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April 2019

Dear Friends,

It is with great pleasure that the Hartford Foundation for Public Giving presents our first annual endowment investment report. As a complement to the Foundation’s annual report, this publication is intended to provide greater detail regarding the investment philosophy, process and performance of the portfolios we steward on behalf of our generous donors and for the benefit of the Greater Hartford region.

The investment strategy of the Hartford Foundation aims to achieve long-term investment results that preserve the future spending power of the endowment. In the following pages, we report investment results through December 31, 2018. U.S. equity markets displayed strength early in the year but declined sharply in the fourth quarter following a significant slide in international equities. As the majority of the assets held in the endowment are invested in domestic and foreign equities, portfolio returns were negative for the year. Toward the end of December, fear dominated the overall investor psyche, but fear is often accompanied by the silver lining of investment opportunity. We remained disciplined throughout the market volatility and rebalanced exposures to maintain the Foundation’s desired asset allocation.

In the coming year, we will continue to exercise discipline as we seek to provide the investment growth and financial stability required to fulfill our mission. We thank you for your interest and confidence in the Hartford Foundation and welcome your feedback on both this publication and our efforts.

Sincerely,

David Roth
Board Member and Chair
Hartford Foundation for Public Giving
Investment Committee

Alison Granger, CFA
Chief Investment Officer
Structure and Oversight of the Endowment Portfolios

Since the founding of the Hartford Foundation for Public Giving in 1925, over 1200 funds have been established by donors to help nonprofit organizations improve the quality of life in Hartford and the 28 surrounding communities served by the Foundation. In accordance with donor wishes, these funds were either given in trust form with oversight by the Trustee or donated directly to the Hartford Foundation and overseen by our Board of Directors, as described below. For investment purposes, they are commingled with other donor funds established within the same legal entity (HFPG, Inc. or the Hartford Foundation Trust).

The Foundation’s Board of Directors and Investment Committee oversee the management of the endowment. The Investment Committee is a standing committee of the Board of Directors that assists in fulfilling responsibilities related to the invested funds held by HFPG, Inc. Working closely with Foundation staff, the committee reviews and approves the investment policy and proxy voting policy statement and provides direction for the investment of the donor funds entrusted to the Hartford Foundation.

**HFPG, Inc. (The Corporate Portfolio)**

Created in 1979 as a nonprofit corporation, HFPG, Inc. is the corporate affiliate of the Hartford Foundation. Northern Trust serves as the custodian of the donor funds that are held in the Corporate Portfolio. Colonial Consulting, LLC of New York, NY, serves as the investment consultant to the Investment Committee. Funds established in HFPG, Inc. are commingled for investment purposes and are invested in a diversified manner with external professional investment managers selected by the Foundation’s Investment Committee at the recommendation of Foundation staff and Colonial Consulting. These managers are chosen based on their specialization in a given asset class after rigorous due diligence to measure key attributes of manager capability and firm stability. Manager performance is monitored regularly by Foundation investment staff and Colonial Consulting, and reviewed quarterly with the Investment Committee and the Foundation’s Board of Directors. The vast majority of new donor funds created are received into HFPG, Inc.
**Investment Objective**

In managing the endowment, we seek to preserve its future spending power to improve the quality of life for future generations of our region’s residents, while also ensuring that cash is readily available from the portfolios to support current spending. To gauge our effectiveness toward this goal, we systematically compare the investment returns of the Corporate and Trust portfolios to an inflation-adjusted spending policy benchmark, the Consumer Price Index + 5%, and maintain some holdings in government money market funds and high quality fixed income to ensure ready access to liquidity. We further aim to control portfolio risk by limiting the potential for permanent capital loss in order to provide stability to the annual spending policy allocation and meet the Foundation’s long-term investment return objective.

We invest current use funds which have been donated to the Foundation in government money market funds to preserve principal and insulate these contributions from short-term market declines.
Spending Policy

*Our grants support efforts that promise substantial and lasting community benefit, and our endowment ensures our region’s continued progress for generations to come.*

The Foundation’s spending policy and investment strategy are designed to work together to provide a predictable stream of dollars for annual grantmaking to the region’s nonprofits while also prioritizing the preservation of the inflation-adjusted value of the funds in the endowment so that the impact of future grantmaking can be as effective as it is today.

Prior to establishing spending policy for the year, the Foundation’s Board of Directors, in accordance with the Connecticut Uniform Prudent Management of Institutional Funds Act, annually reviews the seven prudence factors that must be considered when appropriating funds from an endowment. The current spending policy formula has been in effect since 2003 and is calculated as follows: 5% of a trailing twenty-quarter average of the market value of the Corporate portfolio and separately of the Trust portfolio, provided that each of these averages fall between 4.25% (the floor) and 5.75% (the cap) of the respective portfolio market value as of the most recent calendar year-end. If the average is higher than the cap, the annual spending policy allocation from the portfolio during the year will be limited to 5.75% of the most recent calendar year-end market value. If it is lower than the floor, the annual spending policy allocation from the portfolio will be raised to 4.25% of the most recent calendar year-end market value. Fees charged by the Foundation to administer donor funds are deducted from this amount prior to making funds available for grants. The graph that follows illustrates the historical interaction between the market value of the Corporate and Trust portfolios and the spending policy allocation made available each year for grantmaking and administrative expenses. As you can see, the spending policy formula has resulted in relatively stable and growing financial support to our region’s nonprofit organizations. This period encompassed the Great Financial Crisis during which a minor reduction in support occurred, but quickly recovered and advanced to new heights.
In the calendar year 2018, the Hartford Foundation for Public Giving allocated over $45 million to grants and operations. Over $38 million comprised grant awards and funding to program-related activities.
Investment Policy and Strategy

Investment Policy
Each November the Hartford Foundation Investment Committee meets to step back from the shorter term, quarterly portfolio review process to conduct a strategic review of the Corporate and Trust portfolios in order to assure they are properly positioned to achieve the Foundation’s long-term goals. As part of that process, we collectively review the investment policies and proxy voting policy statements that govern the Foundation’s investment process. The Foundation’s investment policies address the portfolios’ objectives and constraints and outline the roles and responsibilities of those engaged in the oversight, management, and safekeeping of the investments that support the Foundation’s programs. The Corporate portfolio investment policy is available in the About Us section of our website.

Investment Strategy
The Hartford Foundation for Public Giving investment strategy is equity-oriented to seek substantial long-term real returns, broadly diversified to control volatility amidst short-term market fluctuations, and designed to provide cashflow in any market environment to support current-year spending needs. Target asset allocations guide the investment process and are discussed below. Portfolio risk is controlled to minimize the risk of permanent capital loss as such losses are particularly damaging to an investor’s ability to achieve their long-term objective. Our process includes an annual review of the expected long-term returns available in the various segments of the capital markets, and an assessment of the risks associated with those expected returns. Subject to the approval of the Investment Committee, the portfolio strategic target allocations may be adjusted to maintain the appropriate return and risk balance within the portfolios. In order to pursue opportunities or better manage risk, our portfolios can tactically deviate from this strategic direction within a predetermined range.

The investment philosophy employed to achieve the Foundation’s investment objectives has consistently emphasized active management, a value orientation, patience and emphasis on expense control and liquidity management. This often entails a contrarian approach to investing. As we seek to outperform our benchmarks on a net of fees basis, we must not only deviate from consensus opinions but also be correct (more often than not) over time in our assessment of situations where our managers’ current estimate of intrinsic value differs from the market price. In managing this risk of being wrong, our value orientation provides a margin of safety to help cushion the potential downside risk of our investments, in contrast to a more speculative approach. Our view on this is best summed up by a one-time resident of our service territory:

“There are two times in a man’s life when he should not speculate: when he can’t afford it and when he can.”  – MARK TWAIN
The Foundation relies on the external investment management firms hired to manage Corporate and Trust portfolio assets to select the individual securities held in the portfolios. With the assistance of two consulting firms, Colonial Consulting for the Corporate portfolio and Mercer for the Trust portfolio, we seek to retain firms that have specialized expertise in the particular asset class or sector for which they were hired. We place a high priority on retention of investment managers who are experienced, disciplined, research-driven and follow a low-turnover, long-term investment approach. We expect that they will approach investment management with the mindset of a fiduciary, and have a sophisticated process for engaging with corporate management on the environmental, social, and governance aspects of concern to shareholders. It is important to the Foundation that there be strong manager-client alignment and as such, the investment management firms we retain tend to be majority-owned by one or more of their investment professionals and disciplined in managing firm assets under management to a target capacity. We strongly prefer that these professionals have a significant portion of their personal net worth invested in the same strategy. As of the end of 2018, a total of 44 investment management firms were retained to manage the Hartford Foundation endowment. These assets were invested in 50 investment strategies. Because of our careful selection process, the Foundation's turnover of these external investment management firms tends to be low. Our intention when each firm is hired is to have a long relationship with the organization. When we do perceive the need to terminate our relationship with a firm, it is more often related to turnover among investment professionals rather than short-to-medium term underperformance relative to their benchmark.

The discipline of portfolio rebalancing occurs as relative market valuations shift or when cash is contributed to or withdrawn from the portfolios. We do so in order to align the portfolio weightings with the targets in the investment policy. We also continuously look for opportunities to enhance portfolio returns, whether it be through changes in asset allocation or identification of talented investment managers who are compatible with the Foundation's investment philosophy and approach.
Asset Allocation

The target asset allocations for the Corporate and Trust portfolios are shown in the graph on page 9. The Trustee is responsible for the asset allocation of the Trust portfolio. The majority of the assets held in the Corporate and Trust portfolios are invested in a variety of equity-oriented strategies, including domestic and foreign public equities, real assets, private equity, and venture capital. Fixed income strategies that have a low correlation to our equity and credit investments provide diversification to the Foundation’s portfolios. A small portion of each portfolio is held in government money market funds for liquidity purposes. Each of these asset classes is described below.

Asset Classes

**Equities** broadly provide the Hartford Foundation for Public Giving portfolios with the potential for high long-term real returns and a modest stream of income from dividends. Equity investments also carry the potential for greater losses. This potential can translate into volatility in the trading price of these securities.

**Domestic Equity** provides the Hartford Foundation for Public Giving with returns from publicly-traded companies domiciled in the United States. We invest in domestic equity through active and passive management approaches, with significantly greater emphasis on active management. Passive investments are managed in low-cost index funds.

The target allocation to domestic equity in the Corporate portfolio totals 23% with 9% in U.S. large capitalization equities and 14% in small to mid-capitalization equities. In the Trust portfolio, the target allocation is 33% with a breakdown of 16% in U.S. large capitalization equities, 10% in mid-capitalization equities, and 7% in small-capitalization equities.

**International equity** provides the Hartford Foundation for Public Giving with returns from publicly-traded companies domiciled outside the U.S. in developed and emerging markets. The Foundation’s international equity investments are primarily managed in active strategies, as many international equity markets are less efficient than those in the U.S. and provide a significant opportunity for outperformance to those professional investment managers who perform rigorous fundamental research to identify and invest in foreign companies with potential for significant outperformance.

The target allocation to international equity in the Corporate portfolio totals 37% and is further allocated to 30% in international developed market equities and 7% in emerging market equities. The target allocation to international equity in the Trust portfolio totals 25% and is further allocated to 20% in international developed market equities and 5% in emerging market equities.
Private equity and venture capital investments provide the Foundation with the opportunity to earn investment returns from early-stage venture capital investments and later-stage venture capital, growth equity and leveraged buyouts, predominately in the United States. While offering the potential for the highest expected return among the investments available to the Hartford Foundation, these investments also possess the highest potential for loss, entail the payment of significant fees and are illiquid. As such, they represent a relatively small allocation within the Trust portfolio. Corporate portfolio holdings in private equity and venture capital are included in the Return-Enhancing Strategies allocation discussed below. Overall portfolio liquidity is managed to account for the fact that these investments require the contribution of capital when called and are not readily redeemable.

Fixed Income serves a number of roles within a portfolio. First and foremost, high-quality bonds are an integral part of a balanced investment strategy as they tend to react to economic and market events in a manner that differs from equities. The diversification provided by our fixed income allocation is important as it serves to mitigate total portfolio volatility, which in conjunction with the structure of the Foundation’s spending policy, allows for a higher level of grantmaking stability.

The target allocation to fixed income in the Corporate portfolio totals 30% and is further allocated to 12% in U.S. core fixed income, 6% in global fixed income, 4% in emerging market debt, 3% in high yield, and 5% in a government money market fund. In the Trust portfolio, the target allocation is 25% and is further allocated to 5% in global fixed income, 3% in emerging market debt, 7% in U.S. core fixed income, 5% in high yield, and 5% in money market and short-term fixed income.

Absolute Return is a strategy employed in the Trust portfolio that is intended to provide a real return of 5% over a full market cycle with low correlation to traditional equity and fixed income markets. Core strategies in the asset class include overweighting assets that are trading at attractive valuations and avoiding those which, in the analysis of the investment managers, are overvalued. The strategy is also intended to provide significant diversification benefits to the Trust portfolio. The Absolute Return target allocation in the Trust portfolio is 7%.

Return-Enhancing Strategies provide the Corporate portfolio with the flexibility to retain investment management firms that possess a unique competence and significant potential to outperform investments we can otherwise access via our traditional approach. We expect the investments in the Return-Enhancing Strategy allocation to have two or more of the following characteristics: illiquidity, alternative investment fee structure, reduced transparency and/or a narrow investment focus. Examples may include private equity, venture capital, single-country equity funds, industry-specific funds, hedge funds and various types of private debt funds.
The Corporate portfolio target allocation to return-enhancing strategies is 10%. As of the end of the year, the strategies represented in this allocation included a venture capital fund of funds, a Japan-only equity fund, a highly concentrated long-only equity limited partnership, and two private equity fund of funds that are almost fully distributed.

Environmental, Social, and Governance Considerations

In recent years, greater attention has been paid to the qualitative aspects of corporate management. Frameworks to measure Environmental, Social and Governance (ESG) effectiveness have joined sustainable investing, socially responsible investing, mission-related investing and screening in the investor lexicon. Through the collective efforts of the Hartford Foundation staff, Colonial Consulting, the Trustee, Mercer, and the investment committee, we have long sought to hire and retain professional investment managers who have been incorporating critical ESG inputs as an aspect of their fundamental research process to identify companies with sustainable competitive advantages.

The Hartford Foundation for Public Giving Proxy Voting Policy Statement guides these activities. It is reviewed by the Investment Committee and ratified by the Hartford Foundation Board each year. The formal process to document specific ESG-related actions over which the Foundation has direct influence is accomplished through the annual reporting of our separate account investment advisors’ proxy voting activity. As fiduciaries, we expect the investment managers we hire to weigh the narrow considerations of management and/or the shareholder community against the broader concerns of all stakeholders represented in ESG, in order to best guide the company in the direction of long-term, sustainable value creation. Typically, this will take the form of encouraging management to develop an action plan to address identified ESG issues, if any, with appropriate targets and timetables for improvement and monitoring their portfolio companies, as appropriate, for progress on ESG issues. To the extent a company fails to address shareholder and stakeholder concerns constructively, it runs the risk of becoming a “value trap” to be avoided.

We believe that long-term value will be enhanced if we continually encourage the investment managers we hire to discuss with the executives and directors of our portfolio companies ways to improve the governance, environmental and social oversight of the organizations they lead. As the Hartford Foundation alone owns a relatively small fraction of shares of the companies in which the endowment is invested, our interests are further protected from adverse impacts by collaboration with like-minded investment advisors.
2018 Investment Environment and Portfolio Performance

Record highs were achieved by the major U.S. stock indices during the third quarter of last year but were followed by significant price declines, particularly in October and most acutely in December, which resulted in negative returns for the full year. The fourth quarter weakness in U.S. equities was preceded by declines in international developed and emerging market equities earlier in the year. Investment-grade fixed income, which began the year in decline, rallied as equities weakened to finish unchanged on the year.

The Federal Reserve raised interest rates four times, resulting in a policy rate of 2.5% as of the end of 2018. The yield curve flattened and inverted to a small degree between certain maturities. Investors became concerned that the policy rate increases combined with efforts to reduce the size of the Federal Reserve balance sheet were happening too quickly and would hamper economic growth. These concerns, combined with the end of the European Central Bank’s quantitative easing program and the uncertainty associated with the outcome of Brexit, the trade war with China, the level of debt in China, and other political and economic factors throughout the world led to increased volatility and investor reticence to accept investment risk.

The S&P 500 Index fell over 9% in December, marking the worst month for the index since February 2009, and dragging its full-year 2018 return into negative territory. For all of 2018, this bellwether of U.S. stocks declined 4.4%. The FTSE Russell 1000 Index performed similarly, declining 4.8%. The FTSE Russell 1000 Value Index declined 8.3% while the FTSE Russell 1000 Growth Index declined a more muted 1.5%, aided by the performance of Microsoft and Amazon, which in combination represented more than 11% of the index. Mid- and small-capitalization stocks underperformed their larger counterparts. The Russell Mid Cap Index lost 9.1%, while the FTSE Russell 2000 (smaller capitalization) Index dropped 11%. Overseas, the MSCI EAFE Index declined 13.8% while the MSCI Emerging Market Index lost 14.6%. The Bloomberg Barclays U.S. Aggregate Bond Index, a broad measure of the U.S. bond market, was essentially unchanged for the year. Yields on money market funds, while still low, rose significantly. The Citigroup World Government Bond Index, a proxy for the global bond market, declined .8%. While bond returns were positive, the translation back to U.S. dollars from foreign currencies swung the returns of high-quality international bonds to a small loss. The U.S. dollar outperformed most major currencies, except for the Japanese yen, which appreciated by 2.7% against the dollar. Ongoing confusion surrounding the outcome of Brexit led the British pound to depreciate relative to the U.S. dollar by 5.9%. The Australian dollar was the worst-performing major currency during the year, depreciating by 10.0% versus the U.S. dollar.

Against this backdrop, during 2018, the Foundation’s broadly-diversified Corporate portfolio posted a net-of-fee investment loss of 8.8% while the Trust portfolio declined 7.4%. CPI + 5%, as reported by Colonial Consulting, equated to 7% in 2018, a level which was lower than the average of 7.5% over the past 20 years. The performance of each portfolio is compared to a customized target asset allocation benchmark. This comparison enables us to judge the effectiveness of each of the Foundation’s
investment managers relative to the market benchmark which best describes the asset class and investment style in which they specialize. During 2018, the Corporate portfolio underperformed its customized target benchmark by 1.3%, while the Trust portfolio underperformed its customized target benchmark by 1.6%.

Since its inception in September of 1996, the Corporate portfolio has returned an average 7% per year, net of investment management fees, outperforming its custom target benchmark return by .2%. This result placed it in the top quartile of a broad universe of endowments and foundations as measured by MSCI InvestorForce. Over the same period, the average net-of-fee return for the Trust portfolio was 6.7% per year, outperforming its custom target benchmark by .1% per year. The Trust placed in the second quartile of the MSCI InvestorForce universe over this timeframe.

Through the end of 2018, the Corporate portfolio has underperformed CPI+5% by .5% per year since inception. Over the same timeframe, the Trust has underperformed CPI+5% by .8%. We note that the equity market decline during the fourth quarter, although brief, was sufficient to swing the Corporate portfolio from outperformance of this spending policy hurdle to underperformance and to extend the underperformance of the Trust portfolio. The sharp rise in the value of the portfolios’ equity holdings during the beginning of 2019 has served to reduce the underperformance. The future direction of equity markets continues to be the significant determinant of progress toward this goal.

As of December 31, 2018, approximately $910.8 million was invested in the Corporate and Trust portfolios. The investment performance of the Foundation’s broadly-diversified endowment portfolios for periods ended December 31, 2018, is shown in the table below. For more recent performance data, please visit http://www.hfpg.org/about-us/financial-record/investment-performance. When reviewing this information, please keep in mind that past investment performance is not a guarantee of future results and market values shown have not, as of the production of this report, yet been audited:

<table>
<thead>
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<th>Portfolio</th>
<th>Value</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>10-Year</th>
<th>20-Year</th>
<th>Since Inception*</th>
</tr>
</thead>
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<td>Corporate</td>
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<td>-8.8%</td>
<td>4.8%</td>
<td>3.3%</td>
<td>8.4%</td>
<td>5.9%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Trust</td>
<td>$527.9MM</td>
<td>-7.4%</td>
<td>5.1%</td>
<td>3.3%</td>
<td>8.5%</td>
<td>5.7%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

*September 30, 1996 inception date
**Investment-Related Fees**

As indicated in the performance chart, investment returns are reported after fees charged by the Foundation’s investment managers have been deducted. Nonetheless, as part of the Foundation’s ongoing oversight of the endowment, fees paid to these managers, as well as to the custodians and consultants, are closely monitored.

Over the past decade, total annual investment management fees, including estimated incentive fees on the small allocations to private equity and venture capital and similar alternative investments, have approximated .75% to .85% of portfolio market value. Investment management fees on traditional equities and fixed income have been quite steady. The incentive fees on alternative investments have the potential to rise and fall significantly depending on the level of recent returns. Given that the Corporate and Trust portfolios have had low exposures to these higher-fee alternative investments, the overall variability in the fees paid has been relatively low.

We are often asked why we do not hold a higher percentage of the portfolio in lower-fee index funds. Our answer is simple: Over the long term and after taking investment management fees into account, our managers have, in aggregate, outperformed the respective asset class benchmarks against which we measure them. When we consider hiring a new manager, the analysis of their fees relative to their potential for outperformance is thorough and monitored on an ongoing basis if they are hired.

In addition to the aforementioned investment management fees, custody, consulting, and in the case of donor funds held in the Trust portfolio, trust and administration fees, are monitored. Over the past decade, custody and consulting fees combined have approximated .1% per year in the Corporate portfolio. Trust, administration, custody and consulting fees in the Trust portfolio have approximated .2% per year.

The strategic stewardship of our investment portfolios requires diligence and vigilance by our investment committee, finance and investment staff, trustees, and consultants. We thank them for their efforts on behalf of our donors and communities and recognize their role in helping to put philanthropy into action.
INVESTMENT COMMITTEE
David M. Roth, Chair*
Robert B. Goldfarb
David Marks
JoAnn H. Price*•
Cynthia Steer
John Wright

FINANCE AND INVESTMENT STAFF
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To Hartford Foundation Trust: Elizabeth Warren, Principal, Mercer

* Member of Board of Directors
• Ex-officio