -1.70 %                          | 3.85%                             | 8.12 %                                 | -7.02%                             | -7.08%                            | 10.19 %                                |
| 2003 | 25.32 %                          | 10.56 %                           | 8.27 %                                 | 23.35 %                            | 2.13 %                            | 9.95 %                                 |
| 2004 | 13.17 %                          | 11.21%                            | 7.75 %                                 | 13.24 %                            | 4.80%                             | 9.08%                                  |
| 2005 | 7.60%                            | 10.48%                            | 7.31 %                                 | 9.40%                              | 5.70 %                            | 8.40%                                  |
| 2006 | 16.23%                           | 11.41 %                           | 6.95 %                                 | 15.32 %                            | 7.25%                             | 7.91 %                                 |
| 2007 | 6.51 %                           | 10.70 %                           | 6.84 %                                 | 10.59 %                            | 7.72 %                            | 7.57 %                                 |
| 2008 | -24.91 %                         | 5.46 %                            | 8.89%                                  | -24.22%                            | 3.09%                             | 9.52 %                                 |
| 2009 | 24.43 %                          | 7.41 %                            | 9.86 %                                 | 18.59 %                            | 4.70 %                            | 10.19 %                                |
| 2010 | 12.05%                           | 7.87 %                            | 10.06%                                 | 11.61 %                            | 5.37 %                            | 10.33 %                                |
| 2011 | -3.62 %                          | 6.77 %                            | 10.17 %                                | 0.20%                              | 4.89%                             | 10.30 %                                |
| 2012 | 12.90 %                          | 7.27 %                            | 10.02%                                 | 12.02%                             | 5.47 %                            | 10.10 %                                |
| 2013 | 12.74 %                          | 7.68%                             | 9.73 %                                 | 13.28 %                            | 6.05%                             | 9.85 %                                 |
| 2014 | 4.76 %                           | 7.47 %                            | 9.44%                                  | 4.91 %                             | 5.97 %                            | 9.60%                                  |
| 2015 | 0.87 %                           | 7.01%                             | 9.30 %                                 | 0.16 %                             | 5.57 %                            | 9.47 %                                 |
| 2016 | 4.78 %                           | 6.87 %                            | 9.12 %                                 | 7.16 %                             | 5.67 %                            | 9.24 %                                 |
| 2017 | <b>14.31 %</b>                   | <b>7.30%</b>                      | <b>8.86%</b>                           | <b>16.01 %</b>                     | <b>6.25%</b>                      | <b>8.99%</b>                           |

\* Annualized standard deviation of monthly logarithmic returns      **Source:** BISAM, GP Brinson Investments

### GRANTSEEKER INQUIRIES

We ask grantseekers to review our mission, vision, beliefs, priorities and focus areas as well as our grantmaking guidelines before submitting an inquiry. Information regarding these guidelines can be found on the “Grantseekers” pages on our website at [brinsonfoundation.org](http://brinsonfoundation.org). If a grantseeker believes its request matches one or more of our grantmaking priorities and focus areas, it can make an inquiry by submitting our Grantseeker Information Form (GIF). The GIF is available on the “Grantseekers - Inquiries” or the “Resources” pages of our website. We accept inquiries throughout the year.

The completed form should be emailed to [mail@brinsonfoundation.org](mailto:mail@brinsonfoundation.org). We will send a confirmation email, usually within 3-5 business days, advising the grantseeker of the anticipated timetable for review of the inquiry.

#### **The Grantseeker Information Form is not an application.**

The form simply provides us preliminary information about the

grantseeker’s organization and the proposed grant request. We review the information provided in the form to determine whether the organization and the grant request qualify for further consideration. In all cases, we communicate the outcome of the review to the grantseeker. For a description of the process followed if we determine that an inquiry merits further review, see “Process and Calendar” below.

#### **The Brinson Foundation Board of Directors has sole authority to approve grant requests.**

The Foundation’s staff is responsible for reviewing, screening, performing due diligence and recommending grants to the Board. See the “Process and Calendar” section on the following page regarding the sequence and timing of our grant cycles.

#### **Current Perspectives on Grant Inquiries.**

The Board of Directors currently follows a “no new net grants” policy. Under this policy, new grants will be

made only as existing grants are transitioned from our portfolio and our financial resources permit. This policy along with the potential for volatility in the investment markets make it unlikely that we will add a meaningful number of new grantees to our grant portfolio in the near future. To the extent that we are able to consider grant inquiries, we will continue to be highly selective and focus only on those that involve programs that closely align with our interests and fill gaps within our focus area portfolios.

### LEGAL REQUIREMENTS

The Brinson Foundation will consider inviting grant applications from organizations located in the United States of America that are exempt from tax under Section 501(c)(3) of the Internal Revenue Code and are public charities described in Section 509(a)(1), (2) or (3) of the Internal Revenue Code. Organizations classified under Section 509(a)(3) may be required to submit additional information.

### GRANT LIMITATIONS AND OTHER CONSIDERATIONS

The Brinson Foundation will not consider grant inquiries from organizations that:

- » Discriminate on the basis of race, gender, religion, ethnicity or sexual orientation
- » Request funding for:
  - Activities that attempt to influence public elections
  - Voter registration
  - Political activity
  - Lobbying efforts
  - Programs that promote religious faith, include religious content or are based on religious or spiritual values
  - Programs that are limited to members of a specific race, gender, religion or ethnic group (excluding medical research programs where such limitations may be necessary and appropriate)

The Brinson Foundation discourages grant inquiries requesting funds for:

- » Capital improvements
- » Endowments
- » Fundraising events



### GRANTMAKING PRIORITY UPDATES

The Board of Directors periodically reviews and updates a statement of the Foundation's Grantmaking Priorities. This statement, which can be found on our website's "Who We Are – Our Priorities" pages, is intended to provide guidance to grantseekers regarding the types of organizations and programs the Foundation is currently considering for funding. It does not represent a complete statement of the types of organizations and programs that are represented in the Foundation's grant portfolio.

### GEOGRAPHIC CONSIDERATIONS

#### Education Programs

The Foundation's education grants are generally made to organizations that serve individuals and communities in the greater Chicago area. We also consider leading U.S.-based programs that reach broader populations across the U.S. and internationally or have the potential to have a meaningful impact on best practices at the national or international level.

Organizations that do not serve populations in the Chicago area and do not meet the foregoing standards are rarely considered by our Board.

As a result, we generally discourage them from submitting inquiries to the Foundation. If you have a question as to whether your organization or program qualifies for consideration, please call our office and speak to a program officer about whether it is appropriate to submit a Grantseeker Information Form.

#### Scientific Research Programs

The Foundation's physical science research grants are made to leading organizations across the United States. In this priority area, the location of the program is less critical than the match with the Foundation's grantmaking priorities.

*The Foundation does not accept grantseeker inquiries in medical research.*

### PROCESS AND CALENDAR

If our initial review of a grantseeker inquiry indicates there may be a sufficient priority and focus area match, we assign one of our program officers to communicate with the grantseeker to learn more about the organization and its programs. If a grantseeker remains under consideration, our spring and fall due diligence, application and grantmaking cycles proceed as follows:

#### For New Grantseekers:

We generally conduct due diligence discussions with grantseekers that are being considered for spring cycle invitations between January and March.

Following these due diligence discussions, the staff determines whether to invite the grantseeker to submit a grant application. If so, we email the grantseeker a formal application invitation. Spring cycle applications are generally due on the last Friday in February.

The staff reviews all applications and prepares recommendations for our

Board of Directors. The Board meeting usually occurs in late April or early to mid-May. Following the Board meeting, we contact each applicant and advise them of the Board's decision. If the grant is approved, we generally send out the grant agreement within two weeks following the Board meeting and disburse the grant upon receipt of the signed agreement.

The fall cycle activities are the same as the spring cycle but they take place between July and September and end in November or December.

|              | Due Diligence Discussions | All Applications Completed          | Board Meeting Application Review | Grant Disbursement  |
|--------------|---------------------------|-------------------------------------|----------------------------------|---------------------|
| Spring Cycle | January - March           | February (last Friday of the month) | April - May                      | May - June          |
| Fall Cycle   | July - September          | August (last Friday of the month)   | October - November               | November - December |

#### For Current Grantees:

We have adopted a simplified renewal process for current grantees which combines the evaluation questionnaire and renewal application. The process generally follows the cycle calendars shown above. Details can be found in the "Grantees Login" section of our website.





## The Brinson Foundation

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