Butler Family Foundation Investment Committee

Conference Call

August 15, 2017 at 4:00 p.m. CT

I. Welcome

II. Approval of Minutes

III. Portfolio and Performance Update
   A. Portfolio Summary Statement
   B. Manager Performance
   C. Overall Foundation Performance (Final)

IV. Review of Investment Policy Statement (IPS)

V. Update on Current or New Investments
   A. Update on Limited Partnerships
   B. Templeton Global Total Return Fund

VI. Topic – The Disappearing Public Company

VII. Other Business
   A. Committee Evaluation – Survey Results (Brigid)

Attachments:

a. Minutes of February 17th Investment Committee
b. Wells Fargo Summary Statement/Performance Data
c. Investment Policy Statement
d. June 29th Memo to Investment Committee
e. Templeton Global Total Return Fund Summary
d. Miscellaneous Articles

MINUTES OF THE FEBRUARY 17, 2017
INVESTMENT COMMITTEE MEETING
OF THE
PATRICK AND AIMEE BUTLER FAMILY FOUNDATION

The Investment Committee meeting of the Patrick and Aimee Butler Family Foundation was held on Friday, February 17, 2017, at 10:00 a.m. Central Time via conference call.

The meeting was called to order by Patrick Butler, current Chair of the Committee. John K. Butler acted as recording Secretary of the meeting.

Upon call of the Secretary, the following Committee members were present: Patrick Butler, Jr., Bridget McElroy, Brigid Butler, Patrick O'Brien and Peter K. Butler. Also present was Foundation Chief Investment Officer John Butler. The Chair welcomed Patrick O'Brien to his first meeting and thanked him for volunteering for the Committee.

The Chair called for consideration of the minutes of the August 17, 2016 meeting of the Investment Committee, which had been previously circulated to the Committee members. The committee noted that the date of the minutes approved by the Committee on August 17 should have been stated as February 24, 2016, rather than August 5, 2015. Upon motion duly made, seconded and unanimously carried, the minutes of the August 17, 2016 Investment Committee were approved, ratified and confirmed as corrected.

Mr. Patrick Butler Jr. then noted that next order of business would be to select a new Chair, as his term as Chair has expired. Upon motion duly made, seconded and unanimously carried, Bridget McElroy was elected Chair of the Patrick & Aimee Butler Investment Committee. Ms. McElroy then assumed the role of Chair for the remainder of the meeting.

The new Chair called on Mr. John Butler, Chief Investment Officer, to review the current holdings of the portfolio and summarize any major changes since June 30, 2016. Mr. Butler began by reviewing a slightly different summary statement produced by the Foundation's custodian, Wells Fargo. The new summary statement has more detailed information than the statement previously shown to the Committee, as was requested by Committee members. Mr. Butler also reminded the Committee that complete statements from Wells Fargo for June and December are available at the Foundation office for any Committee member or Trustee to review.

Mr. Butler next reviewed the performance of the overall Foundation portfolio for the year. He noted that the return of 9.5% was much stronger than he had predicted at the beginning of the year and that it compares very favorably to the expected returns by other foundations, which Mr. Butler estimated at 7% (actual results will not be known until August).

Mr. Butler then reviewed the asset allocation of the Foundation and the performance of the Foundation's individual asset managers. The asset allocation remains within the targets set by the Foundation's Investment Policy Statement, with the exception of the cash allocation, which is slightly above the upper end of the range. Mr. Butler explained the reasons for this and stated that he expected the cash levels to decline over the course of the year. Mr. Butler also reviewed the performance of the individual asset managers, noting that all outperformed their benchmarks for the year, especially the domestic equity portfolio. Because of the strong absolute and relative performance of the domestic equity portfolio, Mr. Butler estimated that it contributed roughly two-thirds of the Foundation's overall performance for the year.

At the request of Patrick Butler, John Butler gave a short overview of his visit last fall to the Wastewater Opportunity Fund's Annual meeting in Columbus Ohio. Mr. Butler was noted that it was a good opportunity to review the strategic direction of the Fund and to get an up-close look at one of the Fund's first investments. The visit triggered no concerns about the investment.

Mr. Butler proceeded to update the Committee on the relationship with the Foundation's custodian, Wells Fargo. Mr. Butler noted that while the Foundation has used Wells Fargo as a custodian for several years for the fixed income portfolio, 2016 was the first year that Wells Fargo was custodian for the majority of the Foundation assets. He stated that everything has gone smoothly and that he was pleased with how the relationship has worked out. Mr. Butler also mentioned that while Wells Fargo has had some well-publicized problems in the past year, these issues in no way impact the Foundation.

Mr. Butler then gave a brief overview of what he called the Foundation's "legacy" limited partnerships. There are four limited partnerships held by the Foundation, which combined total less than 1% of the Foundation assets. Two of these partnerships are older Northstar Mezzanine debt funds, and Mr. Butler has spoken to the investment manager and reiterated that the Foundation would like to see these funds terminated as soon as reasonably possible. The other two partnerships are older real estate funds gifted by the estate of Kate Butler Peterson. The Albuquerque Associates fund has notified investors that it has received a buyout of its only asset and that it expects to close on that sale in May of this year. Mr. Butler noted that there will be a realized loss on the sale as the contract price is significantly below the value established by the estate. Mr. Butler emphasized that while this will be a modest drag on reported performance for the year, it really is not a loss as the Foundation never invested in this asset. Mr. Butler will follow-up with the remaining fund, the Gateway Partnership, in the next few months.

Finally, the Committee discussed a suggestion by Ms. Brigid Butler that the Committee perform a self-evaluation. There was not time during this meeting for a full discussion, so it was decided that this topic would be an agenda item for the next meeting.

The next Committee meeting will be in August of 2017. The meeting will be scheduled in July and materials for the meeting will be sent one week prior to the meeting.

The meeting adjourned at 11:05 p.m. Central Time.

John K. Butler

John K. Butler, Secretary

ATTEST: Bridget McElroy

Bridget McElroy, Committee Chair

WELLS FARGO

SUMMARY STATEMENT OF INVESTMENT HOLDINGS BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLERFAMILY FOUNDATION
CONSOLIDATED ACCOUNT
BASE CURRENCY: USD

25007299
AS OF JUNE 30,2017

	COST	MARKET VALUE	ACCRUED INCOME	%GAIN (LOSS)	% MKT	ESTIMATED ANNUAL INCOME	CURRENT YIELD
SETTLED CASH	0.00	0.00	0.00	.0	.0	0.00	.00
RECEIVABLES	149,293.02	149,293.02		.0	.1		
PAYABLES	(502,230.62)	(502,230.62)		.0	(.5)		
NET CASH	(352,937.60)	(352,937.60)		.0	(.3)		
CASH EQUIVALENTS							
US TREASURY BILLS	449,973.90	449,973.90	0.00	.0	.4	0.00	.00
SHORT TERM FUNDS	11,949,984.79	11,949,984.79	5,954.10	.0	11.3	80,661.74	.67
CASH EQUIVALENTS	12,399,958.69	12,399,958.69	5,954.10	.0	11.7	80,661.74	.65
FIXED INCOME							
GOVERNMENT AND AGENCIES	4,480,417.51	4,396,225.30	18,699.56	(1.9)	4.2	224,394.89	5.10
BOND FUNDS	957,722.46	966,072.06	909.52	.9	.9	74,842.80	7.75
MUNICIPAL BONDS	1,087,248.47	1,074,767.18	17,649.60	(1.1)	1.0	49,456.97	4.60
CORPORATE BONDS AND NOTES	6,009,844.59	6,009,777.29	65,656.22	.0	5.7	240,297.67	4.00
ASSET-BACKED SECURITIES	579,474.69	602,992.77	1,083.66	4.1	.6	19,038.27	3.16
COLLATERALIZED MTG-BACKED	450,023.10	433,994.79	1,318.14	(3.6)	.4	16,972.23	3.91
FIXED INCOME	13,564,730.82	13,483,829.39	105,316.70	(.6)	12.7	625,002.83	4.64
PREFERRED STOCK							
PREFERRED STOCK MISC	105,280.00	107,680.00	0.00	2.3	.1	5,900.00	5.48
PREFERRED STOCK	105,280.00	107,680.00	0.00	2.3	.1	5,900.00	5.48
COMMON STOCK							
HEALTH CARE	2,970,119.04	7,001,650.00	10,570.00	135.7	6.6	154,560.00	2.21
FINANCIALS	3,594,467.84	6,751,084.53	7,000.00	87.8	6.4	156,382.16	2.32
CONSUMER STAPLES	1,310,896.84	2,543,820.00	0.00	94.1	2.4	76,814.00	3.02
CONSUMER DISCRETIONARY	636,237.90	2,161,480.00	0.00	239.7	2.0	65,360.00	3.02
MATERIALS	1,087,558.28	2,200,410.00	2,220.00	102.3	2.1	39,840.00	1.81
ENERGY	1,531,843.53	2,051,560.00	0.00	33.9	1.9	31,560.00	1.54
INFORMATION TECHNOLOGY	2,857,788.11	5,672,990.00	0.00	98.5	5.4	143,140.00	2.52
INDUSTRIALS	4,072,025.37	8,404,220.00	12,000.00	106.4	7.9	216,700.00	2.58
TELECOMMUNICATION SERVICE	597,175.30	803,880.00	0.00	34.6	.8	41,580.00	5.17
ADR'S	3,726,296.86	4,633,865.00	6,000.00	24.4	4.4	155,042.00	3.35
COMMON STOCK	22,384,409.07	42,224,959.53	37,790.00	88.6	39.9	1,080,978.16	2.56

WELLS FARGO

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SUMMARY STATEMENT
OF INVESTMENT HOLDINGS
BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLERFAMILY FOUNDATION
CONSOLIDATED ACCOUNT
BASE CURRENCY: USD

25007299
AS OF JUNE 30,2017

	COST	MARKET VALUE	ACCRUED INCOME	%GAIN (LOSS)	% MKT	ESTIMATED ANNUAL INCOME	CURRENT YIELD
EQUITY FUNDS							
MUTUAL EQUITY FUNDS	5,345,942.92	3,664,832.20	0.00	(31.4)	3.5	120,526.58	3.29
EQUITY FUNDS	5,345,942.92	3,664,832.20	0.00	(31.4)	3.5	120,526.58	3.29
MISCELLANEOUS							
OTHER MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
VENTURE/LMTD PART/CLS HLD							
VENTURE CAPITAL	30,166,598.05	34,230,304.93	0.00	13.5	32.4	0.00	.00
VENTURE/LMTD PART/CLS HLD	30,166,598.05	34,230,304.93	0.00	13.5	32.4	0.00	.00
NET ASSETS	83,614,341.95	105,758,987.14	149,060.80	26.5	100.0	1,913,069.31	1.81

Patrick and Aimee Butler Family Foundation - Individual Manager Performance

Asset Class	Assets	Wgt	Target	Range	6 MOS	1 YR	3 YR	Incep. Date
	Allocation - June 30, 2017				Performance Data - June 30, 2017			
Cash	$12.4	12%	5%	0-10%	0.1%	0.0%	NA	NA
Fixed Income								
Sit Investment Assoc.	$13.5	13%	15%	10-20%	3.2%	1.7%	3.7%	12/31/2011
Barclays Aggregate					2.3%	-0.3%	2.2%	
U.S. Equities								
Internally Managed	$42.2	40%	45%	40-50%	3.7%	10.6%	7.5%	12/31/1999
S&P 500					9.3%	17.9%	9.6%	
International Equities								
Mondrian Investment Group	$25.2	24%	20%	15-25%	12.6%	16.1%	0.3%	6/30/2004
MSCI All-Country World					14.1%	20.5%	0.8%	
Alternative Investments								
Miscellaneous	$12.7	12%	15%	10-20%	-0.5%	0.4%	1.2%	NA
HFRI FOF Composite					3.6%	8.0%	2.6%	
Total Foundation	$106	100%	100%		4.4%	8.7%	4.7%	

Notes:

Domestic Equities managed by same indivdual while at Mairs and Power prior to September 2013
Mondarian fund was changed from International Equity Fund to All Countries World in January 2012
Performance for Alternative Investments is an estimatation due to manager changes and time lags

Patrick and Aimee Butler Family Foundation - Historical Portfolio Performance

	Butler Family Foundation					Foundation Average					Market Benchmark (65/35)				
	YR	TOTAL	5-YR	10-YR	ITD	YR	TOTAL	5-YR	10-YR	ITD	YR	TOTAL	5-YR	10-YR	ITD
2000	12.8%	12.8%			12.8%	3.1%	3.1%			3.1%	-1.5%	-1.5%			-1.5%
2001	4.9%	18.3%			8.7%	-2.1%	0.9%			0.5%	-5.1%	-6.5%			-3.3%
2002	-1.0%	17.1%			5.3%	-5.7%	-4.8%			-1.6%	-9.9%	-15.8%			-5.5%
2003	16.6%	36.5%			8.1%	12.5%	7.1%			1.7%	19.5%	0.6%			0.2%
2004	11.6%	52.3%	8.8%		8.8%	11.4%	19.3%	3.6%		3.6%	7.9%	8.6%	1.7%		1.7%
2005	4.7%	59.4%	7.2%		8.1%	8.2%	29.1%	4.6%		4.4%	4.0%	12.9%	2.8%		2.1%
2006	12.7%	79.7%	8.7%		8.7%	13.7%	46.8%	7.8%		5.6%	11.7%	26.2%	6.2%		3.4%
2007	6.3%	91.0%	10.3%		8.4%	10.3%	61.9%	11.2%		6.2%	6.2%	34.0%	9.7%		3.7%
2008	-21.2%	50.5%	2.0%		4.6%	-25.9%	19.9%	2.3%		2.0%	-22.1%	4.4%	0.7%		0.5%
2009	16.1%	74.7%	2.8%	5.7%	5.7%	20.5%	44.5%	3.9%	3.8%	3.8%	18.8%	24.0%	2.7%	2.2%	2.2%
2010	11.6%	94.9%	4.1%	5.6%	6.3%	12.5%	62.6%	4.7%	4.7%	4.5%	12.1%	39.0%	4.2%	3.5%	3.0%
2011	1.7%	98.1%	2.0%	5.3%	5.9%	-0.7%	61.5%	1.9%	4.8%	4.1%	4.4%	45.1%	2.8%	4.5%	3.2%
2012	12.6%	123.2%	3.2%	6.7%	6.4%	12.0%	80.8%	2.2%	6.6%	4.7%	12.3%	63.0%	4.0%	6.8%	3.8%
2013	18.6%	164.6%	12.0%	6.8%	7.2%	15.6%	109.1%	11.8%	6.9%	5.4%	20.4%	96.2%	13.5%	6.9%	4.9%
2014	5.0%	177.9%	9.7%	6.2%	7.1%	6.1%	121.8%	8.9%	6.4%	5.5%	11.0%	117.8%	11.9%	7.2%	5.3%
2015	0.7%	179.7%	7.5%	5.8%	6.6%	0.0%	121.8%	6.4%	5.6%	5.1%	0.9%	119.8%	9.6%	6.9%	5.0%
2016	9.5%	206.3%	9.1%	5.5%	6.8%	6.4%	136.0%	7.9%	4.9%	5.2%	8.8%	139.1%	10.5%	6.6%	5.3%

All returns are net of fees
Any returns in italic are estimates

Patrick & Aimee Butler Family Foundation

Investment Policy Statement

Investment Objectives

- The Foundation is a private family foundation incorporated in 1951 and based in St. Paul
- It is expected the foundation will be in existence for perpetuity
- The investment objective for the Foundation is Balanced Growth
- Total program expenses are expected to average 5% over rolling periods

Guidelines: Internally Managed Assets

- The Foundation will oversee all cash investments and manage a fixed income portfolio consisting of investment grade bonds and preferred stocks. The Foundation's Chief Investment Officer (CIO) is responsible for this portfolio.
- The Foundation will also manage a domestic equity portfolio consisting of individual securities. The Foundation's CIO is also responsible for all management and trading decisions for this portfolio.

Guidelines: Externally Managed Assets

- The Foundation will utilize a variety of investment advisers to mange other asset classes. These currently include: fixed income, international equities, domestic and global real estate, mezzanine debt, infrastructure and commodities. It is expected that many of these investments will be in a fund or partnership format rather than individual securities.
- Additional asset classes may be added in the future and the Foundation may consider mission related investments (MRIs), assuming that the projected returns of the proposed investment are competitive with non-MRI alternatives and that the investment fits within the overall investment strategy. In addition, illiquid asset classes may be used as long as the total portfolio has adequate liquidity
- The Foundation's CIO is responsible for hiring, monitoring and if necessary, terminating, all external managers and opening any associated custodial accounts.

Communication and Oversight

- While the Foundation's CIO has day-to-day responsibility for the investment portfolio and reports to the Investment Committee, the ultimate responsibility for the investment portfolio lies with the Board of Trustees.
- At least annually, ~~the annual Board meeting,~~ Foundation Trustees will at a minimum receive the following: a Wells Fargo ~~current Portfolio~~ Summary Statement~~Appraisal~~, a summary of all current custodians and fee schedules, a summary of performance relative to other foundations, and a current Investment Policy Statement.

ASSET ALLOCATION TARGETS

Asset Class	Target	Range	Benchmark
Cash	5%	0-10%	Not Benchmarked
Fixed Income	15%	10-20%	Barclays Aggregate
Domestic Equities	45%	40-50%	S&P 500
International Equities	20%	15-25%	MSCI ACWI
Alternative Investments	15%	10-20%	HFRI FOF Composite
Total Foundation	100%		COF Foundation Avg. Undiversified Index

General Notes

The Fixed Income portfolio performance only includes the externally managed portion

The performance of the Alternative Investments asset class is an estimate

Index Notes

ACWI stands for All Country World Index (ex U.S.)

HFRI FOF stands for Hedge Fund Research Fund of Funds

Council on Foundation Average is only calculated annually

Adopted by the Butler Family Foundation Board of Trustees on October 3, 2014

PATRICK AND AIMEE BUTLER FAMILY FOUNDATION

TO: INVESTMENT COMMITTEE
FROM: JOHN BUTLER
SUBJECT: UPDATE ON NON-CORE LIMITED PARTNERSHIPS
DATE: JUNE 29, 2017

Dear Investment Committee Members:

I wanted to provide a brief update on the Foundation's four Limited Partnerships that we discussed on the February 17, 2017 conference call. As you will remember, these four partnerships are smaller in size and are generally at the end of their life. Generally, one would prefer not to have them mudding up the portfolio statements, but because these investments are illiquid and under the control of the General Partner, we can not do anything about the situation.

Albuquerque Plaza Associates

As we discussed in February, the Albuquerque Plaza Partnership was gifted by the estate of Kate Peterson in 2011. Kate's interest in the partnership was valued at cost, or about $65,000 in July of 2011. Before it was transferred to the Foundation, the partnership was marked-up to its market value, which the General Partner estimated was $678,000 (obviously a bit optimistic) and this was the value used on the Foundation statements (current valuation is $620,000). The property sold in May of this year, and the sales proceeds to the Foundation were $62,000, so roughly equal to the actual cost of the investment, but well below the value shown on the Foundation statements.

In terms of performance, this transaction will penalize performance by roughly 50 basis points in 2017, which is significant. However, we are more concerned with longer-term performance (ie 5-10 year rolling averages), and obviously the longer the period the less the impact. I am recommending that we not adjust any numbers to account for this distortion, and simply realize that 2017 performance will actually be about one-half a percent better than the number actually reported.

Gateway Partnership

The Gateway Partnership is another real estate investment gifted by Kate's estate. It also owns one property, the Churchill Apartment building in downtown Minneapolis. I spoke with the General Partner of the partnership earlier this Spring, and he indicated that because of tax implications for many of the investors, the partnership will continue for several more years. So there will likely be no activity on this one in the short-term, although at the current valuation of less than $100,00 it will not have an impact on performance one way or the other.

Northstar Mezzanine Partnerships II & III

These are partnerships the Foundation invested in several years ago and each are down to one investment. The General Partner is confident the remaining company in III will be sold this year and continues to market the company in II (although this has been going on for several years).

As always, please let me know if you have any questions or comments.

FRANKLIN TEMPLETON INVESTMENTS

Templeton Global Total Return Fund

Fixed Income
June 30, 2017

Fund Fact Sheet | Share Classes: A, C

Fund Description

The fund seeks total investment return consisting of a combination of interest income, capital appreciation and currency gains. The fund primarily invests in fixed and floating-rate debt securities and debt obligations of governments, government-related or corporate issuers worldwide and regularly enters into various currency-related and other transactions involving derivative instruments.

Fund Overview

Total Net Assets [All Share Classes]	$5,641 million
Fund Inception Date	9/30/2008
Dividend Frequency	Monthly
Number of Holdings	200

Share Class Information

Share Class	CUSIP	NASDAQ Symbol
A	880 208 889	TGTRX
C	880 208 871	TTRCX

Fund Management

	Years with Firm	Years of Experience
Michael Hasenstab, PhD	18	22
Sonal Desai, PhD	7	23

Maximum Sales Charge

Class A: 4.25% initial sales charge
Class C: 1.00% contingent deferred sales charge (CDSC) in the first year only

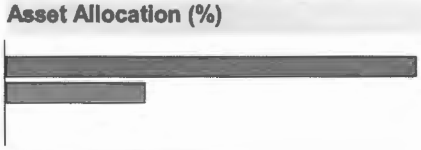
Total Annual Operating Expenses

Share Class	With Waiver	Without Waiver
A	1.08%	1.11%
C	1.48%	1.51%

30-Day Standardized Yield

Share Class	With Waiver	Without Waiver
A	5.21%	5.16%
C	5.04%	4.99%

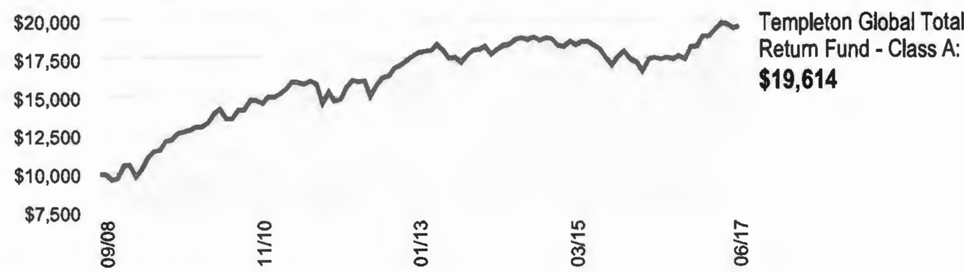
Asset Allocation (%)



Fixed Income	74.58
Cash & Cash Equivalents	25.41
Equity	0.01

Performance

Growth of a $10,000 Investment - Without Sales Charge (from 09/30/2008-06/30/2017)



Total Returns % (as of 6/30/2017)

Share Class		CUMULATIVE YTD	AVERAGE ANNUAL 1 Yr	3 Yrs	5 Yrs	Since Inception	Inception Date
A	With Sales Charge	-1.08	6.80	-0.15	3.46	7.47	9/30/2008
	Without Sales Charge	3.34	11.50	1.29	4.37	8.01	9/30/2008
C	With Sales Charge	2.14	9.98	0.89	3.94	7.58	9/30/2008
	Without Sales Charge	3.14	10.98	0.89	3.94	7.58	9/30/2008

Calendar Year Total Returns % – Without Sales Charge

Share Class	2016	2015	2014	2013	2012	2011	2010	2009
A	8.41	-4.88	0.37	3.55	19.03	-1.08	14.94	23.90
C	7.99	-5.27	-0.04	3.14	18.58	-1.55	14.51	23.34

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal values will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit ***franklintempleton.com*** *for the most recent month-end performance.*

If the sales charge had been included, the return would have been lower.

The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through April 30, 2018. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

Fund Measures

Average Duration	-0.01 Years
Average Weighted Maturity	3.81 Years
Standard Deviation (3 Yrs) - Class A	6.77%

Morningstar Rating™—Class A

Overall Morningstar Rating™
★★★★

As of June 30, 2017 the fund's Class A shares received a 4 star overall Morningstar Rating™, measuring risk-adjusted returns against 298 and 253 U.S.-domiciled World Bond funds over the 3- and 5-year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Composition of Fund

■ Templeton Global Total Return Fund ■ Bloomberg Barclays Multiverse Index

Geographic	% of Total
Mexico	15.45 / 0.71
Brazil	14.00 / 0.85
India	9.62 / 0.10
Indonesia	8.09 / 0.42
South Korea	4.69 / 1.31
Argentina	4.67 / 0.15
Ghana	4.66 / 0.01
Colombia	4.58 / 0.22
ST Cash and Cash Equivalents	25.76 / 0.00
Other	8.47 / 96.15

Currency	% of Total
U.S. Dollar	104.39 / 46.09
Mexican Peso	23.83 / 0.29
Brazilian Real	14.48 / 0.53
Indian Rupee	13.04 / 0.00
Indonesian Rupiah	10.69 / 0.26
South Korean Won	-5.21 / 1.14
Australian Dollar	-9.13 / 1.28
Japanese Yen	-34.73 / 15.60
EURO	-36.88 / 24.03
Other	19.53 / 10.79

Sector	% of Total
Local Curr. Govt/Agency Bonds: Investment Grade	47.10 / 41.72
Local Curr. Govt/Agency Bonds: Non-Investment Grade	24.57 / 0.95
Non-Local Curr. Sovereign Bonds: Non-Investment Grade	2.01 / 1.02
Convertibles	1.02 / 0.00
Corporate Bonds: Non-Investment Grade	0.15 / 3.75
Corporate Bonds: Investment Grade	0.00 / 17.48
US Treasuries/Agencies	0.00 / 14.92
Derivatives	-0.29 / 0.00
Cash & Cash Equivalents	25.41 / 0.00
Other	0.01 / 20.17

Important Information About Portfolio Data

Asset Allocation: The figures shown reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors.

Fund Measures: The figures shown for Average Duration and Average Weighted Maturity reflect certain derivatives held in the portfolio (or their underlying reference assets).

Composition of Fund: Geographic, Sector and Currency portfolio weights reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors.

What Are the Risks

All investments involve risks, including possible loss of principal. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio which may result in significant volatility and cause the fund to participate in losses on an amount that exceeds the fund's initial investment. The fund may not achieve the anticipated benefits, and may realize losses when a counterparty fails to perform as promised. The markets for particular securities or types of securities are or may become relatively illiquid. Reduced liquidity will have an adverse impact on the security's value and on the fund's ability to sell such securities when necessary to meet the fund's liquidity needs or in response to a specific market event. Foreign securities involve special risks, including currency fluctuations (which may be significant over the short term) and economic and political uncertainties; investments in emerging markets involve heightened risks related to the same factors. Sovereign debt securities are subject to various risks in addition to those relating to debt securities and foreign securities generally, including, but not limited to, the risk that a government entity may be unwilling or unable to pay interest and repay principal on its sovereign debt, or otherwise meet its obligations when due. Investments in lower-rated bonds include higher risk of default and loss of principal. Bond prices generally move in the opposite direction of interest rates. As the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. These and other risks are discussed in the fund's prospectus.

Glossary

Average Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Average Weighted Maturity: An estimate of the number of years of maturity, taking the possibility of early payments into account, for the underlying holdings.

Standard Deviation: A measure of the degree to which a fund's return varies from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that a fund's performance will fluctuate from the average return.

Important Information

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Performance: The fund offers other share classes subject to different fees and expenses, which will affect their performance.

30-Day Standardized Yield: The fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

Morningstar Rating™: Source: Morningstar®, 6/30/17. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The Fund's Class A shares received a Morningstar Rating of 3 and 4 star(s) for the 3- and 5-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. **Past performance is not an indicator or a guarantee of future performance.** Source: ©Morningstar. Important data provider notices and terms available at www.franklintempletondatasources.com.

Schumpeter | Life in the public eye

Why America should worry about the shrinking number of listed firms

LAST month Schumpeter attended an event at the New York Stock Exchange held in honour of Brian Chesky, the co-founder of Airbnb, a room-sharing website that private investors value at $31bn. Glittering tables were laid out not far from where George Washington was inaugurated in 1789. The well-heeled members of the Economic Club of New York watched as Thomas Farley, the NYSE's president, hailed Airbnb as an exemplar of American enterprise. Mr Chesky recounted his journey from sleeping on couches in San Francisco to being a billionaire. His mum, a former social worker, looked on. Only one thing was missing. When Mr Chesky was asked if he would list Airbnb on the NYSE, he hesitated. He said there was no pressing need.

Airbnb is not alone. A big trend in American business is the collapse in the number of listed companies. There were 7,322 in 1996; today there are 3,671. It is important not to confuse this with a shrinking of the stockmarket: the value of listed firms has risen from 105% of GDP in 1996 to 136% now. But a smaller number of older, bigger firms dominate bourses. The average listed firm has a lifespan of 18 years, up from 12 years two decades ago, and is worth four times more. The number of companies doing initial public offerings (IPOs), meanwhile, has fallen from 300 a year on average in the two decades to 2000 to about 100 a year since. Many highly-valued startups, including Lyft, a ride-sharing firm, and Pinterest, a photo-sharing site, stay private for longer.

A new paper by Michael Mauboussin, who works for Credit Suisse, a bank, and teaches at Columbia Business School in New York, explains why this matters. Consider the first reason behind the slump in the number of listed firms: the IPO drought. Although the total population of companies in America has been steady, their propensity to list their shares has roughly halved. Fear of red tape is one reason (although the decline predates the Sarbanes-Oxley Act of 2002, which tightened disclosure rules and which bosses hate). Many founders also believe that private markets are better at allowing them a long-term perspective.

As for companies' hunger for capital, many need less to spend on assets such as plant and equipment as the economy becomes more technology-intensive. Private markets, meanwhile, have become more sophisticated at supplying the funds they do require. Many big, mainstream fund managers, such as Fidelity and T. Rowe Price, are investing in unicorns, meaning private firms that are worth over $1bn, of which there are now roughly 100.

Airbnb exemplifies the trend. It is almost a decade old but unlisted. Amazon was three years old in 1997 when it floated. Airbnb has raised billions from private markets and has 26 external investors. It will make gross operating profits of $450m this year, according to a new book, "The Airbnb Story" by Leigh Gallagher, so doesn't need piles of new cash. At its fund-raising round last autumn, employees were able to sell around $200m of shares, which does away with another reason for firms to do an IPO.

Exits from the stockmarket by established firms—the second factor behind listed firms' shrinking ranks—are growing in number. About a third of departures are involuntary, as companies get too small to qualify for public markets or go bust. The rest are due to takeovers. Some firms get bought by private-equity funds but most get taken over by other corporations, usually listed ones. Decades of lax antitrust enforcement mean that most industries have grown more concentrated. Bosses and consultants often argue that takeovers are evidence that capitalism has become more competitive. In fact it is evidence of the opposite: that more of the economy is controlled by large firms.

Perhaps the number of listed firms will stop falling. This year several trendy companies have floated, including Snap, a social-media firm, and Canada Goose, a maker of expensive winter coats beloved of Manhattanites. If the euphoria over tech firms fades somewhat it may become harder for unicorns to raise money privately. Continued decline in the number of listed firms would be bad news. It would be a symptom of the oligopolisation of the economy, which will harm growth in the long run.

Fewer listed firms also undermines the notion of shareholder democracy. Mr Mauboussin notes that 40 years ago a pension fund could get full exposure to the economy by owning the S&P 500 index and betting on a venture-capital fund to capture returns from startups. Now a fund needs to make lots of investments in private firms and in opaque vehicles that generate fees for bankers and advisers. Ordinary Americans without connections are meanwhile unable directly to own shares in new companies that are active in the fastest-growing parts of the economy.

Unicorns don't have to meet public-company standards on accounting and disclosure, so it is expensive to monitor them properly. Some money managers don't bother. There has already been one blow-up among the unicorns, Theranos, a blood-testing company whose products didn't work. And without the close scrutiny that comes with being public, other firms appear trapped in a permanent adolescence of erratic management. Uber, a transport firm that is losing money and whose boss, Travis Kalanick, is scandal-prone, is a case in point.

Time to grow up

The fact that fewer companies control the economy is a question for antitrust regulators. Whether young firms list their shares is entirely up to their owners. Some tech tycoons including Elon Musk, the boss of Tesla, an electric-car company and Jeff Bezos of Amazon have mastered the art of running public firms on long-term horizons. Mr Chesky says that Mr Bezos has pointed out to him that a company must be "robust" to survive once it is public. Achieving that might be seen as a chore. But it can also be an incentive to improve performance and corporate culture. The hope is that Mr Chesky is up to the task, and that the next time he visits the NYSE, he'll be there to ring the bell. ■

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MARKETS | YOUR MONEY | WEEKEND INVESTOR

Stock Picking Is Dying Because There Are No More Stocks to Pick

Shrinking number of companies should make investors more skeptical about market-beating claims of trendy strategies

By Jason Zweig
June 23, 2017 1:55 p.m. ET

In less than two decades, more than half of all publicly traded companies have disappeared. There were 7,355 U.S. stocks in November 1997, according to the Center for Research in Security Prices at the University of Chicago's Booth School of Business. Nowadays, there are fewer than 3,600.

A close look at the data helps explain why stock pickers have been underperforming. And the shrinking number of companies should make all investors more skeptical about the market-beating claims of recently trendy strategies.

Back in November 1997, there were more than 2,500 small stocks and nearly 4,000 "microcap" stocks, according to the Center for Research in Security Prices. At the end of 2016, fewer than 1,200 small and just under 1,900 microcap stocks were left.

Most of those companies melted away between 2000 and 2012, but the numbers show no signs of recovering.

PHOTO: CHRISTOPHE VORLET

Several factors explain the shrinking number of stocks, analysts say, including the regulatory red tape that discourages smaller companies from going and staying public; the flood of venture-capital funding that enables young companies to stay private longer; and the rise of private-equity funds, whose buyouts take shares off the public market.

For stock pickers, differentiating among the remaining choices is "an even harder game" than it was when the market consisted of twice as many companies, says Michael Mauboussin, an investment strategist at Credit Suisse Group AG in New York who wrote a report this spring titled "The Incredible Shrinking Universe of Stocks."

That's because the surviving companies tend to be "fewer, bigger, older, more profitable and easier to analyze," he says, making stock picking much more competitive.

Consider small-stock funds. Often, they compare themselves with the Russell 2000, an index of the U.S. stocks ranked 1,001 through 3,000 by total market value. "Twenty years ago, there were over 4,000 stocks smaller" than the inclusion cutoff for the Russell 2000, says Lubos Pastor, a finance professor at the University of Chicago. "That number is down to less than 1,000 today."

So fund managers have far fewer stocks to choose from if they venture outside the index, the very area in which the best bargains might be found. More money chasing fewer stocks could lead some fund managers to buy indiscriminately, regardless of value.

Eric Cinnamond is a veteran portfolio manager with a solid record of investing in small stocks. Last year, he took the drastic step of shutting down his roughly $400 million mutual fund, Aston/River Road Independent Value, and giving his investors their money back.

"Prices got so crazy in small-caps, I fired myself," he says. "My portfolio was 90% in cash at the end, because I couldn't find anything to buy. If I'd kept investing, I was sure I'd lose people their money."

He adds, "It was the hardest thing I've ever done professionally, but I didn't feel I had a choice. I knew my companies were overvalued."

Mr. Cinnamond hopes to return to the market when, in his view, values become attractive again. He doesn't expect recent conditions to be permanent.

The evaporation of thousands of companies may have one enduring result, however, and it could catch many investors by surprise.

Most research on historical returns, points out Mr. Mauboussin, is based on the days when the stock market had twice as many companies as it does today. "Was the population of companies so different then," he asks, "that the inferences we draw from it might no longer be valid?"

"Factor investing," also known as systematic or smart-beta investing, picks hundreds or thousands of stocks at a time based on common sources of risk and return. Among them: how big companies are, how much their shares fluctuate, how expensive their shares are relative to asset value and so on.

But the historical outperformance of many such factors may have been driven largely by the tiniest companies, exactly those that have disappeared from the market in droves.

Before concluding that small stocks or cheap "value" stocks will outrace the market as impressively as they did in the past, you should pause to consider how they will perform without the tailwinds from thousands of tiny stocks that no longer exist.

The stock market has more than tripled in the past eight years, so the eclipse of so many companies hasn't been a catastrophe. But it does imply that investing in some of the market's trendiest strategies might be less profitable in the future than they looked in the past.

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BUSINESS

Elizabeth Lilly opens her own investment shop in St. Paul

Investment manager Elizabeth "Beth" Lilly has never been shy about making a call.

APRIL 23, 2017 — 6:49AM

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Investment manager Elizabeth "Beth" Lilly has never been shy about making a call.

Lilly has been a well-regarded stock picker for a generation. She doesn't hedge opinions. And she's a reasoned voice for women in the male-dominated trade.

And she's opening her own shop, Crocus Hill Partners, in St. Paul.

For the past 15 years, Lilly worked from the Twin Cities for New York-based Gabelli Asset Management Co. (GAMCO), specializing in Wall Street-unloved-or-unnoticed small firms.

"It's always been my vision to open a firm that focuses on my particular value-investment philosophy in the micro-capitilization and small-cap sectors," Lilly said. "We buy them when they are 'Rodney Dangerfields' and they [sometimes] become 'Bob Hopes.'

"I'm marketing to high net worth individuals and family offices. I could imagine five years from now, with the performance I've generated in the past over that of the [benchmark] Russell 2000, I could grow the firm to $500 million."

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BRIAN PETERSON

Elizabeth Lilly is leaving her position with a New York-based company to start up Crocus Hill Partners in St. Paul.

Lilly managed the $1 billion-asset Mighty Mites Fund and had a hand in GAMCO's small-cap value fund.

Lilly made millions for investors with her acquisition several years ago of 400,000 shares of Brooklyn Park-based Mocon. The rebounding maker of testing equipment for the packaged-food industry last week agreed to sell at a rich premium to Ametek, a much larger Pennsylvania-based consolidator for $182 million.

Lilly also was a long-term believer in Toro, Deluxe Corp. and SurModics as they went from unloved to shareholder-huggers, significantly beating the market in recent years.

Lilly, 53, began her career on Wall Street, followed by a stint at Fund American Companies in Connecticut, under the tutelage of Jack Byrne and his buddy, Warren Buffett, who would visit for homemade lunch at the office every couple months to talk value investing.

"Warren would drive up in a rental, and we would cook burgers there in the kitchen and drink cherry Cokes," she recalled. "He was brilliant, fascinating, humble. He makes complex subjects easy to understand. That formed my philosophy."

Lilly came home to the former First Asset Management (FAM) in Minneapolis and started Woodland Partners with two FAM colleagues in 1996. Gabelli acquired Woodland in 2002.

Last year, in a pointed centerpiece talk at a conference sponsored by Minnesota CFA Society, Lilly lamented the small minority of women in the investment trade even though studies show female-run portfolios outperform the average and industry benchmarks.

According to Girls Who Invest, less than 10 percent of investment managers in the U.S. industry are women.

As more investors, frustrated with more-expensive "active" asset managers turn to huge, cheap market index funds, Lilly has demonstrated that a smart woman can find diamonds in the rough and often beat industry benchmarks.

Lilly likens her career to part analyst, investigative reporter, number cruncher and management psychologist.

"People need to view the investment industry as a creative field," she told her mostly male listeners in 2016.

Lilly applauds the mission of Girls Who Invest to have 30 percent of the world's investable capital managed by women by 2030. It focuses on education, industry outreach, accessibility and career placement.

"I think what they are trying to do is very impressive," Lilly said.

The only way to build a more diverse pipeline of talent, she added, is to tie compensation for managers to developing diverse teams.

Lilly, who lives with her family in St. Paul, acknowledged that motherhood and societal pressures can pull women in different directions.

She added that she benefited from good male mentors in the early years and she believes in a mixed-gender approach to investment teams.

Her partners at Woodland were two men. And GAMCO founder Mario Gabelli long has praised her work and tried to get her to stay.

But it was time for Lilly, a St. Paul native, to put out her own shingle. And also easier to speak her mind as an independent business owner.

"I'm coming at this from a capitalist viewpoint," Lilly insisted. "Women are great investors so we need to have more women in the industry.

"At the end of the day, the firms will generate higher returns from their portfolios, and clients will be happier."

Neal St. Anthony has been a business columnist and reporter for the Star Tribune for 30 years. He also has worked in financial communications for two publicly held companies.
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