

THE SAN FRANCISCO FOUNDATION

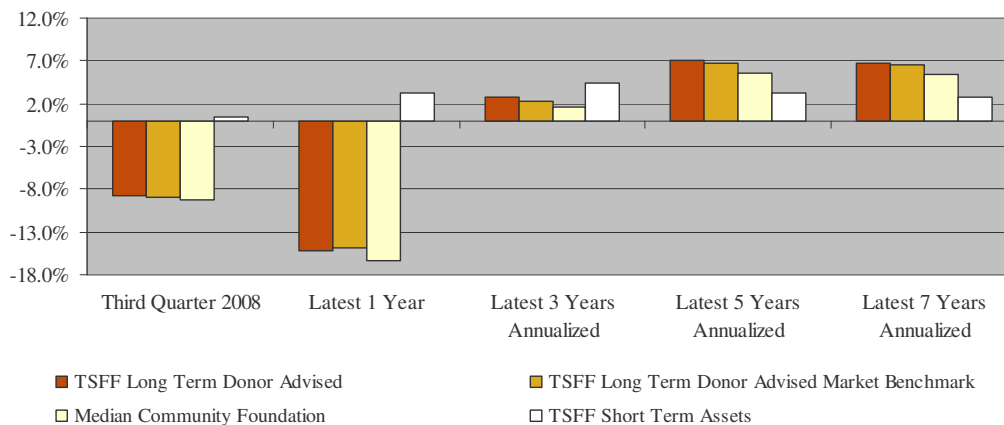
Long Term Donor Advised Pool Investment Strategy & Performance As of September 30, 2008

➤ Markets in Turmoil

During the past 18 months, investors have been subject to the vicious circle that has emerged and dominated capital markets due to ever increasing concern and demand for liquidity. Little did we realize that the memories of September and the first half of October would give new meaning to the word *vicious*, while providing an experience that we will all remember for a very long time.

Briefly, our view is that periods where markets are exceptionally volatile have always challenged the principles of sound, long-term strategy. This was true during the 1990s technology boom and during the recent credit bubble. Like these periods, bear markets also provide short-term rewards for those who pursue a poorly reasoned approach in light of their objectives and time horizon.

For investors who rely on their portfolios to provide funding over an extended period, anything other than long-term success has virtually no meaning. Therefore, we must strive to put aside the barrage of emotion and short-term thinking that is so prevalent today and instead remain disciplined and vigilant about portfolios built for long term success via the risks they assume and the managers who are charged with selecting securities.



Ending 9/30/08 – Net of Fees

	<u>Third Quarter 2008</u>	<u>Latest 1 Year</u>	<u>Latest 3 Years Annualized</u>	<u>Latest 5 Years Annualized</u>	<u>Latest 7 Years Annualized</u>
TSFF Long Term Donor Advised	-8.70%	-15.20%	2.80%	7.00%	6.80%
TSFF Long Term Donor Advised Market Benchmark	-8.90%	-14.80%	2.20%	6.70%	6.50%
Median Community Foundation	-9.30%	-16.30%	1.60%	5.50%	5.40%
TSFF Short Term Assets	0.50%	3.30%	4.40%	3.30%	2.80%

➤ October Update

Markets fell sharply in October due to the combined impact of deteriorating economic conditions and a massive demand for liquidity from investors. The San Francisco Foundation did not escape the losses as a large percentage of the portfolio is allocated to higher return assets. For the month of October, the Long Term Donor Advised Pool declined approximately 12% which is approximately 150 basis points above its market benchmark. Equity managers performed poorly in absolute terms as the market sell-off had exceptional breadth. Losses were tempered by the Foundation's hedge fund managers who largely limited their losses to approximately 3%.

Nevertheless, we have mixed views as massive price declines have created a significant number of investment opportunities that are very well suited for long-term assets. Furthermore, the Foundation has had very limited exposure to what we refer to as "capital destruction." This would include holdings in failed financial institutions, liquidating hedge funds, or other forms of leveraged investing that are now in serious jeopardy. Finally, we should note that the Foundation does not have any problems as it seeks liquidity for grants or to make changes within its portfolio.