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Prudent Investments:

How to manage in volatile times?



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OUR COMMUNITIES. OUR WORLD.

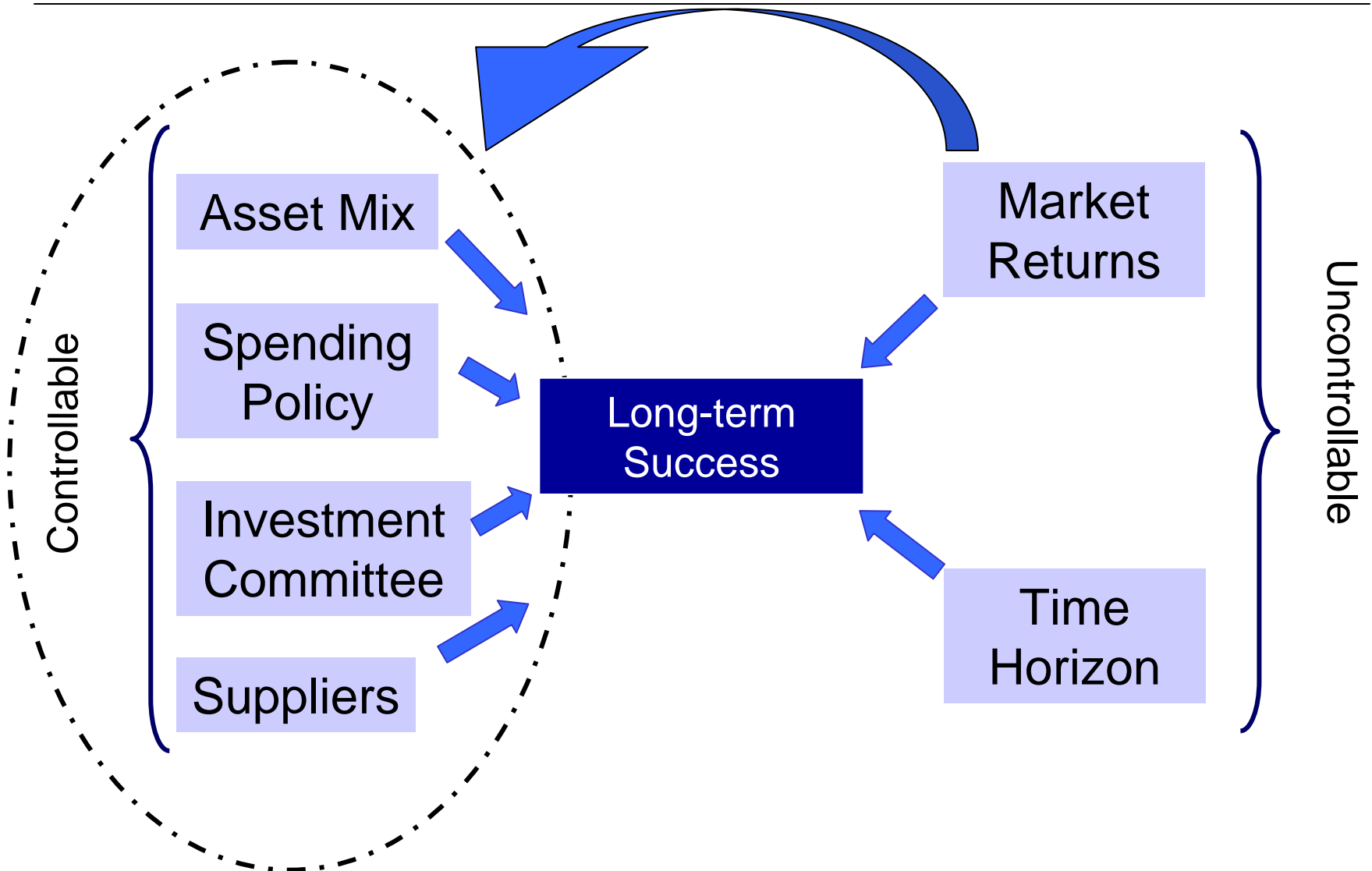
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How to be successful at optimizing spending and growing the endowment ?

- Realizing the **importance of the investment** aspects
- Having a plan to **avoid unhappy outcomes**
- **Knowing what we control** and acting on it
- Getting the **right people involved**

What do we control ?



Real returns from Bonds... slightly over 2%



Average inflation 3.9% between 1950 and 2007

Real returns on stocks... between 5 and 6%

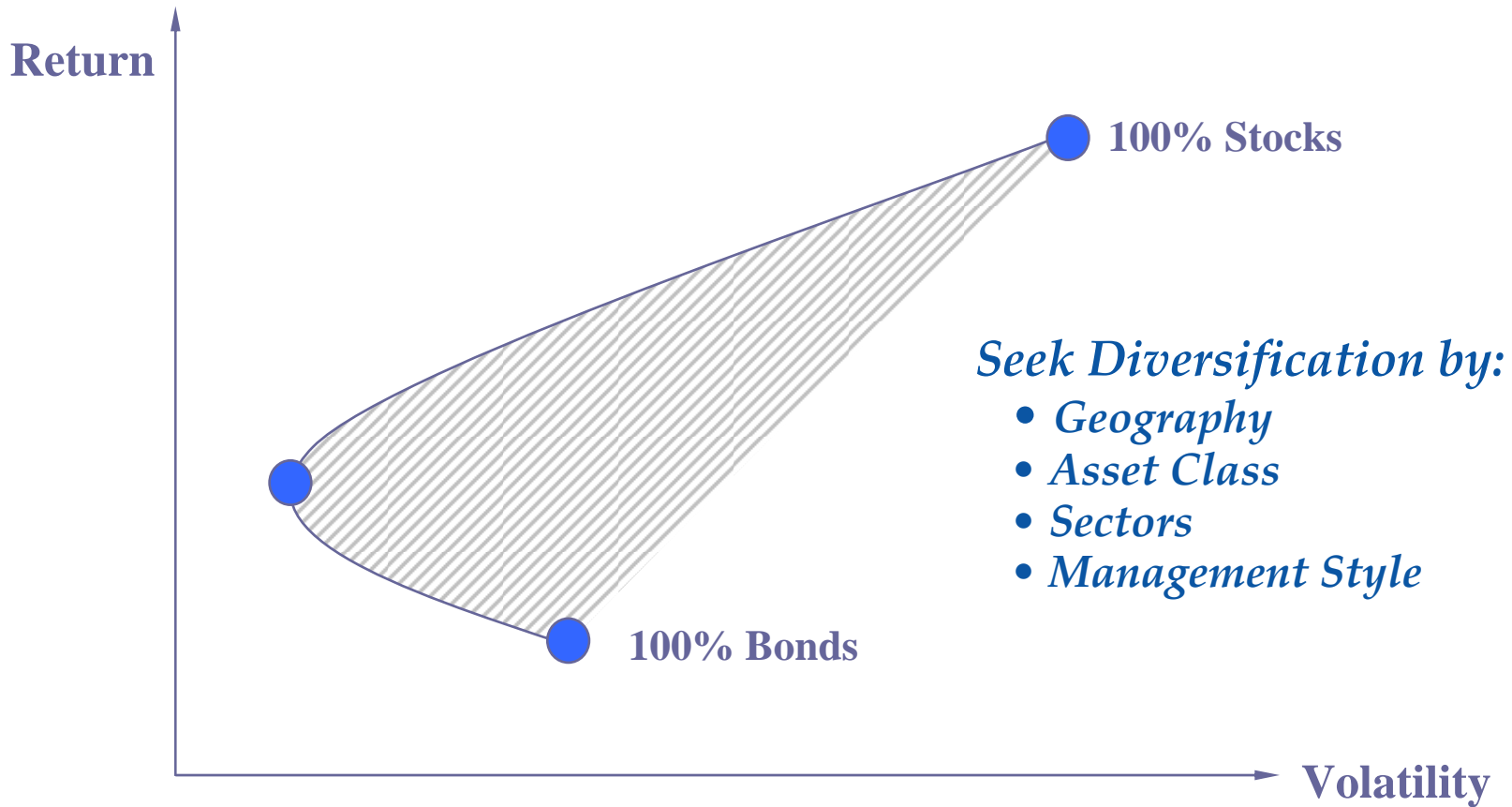
Min. spending 3.5% + admin. fees

– We need real returns > 4 %

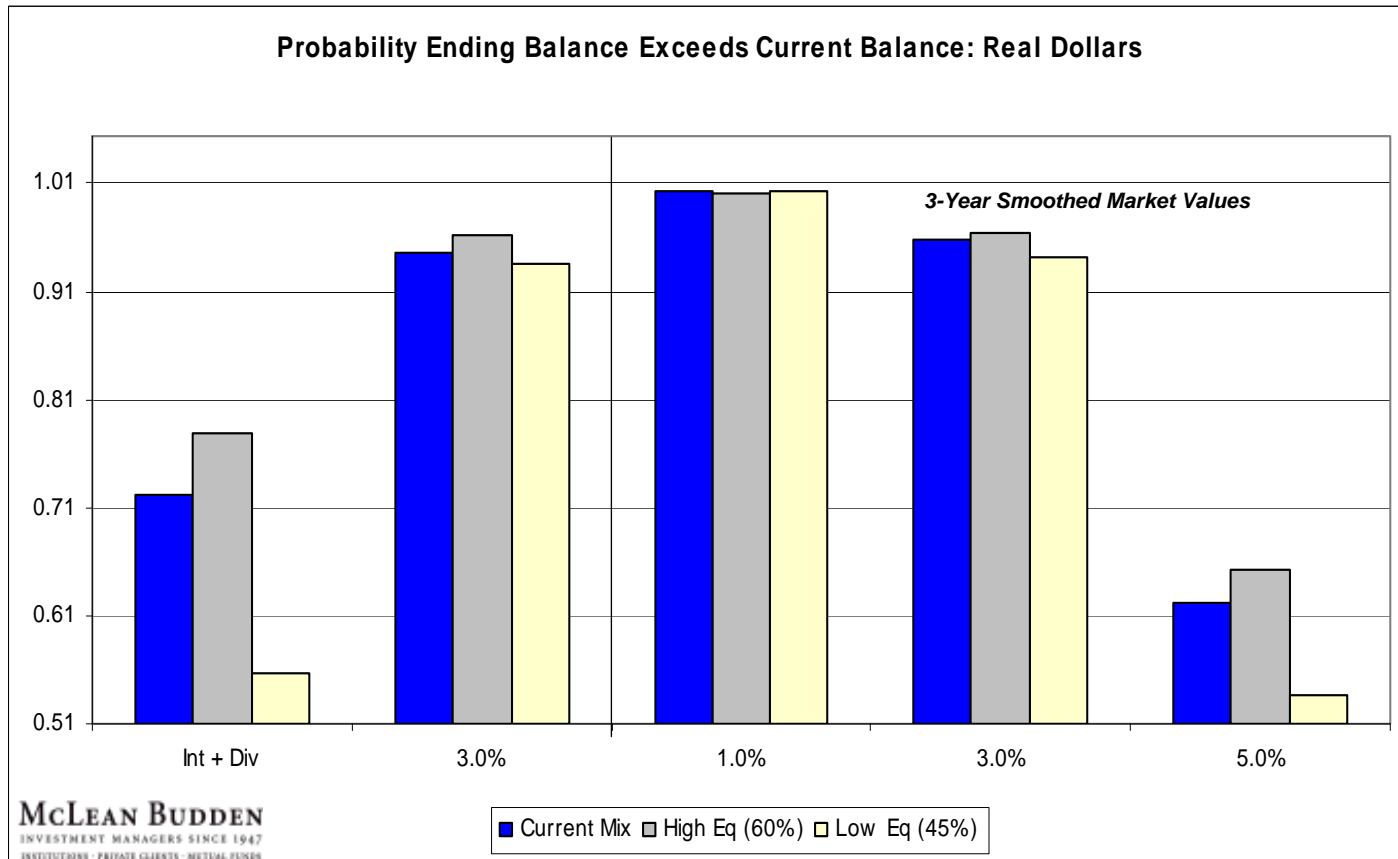
This implies a significant allocation to stocks



Why diversify ?



Will we preserve capital ?



Questions to ask yourselves:

- Were these people **able to add value** ?
- Was it due to **luck or skills** ?
- Can **past results be repeated** ?

Need to analyze:

Organization

People

Process

Philosophy



Monitoring and replacing managers

New manager

- Pre-Hire 3yr excess return : 2.9%
- Post-Hire 3yr excess return : 0.03%

Previous manager

- Pre-fire 3yr excess return : -1.0%
- Post-fire 3yr excess return : 4,2%

*Source: The Selection of Investment Management Firms by Plan Sponsors (Goyal, Wahal)
1994-2003 8,755 hiring decisions*

