## Annual Highlights

### JUNE 30 SUMMARY FINANCIAL DATA

*(dollar amounts in thousands)*

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INVESTMENT PERFORMANCE (NET OF FEES)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Fund return</td>
<td>13.28%</td>
<td>(3.68%)</td>
<td>3.73%</td>
<td>15.96%</td>
</tr>
<tr>
<td>Composite benchmark</td>
<td>11.63%</td>
<td>(1.41%)</td>
<td>2.59%</td>
<td>15.56%</td>
</tr>
<tr>
<td><strong>RESERVE ANALYSIS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets available for benefits</td>
<td>$ 6,553,309</td>
<td>$ 5,883,869</td>
<td>$ 6,220,739</td>
<td>$ 6,084,057</td>
</tr>
<tr>
<td>Required actuarial reserves</td>
<td>6,752,402</td>
<td>6,488,693</td>
<td>6,333,285</td>
<td>5,827,724</td>
</tr>
<tr>
<td>Reserve (deficit)</td>
<td>$(199,093)</td>
<td>$(604,824)</td>
<td>$(112,546)</td>
<td>256,333</td>
</tr>
<tr>
<td>Assets as a % of required reserves</td>
<td>97%</td>
<td>91%</td>
<td>98%</td>
<td>104%</td>
</tr>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions from Ys and participants</td>
<td>$ 267,391</td>
<td>$ 257,360</td>
<td>$ 242,317</td>
<td>$ 229,958</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>29,575</td>
<td>39,672</td>
<td>55,892</td>
<td>68,923</td>
</tr>
<tr>
<td>Total</td>
<td>$ 296,966</td>
<td>$ 297,032</td>
<td>$ 298,209</td>
<td>$ 298,881</td>
</tr>
<tr>
<td><strong>DISBURSEMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit and lump-sum distributions</td>
<td>$ 342,985</td>
<td>$ 346,088</td>
<td>$ 309,293</td>
<td>$ 298,789</td>
</tr>
<tr>
<td>Investment and administrative expenses</td>
<td>45,481</td>
<td>44,074</td>
<td>43,838</td>
<td>40,017</td>
</tr>
<tr>
<td>Total</td>
<td>388,466</td>
<td>390,162</td>
<td>353,131</td>
<td>338,806</td>
</tr>
<tr>
<td><strong>NET DISBURSEMENTS</strong></td>
<td>$ 91,500</td>
<td>$ 93,130</td>
<td>$ 54,922</td>
<td>$ 39,925</td>
</tr>
</tbody>
</table>

### JUNE 30 SUMMARY OF PARTICIPANT STATISTICS

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Plan participants</td>
<td>91,925</td>
<td>89,116</td>
<td>86,813</td>
<td>82,539</td>
</tr>
<tr>
<td>Savings Plan participants</td>
<td>41,119</td>
<td>37,611</td>
<td>33,515</td>
<td>29,462</td>
</tr>
<tr>
<td>Retirees and beneficiaries</td>
<td>13,845</td>
<td>13,386</td>
<td>12,813</td>
<td>12,377</td>
</tr>
<tr>
<td>Total participants*</td>
<td>116,227</td>
<td>111,780</td>
<td>106,947</td>
<td>100,390</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual salary of active participants</td>
<td>$ 30,721</td>
<td>$ 30,004</td>
<td>$ 28,930</td>
<td>$ 28,866</td>
</tr>
<tr>
<td>Average annual retirement benefit</td>
<td>$ 18,265</td>
<td>$ 17,908</td>
<td>$ 17,556</td>
<td>$ 17,141</td>
</tr>
<tr>
<td>Average age of active participants</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Participating YMCAs</td>
<td>802</td>
<td>814</td>
<td>825</td>
<td>836</td>
</tr>
</tbody>
</table>

*Some participants are enrolled in both plans.*

The complete audited financial statements including footnotes and the auditor's opinion, as well as the actuary's valuation, are on the Fund's website at www.yretirement.org. If you would like to receive a hard copy of either report, please email us at info@ymcaret.org.
YMCA Retirement Fund

2017 Annual Report

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Message from the Chairman

As Chairman of the YMCA Retirement Fund’s Board of Trustees, it is my privilege to present the Fiscal Year 2017 Annual Report. The dedication of my fellow Trustees, paired with the outstanding leadership of the Fund’s Management Team, never ceases to amaze me. Working alongside these men and women to better serve YMCA employees nationwide is a true honor.

After a challenging fiscal year 2016, this year was marked by strong investment returns, helping restore our current asset base and our comparative performance over longer time periods. As long-term players in the market, we strive to maintain a diversified portfolio, one that we continuously refine to ensure a secure retirement for all employees within the Y Movement.

The Board of Trustees

The Fund is governed by a group of thoughtful professionals with high achievements across their respective industries. They are steadfast in their commitment to advancing the Y Movement, taking time out of their personal lives for their volunteer service to the Fund. This year, as part of their fiduciary obligations, they served 11 days with a 97% attendance rate. This does not include the preparation time before meetings or individual consultations they gave to the Fund’s Management Team through the year. They demonstrate the quality of their character, as well as their aptitude for the Fund’s unique plan, with every decision they make.

This year, we were fortunate to welcome one new member to our Board: Sandra J. Morander. Sandy is a dedicated Y professional, having held management positions across the United States before coming into her current role as president and CEO of the YMCA of Greater San Antonio. She is also very involved with the YMCA of the USA, currently serving on the Talent and Knowledge Management Committee and Membership Training Task Force.

All of our Trustees’ biographies can be found in this report, and I invite you to read them.

As we welcomed Sandy, we also said goodbye to our friend and colleague, Carmelita Gallo. After serving 12 years as a Trustee, Carm retired from her role as COO of the Dallas YMCA and Chair of the Benefits & Operations Committee of the Fund. We will miss both the warmth of her personality and the depth of her leadership, and we wish her all the best in this next chapter of her life.

95 Years Strong

This year marks an important milestone for the YMCA Retirement Fund—it has been in existence for 95 years. Since its inception, account balances have never gone down and annuity payments have never been missed, despite the volatility of the investment world over the years. The strength of this organization is a testament to our disciplined investment approach and the unwavering support from all those who have contributed to the Fund since 1922. Most importantly, the strength of this organization is rooted in the loyalty of those who have worked and continue to work for the YMCA. We commend all those who have contributed to the Y Movement—you inspire us to continue enhancing the Fund for the next 95 years.

William A. Holby, Chairman
Message from the CEO

I am pleased to report that this was a restorative year investment-wise for your YMCA Retirement Fund.

In fiscal year 2017 your Fund bounced back, following up on a very difficult and disappointing prior year. Our net investment returns were consistently strong in absolute terms, and we also outperformed our benchmark in relative terms for the fiscal year ended June 30, 2017. Looking back over longer time periods, we see that the strong results for the year also improved our comparative performance.

### Investment Returns as of June 30, 2017 (Net of all Investment Costs)

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>7 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>YMCA Retirement Fund</td>
<td>13.28%</td>
<td>4.22%</td>
<td>7.91%</td>
<td>8.66%</td>
<td>4.13%</td>
</tr>
<tr>
<td>Composite Benchmark</td>
<td>11.63%</td>
<td>4.13%</td>
<td>7.47%</td>
<td>8.15%</td>
<td>4.89%</td>
</tr>
<tr>
<td>Out or Under Performance</td>
<td>1.65%</td>
<td>0.09%</td>
<td>0.44%</td>
<td>0.51%</td>
<td>(0.76%)</td>
</tr>
</tbody>
</table>

### Our Mission and Guiding Principles

The Fund’s primary focus is to protect participants’ account balances during their active working careers and then provide an uninterrupted stream of annuity payments throughout their retirement years. Our three Guiding Principles summarize our ongoing efforts to deliver on our mission—to empower YMCA employees to achieve economic security, resulting in loyalty to the YMCA Movement:

- Partner with participants to provide attractive benefits, resulting in a lifetime annuity as a reward for loyalty to the YMCA Movement
- Maximize the confidence and satisfaction of our Participants, Retirees and YMCAs as employers
- Ensure an adequate funding level to perpetuate the safety and longevity of the plans

### Savings for Life, Income for Life

The strong investment returns for the year boosted our funding level to 97% (assets as a percentage of liabilities). When combined with other factors, this gave our Trustees the confidence to declare 4% interest credits for the period of July to December 2017.

It may be tempting to question 4% interest credits at a time when we see headlines about the strength of US public equities. However, as we pursue our strategy to structure a highly diversified portfolio, we allocate only 20 to 25% of our investments to US public equities. Please read the Report from the CIO for more detailed comments about our asset allocation and investment performance.
The green bubbles in the accompanying diagram are the five factors that influence the thinking of Fund Management and our Trustees when making semiannual interest credit decisions.

![Diagram of five factors influencing interest credit decisions]

Our plans are structured to reward longer-term participants with the exceedingly beneficial 7% annuity conversion rate when they retire and convert their account balances (savings for life) into monthly payments (income for life). We mean it when we say that building loyalty to the YMCA Movement is the focal point of our mission at the YMCA Retirement Fund.

The safety of our participants’ retirement savings is a key focus, and so we do not aim for the highest returns possible without constraints, because that could result in taking excessive risk. Protection on the downside is not free in the short run, but we are confident in our long-term investment strategies. With more than 110,000 people and over 800 YMCAs relying on us as their single-focus pension program, taking the long view is essential.

**Diversified Portfolio**

The Fund’s diversified portfolio is designed to provide a balance of growth and protection from risk over the long term. In order to structure a sound retirement plan, we hold many types of investment instruments to ensure a secure retirement now and in the future for all of our participants.

![Asset Diversification June 2017]

In recent years, we have been allocating increasing amounts to private investments, including private equity, real estate, natural resources and credit. The logical timetable for these to start bearing considerable fruit is three to five years from now.
Expected returns for these private assets exceed those available from public, liquid investments, at times by a significant amount. Yet, patience is required. We have been enduring relatively small near-term returns resulting from the higher up-front costs typical for these investments. However, we believe that this will best position the Fund to provide the sustained long-term returns we need.

The Hurdle Rate and the Funding Level

In order to support the Fund’s benefits (3% interest credits and 7% annuity conversion rate, as well as disability and death benefits) plus administrative expenses, a net investment return of roughly 6.5% per year is needed. We refer to this as our hurdle rate.

The funding level is the ratio of assets to liabilities and is an indicator of the general health of a plan. Many corporate defined benefit plans are operating with a funding level of around 80%. The Fund’s current funding level is 97%.

In any given year, in order to maintain the funding level when interest credits of 3% are granted, the Fund’s net investment returns must meet or exceed 6.5%. The chart below compares the net investment returns to the hurdle rate since FY 10 and the resulting funding level of each year.

In years when net returns (the measurement of our asset growth) did not get over the 6.5% hurdle (fiscal years 2012, 2015 and 2016), the funding level decreased. When net returns exceeded 6.5% (fiscal years 2010, 2011, 2013, 2014 and 2017), the funding level improved. During FY 17 our net returns of 13% exceeded the hurdle rate, and our funding level grew from 91% to 97%.

Sometimes additional factors impact the funding level. In FY 14 we completed our recovery from the “Great Recession” (or the Financial Crisis of 2008-09) and achieved a funding level of 104%. In the following year we adopted a new mortality table, resulting in an increase in liabilities of $257 million. That increase, along with investment returns below the hurdle rate, reduced our funding level from 104% to 98%. The adoption of the new mortality table followed a study conducted by the Society of Actuaries and was required by the actuarial profession to better reflect the life spans of participants. Had this not come along when it did, we would likely be fully funded right now.
All of this is to say that my colleagues at the Fund strive on a daily basis, through investment management and benefits administration, to respond to the needs of our three customers:

Not every pension fund handles both investment management and benefits administration, but the Fund has done this since its inception in 1922. As with our Investment Team, I’d put our Operations Team up against any other for its customer focus and skilled use of technology.

We do everything in-house, so when you call our specialists for help, you can be confident that you are speaking with people who are dedicated to serving only YMCAs, their staff and retirees. We know how hard it is to save for retirement, so we do everything we can to make the process easy, safe and secure. And we’re proud to have earned top honors two years in a row from Benchmark Portal, a global leader in customer service benchmarking.

Since its start in 1922, your YMCA Retirement Fund has persevered in the face of economic turmoil several times throughout its 95-year history. It has always emerged stronger, having adapted every time, and FY 17 was one of these restorative years. Your Fund is 95 years strong, and we intend it to stay that way going forward.

Thank you for your continuing confidence in your YMCA Retirement Fund.

John M. Preis, President and CEO
Board of Trustees

Back Row, left to right: Robert T. Lutts, D. Scott Luttrell, Mark Baumgartner, William D. Rueckert, Stephen A. Ives, Eric K. Mann, David M. Martin, Joseph R. Weist
Not Pictured: Angela Brock-Kyle

Left to right: Denise L. Day, Vice Chairman; John M. Preis, President and CEO; William A. Holby, Chairman
WILLIAM A. HOLBY
A trustee since 2004, Mr. Holby is chairman of the Board of Trustees and the Executive Committee. He also serves on the Compensation and Benefits & Operations Committees. Specializing in municipal finance transactions, he is a partner at King & Spalding LLP in Atlanta, GA. Mr. Holby has served on the Board of the Metro Atlanta YMCA for more than 25 years, including a four-year term as chairman, and is now a member of the Advisory Board. He earned both his undergraduate and law degrees at Vanderbilt University.

DENISE L. DAY
A trustee since 2012, Ms. Day is vice chairman of the Board of Trustees and the Executive Committee. She also serves on the Benefits & Operations and Governance Committees. She is president and CEO of the YMCA of Greater Brandywine in West Chester, Pennsylvania. She has previously served as executive director of Ys in Pennsylvania and Delaware. Ms. Day serves on the Y-USA Talent and Knowledge Management Committee, the YNAN CEO Steering Committee, and the PA State Alliance Executive Committee. She earned a BS in exercise science from the University of Nebraska.

MARK BAUMGARTNER
A trustee since 2015, Mr. Baumgartner serves on the Compensation and Investment Committees. He is chief investment officer for the Institute for Advanced Study in Princeton, New Jersey. Mr. Baumgartner has experience in a wide range of asset classes and strategies, both public and private. He serves on the board of directors of The Investment Fund for Foundations (TIFF) and is a member of the Curriculum Advisory Council for the Chartered Alternative Investment Analyst (CAIA) Association. He earned a BSE from the University of Florida and a PhD from Princeton University. He is a CFA charterholder.

BARBARA A. BETTIN
A trustee since 2015, Ms. Bettin serves on the Audit and Benefits & Operations Committees. She is president and CEO of the YMCA of Lincoln, Nebraska. Ms. Bettin serves as the Nebraska State Alliance Chair. She also serves on the Y of the USA Strategic Planning CEO Advisory Committee and the Mid Major CEO Steering Committee. Ms. Bettin is a national trainer for various Y Professional Development training programs. She earned a BA in education from Wayne State College and an MA in sports management administration from the University of Nebraska.

ANGELA BROCK-KYLE
A trustee since 2016, Ms. Brock-Kyle serves on the Compensation and Investment Committees. She has served on the investment committees and boards of a variety of financial service organizations. She is the founder and CEO of B.O.A.R.D.S. She serves on the Board for Infinity Property and Casualty Corporation (NASDAQ) and is a trustee of the Guggenheim/Rydex Funds. She earned a BS from California State University and an MBA and a JD from the University of California, Los Angeles.

STEPHEN A. IVES
A trustee since 2015, Mr. Ives serves on the Compensation and Investment Committees. He is president of Cheyenne Petroleum Company. He is also CFO of a private family office and serves as a trustee and board member of various family entities, advising on matters ranging from real assets (including natural resources and real estate) to financial assets and markets. Mr. Ives is an adjunct professor at the University of Oklahoma. He earned a BBA and Masters of Accountancy from the University of Oklahoma. He is a certified public accountant.

JURIJ Z. KUSHNER
A trustee since 2013, Mr. Kushner is chairman of the Compensation Committee. He also serves on the Executive and Investment Committees. He is a retired VP and corporate controller of Bausch & Lomb. Mr. Kushner served on the Board of Directors at the YMCA of Greater Rochester from 1994 to 2005, including a term as chairman of the board. He recently rejoined that board, continues to serve on the Finance Committee and was named chairman of the $75-million Strengthening our Communities campaign. He earned an MBA and a BA in economics at Rensselaer Polytechnic Institute.

MARK BAUMGARTNER
A trustee since 2015, Mr. Baumgartner serves on the Compensation and Investment Committees. He is chief investment officer for the Institute for Advanced Study in Princeton, New Jersey. Mr. Baumgartner has experience in a wide range of asset classes and strategies, both public and private. He serves on the board of directors of The Investment Fund for Foundations (TIFF) and is a member of the Curriculum Advisory Council for the Chartered Alternative Investment Analyst (CAIA) Association. He earned a BSE from the University of Florida and a PhD from Princeton University. He is a CFA charterholder.

D. SCOTT LUTTRELL
A trustee since 2013, Mr. Luttrell is chairman of the Investment Committee. He also serves on the Executive and Audit Committees. As founder, CEO and CIO of LCM Group, Inc., he has a deep knowledge of a range of investment management approaches, including alternative asset strategies. Mr. Luttrell served as treasurer and then chairman of the Governance Board, and he also served as chairman of the Investment Committee of the Tampa Metropolitan Area YMCA. He earned a BBA in finance from Southern Methodist University.
ROBERT T. LUTTS
A trustee since 2012, Mr. Lutts serves on the Governance and Investment Committees. He is founder, president and chief investment officer of Cabot Wealth Management, Inc., and also serves as the head of the company’s Investment Policy Committee. He appears frequently in the media due to his wide-ranging knowledge of markets and a clear, well-articulated investment strategy, which is explained in the book he authored. He is the former chair and trustee of the YMCA of the North Shore in Beverly, Massachusetts. He earned a BS in finance and management from Babson College and an MBA in investments and finance from the University of Massachusetts, Amherst.

GEORGANNE F. PERKINS
A trustee since 2006, Ms. Perkins is chairman of the Audit Committee. She also serves on the Investment and Executive Committees. She is a retired managing director and the current senior advisor of Fisher Lynch Capital. She is a member of the Investment Committees of the Silicon Valley Community Foundation, Santa Clara University, and the San Bruno Community Foundation. She is also a member of the Steering Committee of the Private Equity Women Investor Network and chair emeritus of the Endowment Management Committee for Saint Francis High School. She earned a BA in fine arts from the University of California, Irvine.

ERIC K. MANN
A trustee since 2007, Mr. Mann is chairman of the Benefits & Operations Committee. He also serves on the Audit and Executive Committees. He is president and CEO of the YMCA of Florida’s First Coast, in Jacksonville, Florida. Mr. Mann has held management positions at Ys in Pittsburgh, Charlotte, Cincinnati, Asheville, Central Connecticut Coast, and Los Angeles. He is chairman of the South African YMCA Coalition and has served on the Y-USA Board of Directors. He earned a BS in recreation from Mars Hill College.

WILLIAM D. RUECKERT
A trustee since 2014, Mr. Rueckert is chairman of the Governance Committee. He also serves on the Investment and Executive Committees. He is president of Oyster Management Group, LLC. He has experience across a range of institutional portfolios and most asset classes, with particular experience investing in banks and biotechnology. He is an emeritus director of the YMCA of Greater New York, and director and president of the Cleveland H. Dodge Foundation. He earned a BA in Spanish from the University of New Hampshire.

DAVID M. MARTIN
A trustee since 2015, Mr. Martin serves on the Governance and Investment Committees. He is president of Foster Holdings, Inc., with considerable experience in many asset classes, ranging from public equity and debt to private assets, both domestically and overseas. Mr. Martin is currently on the Board of Directors of the YMCA of Greater Pittsburgh (past chairman) and YMCA Camp Kon-O-Kwee Spencer. He earned a BS from Robert Morris University.

JOSEPH R. WEIST
A trustee since 2016, Mr. Weist is vice chairman of the Audit Committee and also serves on the Benefits & Operations Committee. He is the chief financial officer of the YMCA of Greater Hartford. Prior to that, he was director of finance for the YMCA of Greater Des Moines, Iowa. Mr. Weist is also a national trainer in fiscal management for the YMCA of the USA. He earned a BSBA from the University of Nebraska-Lincoln and an MBA from Iowa State University. He is a certified public accountant.

AYR LIAISON
RICHARD A. COLLATO
The YMCA Retirement Fund’s Board first appointed Richard A. Collato to the position of AYR Liaison in 2011. In this role, Mr. Collato provides a direct line of communication between the Fund’s Trustees and AYR (Association of YMCA Retirees), sending a quarterly newsletter to all retirees after every Board meeting. Mr. Collato is the retired president and CEO of the YMCA of San Diego County and served as a trustee of the Fund from 1999 – 2010.
Report from the CIO

Fiscal Year 2017: A Strong One for the Fund

The Fund experienced a year of strong performance in fiscal year 2017, earning returns of over 13%, net of all manager fees and internal investment costs. This occurred in a period during which many financial markets performed well, with several recording double-digit returns.

- Equity markets performed particularly well in FY 17. While the S&P 500 in the US did nicely, rising 18%, international developed markets gained nearly 20%, while emerging market equities advanced approximately 24%. These international markets reversed the pattern of the last few years, during which they lagged behind US equity markets.

- FY 17 presented a stark contrast to most of FY 15 and FY 16. Following a long period of strong results (FY 13 and FY 14), in an almost biblical pattern, we endured seven fallow quarters (spanning much of FY 15 and FY 16). This has been followed by a bountiful harvest of returns, which began toward the end of FY 16 and continued through FY 17 and now into early FY 18.

- While the Fund has exposure to many markets globally, our portfolio—and, hence, our performance—is meaningfully affected by how equity markets behave. Management is looking to modify this to some degree going forward, but we expect that equity markets will continue to be an important influence on the Fund’s returns.

Earnings Growth and Economic Growth Improved

Many factors influenced how markets performed over the last year, but two were primary: the interrelated changes and improvements in earnings and economic growth, and the continued outlook for each. Other contributing factors include the level of interest rates and the shape of the yield curve, subdued inflation, improving employment data, manageable corporate debt levels and more available credit, muted volatility, money flows, investor optimism, and expectations regarding how central bankers would conduct monetary policy.

In the US, aggregate earnings for the S&P 500 virtually flatlined at ~$118 per share for the last three years, but are expected to exceed $130 per share in 2017. Similar patterns of earnings growth appeared in the Stoxx 600 in Europe and the Nikkei 225 in Japan. Whereas earnings picked up ~10% after seven flat-to-down quarters in the US, corporate earnings in Europe grew 20% year-on-year, and in Japan, they increased by 25%. Optimism exists for continued improvement.

Of course, earnings growth relates to economic growth. The latter has picked up, and many of the fears of recession (or worse) in China, Japan, Europe, and even in the US, have not been realized. Furthermore, expectations as to when economic growth might slow have been pushed out a year or more. In the US, recession does not seem to be imminent despite eight years of economic growth. Inflation remains persistently low globally, and a key cause is the impact of deflationary and disruptive technologies, which central bank stimulus has not been able to overcome.

Economic growth expectations began to increase towards the middle of calendar year 2016, and interest rates domestically began to rise in concert. The combination of Republicans gaining control of the White House and both congressional chambers last November led to an accelerating rise in interest rates on the backs of expectations of better economic growth and the hope that changing
leadership in Washington would lead to positive change in the economy and in earnings.

In the six months since leadership in Washington changed hands, there have been some changes on the regulatory front in a few industries, but little actual progress has been made in several of the most important legislative matters that were expected to drive further economic (and earnings) growth. In fact, the stocks that led to the so-called “Trump Bump” following the election have, on the whole, retraced their entire gain (which some have labeled the “Trump Dump”) and now stand around the levels of early November. Four of the five best-performing S&P 500 sectors in the last two months of 2016 underperformed the S&P 500 in the first six months of 2017. The US dollar has followed suit, strengthening after the US election but weakening thus far in 2017.

Nevertheless, equity market indices have continued to advance. There remains hope that the arrival of legislative changes, continued regulatory relief, and lower tax rates (if not broader tax reform) have merely been delayed. We seem to be in a protracted period in which the economy is growing, but not so fast as to require steep Fed interest rate hikes. This so-called Goldilocks environment (not too hot, not too cold) has spurred money flows into equities, leading to strong share price appreciation with only modest multiple expansion, although from high levels.

### Outlook for Financial Markets

Complacency seems to define the current attitude of market participants across financial markets around the globe. Investor behavior suggests that there will continue to be (a) moderate levels of economic growth; (b) macroeconomic stability (as even the troubled and overleveraged countries stabilize); (c) contained inflation (albeit at levels lower than preferred by central bankers); (d) muted volatility (as central bankers seemingly continue to stand ready to provide support); and (e) low interest rates (even if above the levels of recent years). All of these aspects will lead to continued gains from already high price levels for equities, bonds, real estate and, indeed, most asset classes.

Financial stability begetting sound financial returns begetting complacency can be self-reinforcing. Complacency can endure for a long while, until it does not. Often, inflation or recession causes a reassessment. Occasionally, it is a major geopolitical event that causes this. Fund Management is uneasy about the state of affairs, even as we reap the benefits of rising markets.

From here, appreciation in equity markets, if it continues, will likely need to occur during a period of rising short-term interest rates. Most of the major central banks have begun to publicly discuss their expectations for raising rates amidst (1) sustained, albeit low, economic growth and (2) diminished political risks, particularly in Europe. The European Central Bank has responded by making more hawkish comments than it has in quite a while. Closer to home, the Federal Reserve has discussed not only continuing to raise policy rates but also beginning to reduce its rather large balance sheet holdings of securities.

The Fed and the bond market have largely been in step. Stability in financial markets may depend meaningfully on this remaining the case as the Fed begins its securities unwind. If the two were to become meaningfully out of step, the positive investor outlook and muted volatility that has accompanied and reinforced the equity market rise could be compromised.
The Fund takes a long-term perspective in its asset allocation and investment decisions as well as in evaluating performance. We summarize our fiscal year results in each Annual Report. In FY 17, a year of strong returns in the investment markets, the Fund performed quite well, gaining 13.3%, net of all investment costs. We ended with $6.6 billion of assets.

To gain a sense of how our portfolio is performing, the Fund has created a composite benchmark that is a best estimate of the types of risks we are willing to accept and types of exposures we are trying to have. The Fund has underperformed its composite benchmark in only one of the last eight fiscal years and has exceeded this metric over the last three, five, and seven years. The 10-year numbers do not compare favorably due to the weak relative performance during the Great Financial Crisis. Changes made since then to the Fund’s asset allocation, exposure measurement and risk management make such a degree of underperformance unlikely, all else equal.

However, we would note that the Fund has intentionally begun to gain increased exposure to strategies that differ meaningfully from those of the Fund’s benchmarks. This is being done to generate superior absolute returns over time and is essential for the Fund’s continued success and ability to both enhance our funding level and award sustained higher interest credits.

While we expect that, over most relevant time periods, the Fund would continue to outperform its benchmarks—and by greater amounts than in the past—there will be years and even multiyear periods when the Fund will underperform its benchmarks, perhaps by a few hundred basis points. Fund Management, with the support of Trustees, has elected to accept greater short-term variance from its benchmark in return for higher expected absolute returns over a cycle.
The Fund performed positively on both an absolute and relative basis over the benchmark this year. However, we caution that the investment strategies we pursue are not expected to provide positive returns or better returns than a given benchmark every single year. Rather, we select these strategies to provide the long-term returns necessary to support Fund benefits. While we pay close attention to interim results and make course corrections along the way, our ability to take a long-term perspective is one of the Fund’s key investment advantages.

Assets that had been a drag on performance in FY 16 led performance in FY 17. The Fund’s overweight allocation to Public Equity drove the strong performance on both an absolute and relative basis. Strong manager selection in the US and Emerging Markets was a large contributor to this outperformance.

The Fund outperformed its benchmark in FY 17 by 163 basis points, further increasing our positive absolute and relative returns over longer periods.

**Investment Strategy**

Management continues to take several steps to fulfill the Fund’s mission in the face of a challenging environment of elevated valuations for nearly all asset classes. Historically, about half of the Fund’s exposure has been to public equities, particularly US equities, which has served us well during this bull market. However, as we enter the ninth year of continued economic expansion in the US, the Fund has begun to reduce US long-only equity exposure. To be clear, public US stocks are currently the Fund’s largest exposure, and we expect they still will be—just less so. Instead, we will be allocating more to private equity ownership in its many forms, including buyouts, growth capital, venture capital, real estate, and equity in oil and gas-related opportunities. Most of these will likely continue to be US-based.

We also plan to increase our international public equity ownership, as Management believes that we can garner more attractive market returns (betas) in certain non-US markets than in US ones, as well as have a greater ability to generate better-than-market returns (alpha).
We continue to pursue return streams that are less correlated to both economic growth and financial market valuations, which are some of the main factors that drive equity values. Steps we have taken to accomplish this goal include the following:

- Increasing our allocation to certain Diversifying Strategies that are not highly correlated to public equities and that we expect will produce attractive (or at least acceptable) long-term returns; these types of exposures, taken as a whole, can comprise a portfolio that retains value or appreciates during periods of equity market distress
- Increasing our allocation to certain alternative Directional Strategies; this includes private equity managers, activist investors or certain hedge fund strategies that pursue attractive absolute returns with mitigated risk
- Maintaining exposure to US government securities in our Rates portfolio
- Continuing to allocate to assets with differentiated risk factors, such as in the Credit, Real Estate and Natural Resources portfolios

<table>
<thead>
<tr>
<th>Asset Class Exposures</th>
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</thead>
<tbody>
<tr>
<td><strong>Public Equities</strong> - As the largest single asset class, representing over 40% of the Fund, Public Equities plays an important—dominating, even—role in both the Fund’s return generation and volatility. Management selects investment firms that perform deep diligence on their portfolios (and some that occasionally use activist strategies to enhance returns), while also paying close attention to how their companies would perform in an economic downturn. In general, we tend to prefer investing with valuation-sensitive equity managers who perform in-depth analyses of the underlying businesses and their competitive positioning. However, the Fund remains broadly diversified across geographies, sectors, investment styles, and other metrics.</td>
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<tr>
<td><strong>Rates</strong> - We expect the Rates portfolio to provide liquidity and downside protection, with return generation being a lower priority. As such, this asset class is currently comprised solely of US government obligations. However, in some circumstances, it might hold other low-risk assets.</td>
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<tr>
<td><strong>Credit</strong> - The Credit portfolio consists of managers who pursue an array of strategies, including distressed investments, senior secured bank loans, direct lending funds, and funds that invest opportunistically throughout the credit universe. These funds seek to generate strong long-term returns, and security selection tends to affect returns more than interest rate movements do.</td>
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<tr>
<td><strong>Directional Strategies</strong> - The objective of the Directional Strategies portfolio is to produce a return stream that matches the performance of passive global equity markets over the long run while exhibiting a superior risk-adjusted performance through a lower volatility and correlation profile than public equities. Examples of these strategies are long-biased long/short equity and credit hedge funds that pursue attractive absolute returns with mitigated risk.</td>
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<tr>
<td><strong>Diversifying Strategies</strong> - The Diversifying Strategies portfolio aims to produce a return stream that (a) is not meaningfully correlated to either risk-on exposure (equity and credit) or risk-off exposure (duration) measured over long time horizons, and (b) exceeds 90-day T-bills + 3% over long time horizons. Examples of these strategies include macro, trend-following, relative value and market-neutral hedge funds. We expect to add certain non-hedge fund strategies as well.</td>
</tr>
<tr>
<td><strong>Private Equity</strong> - The Fund seeks to partner with a small group of exceptional private equity managers who have strong track records, proven operating abilities, and histories of emphasizing downside protection. Most of our private equity managers seek to generate strong returns by ac-</td>
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</table>
requiring private businesses and enhancing their value through growth and operational improvements. Our other private equity managers seek to invest in and help grow emerging companies.

**Real Estate** - The Fund has been pursuing real estate investments tactically, as we see reasons for caution throughout the marketplace. Recent investments have focused on sharpshooters with deep capabilities in a particular market or property type.

**Natural Resources** - The Natural Resources portfolio seeks to generate strong long-term returns with substantial exposure to commodity prices, especially energy. Management has focused on private funds that invest primarily in companies that own and operate energy-producing assets but also has a smaller amount of exposure to firms focusing on energy services. We continually review other strategies as well, including those focused on commodities other than energy.

### Managing the Portfolio's Risks

Risk measurement, monitoring and management are critical aspects of investing. As previously mentioned, the challenging investment environment has led your Fund’s Management to adjust its investment strategies. In some cases, these changes entail greater portfolio complexity.

To keep pace, we have been enhancing our risk-related systems and processes. Our Director of Investment Risk is coordinating and upgrading our exposure analysis and other risk functions. Below are some of the many steps we take to measure, monitor and manage risk in the portfolio:

- We perform quantitative modeling to understand a variety of portfolio risks and sensitivities to possible economic scenarios.
- We manage the Fund’s liquidity, based on a combination of historical analyses and forward-looking projections, to ensure an uninterrupted stream of benefit payments.
- We regularly monitor our exposures and concentrations by various categories to ensure appropriate diversification across a variety of metrics. We monitor certain key items daily, while others we track weekly or monthly, or, in the case of most private (illiquid) asset classes, quarterly.

### Looking Forward

Fund Management remains focused on both setting a thoughtful asset allocation that balances the collection of risks we accept as well as carefully selecting and sizing a range of strategies and managers who we believe can achieve our investment objectives. This will enable us to provide our participants with sound benefits that help ensure economic security for participants dedicating a career of service to the YMCA. The Fund’s Management Team and Trustees remain committed to their mission and are confident that the Fund’s evolving portfolio positions the Fund to achieve its goals.
Report from the CFO

During the fiscal year ended June 30, 2017, account balances reached $4.2 billion and benefit payments totaled $343 million. Annuity payments to 13,845 retirees equaled $249 million, lump sum payments totaled $85 million and death benefits paid amounted to $9 million. On the other side of the ledger, contributions to account balances totaled $267 million. All this activity made for a very busy year.

Actuarial Valuation

As a pension fund, the actuarial estimate of future liabilities is a critical component of our financial statements. The Fund’s actuary, Conduent (formerly Buck Consultants), completed its detailed review of our participants’ account balances, along with the obligations to retirees and the death and disability benefits. They determined that the value of our liabilities was $6,752 million at June 30, 2017.

The complete Annual Report of the Actuary is available on our website.

Operating Costs

The Fund classifies all operating expenses as either “controllable costs” or “non-controllable costs.” Expenses that are considered controllable costs include all expenses incurred to operate the plans and support the internal investment team. Non-controllable costs are investment management fees paid directly from the Fund and reported on our financial statements as part of investment expenses.

Investment management fees are typically charged as a percentage of the market value of the assets allocated to a specific investment manager. As the market value of the assets grow, the fee in dollars will also grow, but the agreed-upon fee denominated as a percentage of assets will remain the same. Generally, fees related to investments in alternative assets and pooled accounts are subtracted from the asset values under management and reported as realized or unrealized losses. As the portfolio allocation to these types of investments has increased over time, the cost to invest our portfolio has shifted from non-controllable costs to realized or unrealized losses. The Fund reports all investment returns net of all management fees and internal investment costs.

Many organizations measure their operating cost relative to the value of their assets under management (AUM). In fiscal year 2017 our average AUM increased to $6.2B from $5.9B.

<table>
<thead>
<tr>
<th>RELATIVE OPERATING COSTS MEASURED IN BASIS POINTS</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Expenses</td>
<td>36</td>
<td>37</td>
<td>33</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Investment Expenses</td>
<td>38</td>
<td>38</td>
<td>38</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>75</td>
<td>71</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Controllable Expenses</td>
<td>51</td>
<td>53</td>
<td>46</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Non-Controllable Expenses</td>
<td>23</td>
<td>22</td>
<td>25</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>75</td>
<td>71</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Average AUM</td>
<td>$6.2B</td>
<td>$5.9B</td>
<td>$6.1B</td>
<td>$5.7B</td>
<td>$5.2B</td>
</tr>
</tbody>
</table>
Despite the challenges of providing superior service and security to our participants and retirement assets, we managed to end the year with costs slightly under budget. In dollar terms, the total cost was 3.2% higher than the previous year. This was made possible thanks to the dedication of the employees at the Fund.

KPMG, the Fund’s auditors, concluded their work on July 31. Their opinion, along with the Fund’s financial statements and footnotes, is available on our website.
Operations Report

The primary focus of the YMCA Retirement Fund’s Operational Teams is to ensure that Y staff have an exceptional retirement benefit as well as access to tools and resources that give them a better understanding of these benefits. Our ultimate goal is to be a valued partner in your retirement planning.

Saving for Retirement Made Easy

Saving for retirement is often perceived as daunting. It is our goal to make this process as easy as possible. By attending education sessions, logging on to the Fund’s website or contacting our top-rated customer service department, you are taking ownership of your retirement planning.

Our communication efforts continued this past year via a comprehensive, targeted messaging program, whose primary goal was to provide useful information to encourage participants to save more in the voluntary tax-deferred 403(b) Smart Account. We are pleased to report that we have seen a significant increase in participation over these past few years.

A Solid Pension Plan for YMCAs

This year the Y Relations Team embarked on a leadership education campaign to assist YMCAs in better understanding and explaining to their staff the value of the YMCA Retirement Fund and the benefits it provides.

Knowing that local Ys make key decisions in their benefit programs jointly with volunteer board members, the Fund developed a brochure to explain the various aspects of the pension program, including the key areas of how the Fund operates.

Next, the Contribution Rate Analysis for Your YMCA was created so that local YMCAs could more easily see the demographics of who benefits from the retirement program within their individual organization, including average compensation and tenure, as well as a cost analysis of the program.

Securing your Personal Information

Next to our participants and their money that we manage, data is the Fund’s most valuable asset. Our databases contain a wealth of information regarding our participants, from the time they enroll with the Fund, through their YMCA career and into their retirement. But in this day and age where identity theft is an ever-present concern, the Fund takes extraordinary steps to ensure that your personal information is safe and secure.

Every year, the Fund invests considerable time and resources into ensuring that the data stored within its systems is as secure as possible. The Fund’s highly-skilled Information Technology staff partner with leading providers of cybersecurity services to continuously review, test and improve upon the technical infrastructure of the Fund as well as the plethora of security policies and procedures in place to help fortify that infrastructure.
Regular testing of our security infrastructure continues to confirm that the safety of your data is up to par with what is expected from a financial service organization like the Fund. However, you may be assured that we will never rest on our laurels. As reported in the press, new methods of breaching defenses are constantly being developed.

We take your faith in us very seriously and will continue to focus on ensuring that your personal information remains as safe and secure as your retirement benefit.

### New Leadership Page on Website

Our Marketing Team is continuously brainstorming better ways to educate participants and leaders on all the Fund has to offer. To help facilitate this endeavor, we have redesigned the “Y Leadership” page on our website to better serve those who help make benefits decisions. The page can be found here: [https://www.yretirement.org/how-can-we-help-you/im-a-y-leader](https://www.yretirement.org/how-can-we-help-you/im-a-y-leader)

In addition, we produced a new video in which Y staff who participate in the Fund provide testimonials and explain the value they see in this benefit as well as what it truly means to them.

### Additional Retirement Planning Resources

Finally, we are pleased to share that we have expanded our Retirement Strategies: Creating Your Plan seminar, offering those age 50 and over a chance to attend this impactful session. You can view where and when the course is being offered throughout the country—hopefully in a location convenient for you—by going to our website here: [https://www.yretirement.org/news-seminars/in-person-seminars](https://www.yretirement.org/news-seminars/in-person-seminars). We also invite local Y’s to host the course.

Please visit our website to sign up for online seminars, retirement planning course offerings and individual counseling sessions. It’s that easy!

As always, it is our privilege to serve the great people of the Y Movement.
Senior Leadership — June 30, 2017

Back Row, left to right: Vincent M. De Sio, Vanessa A. Boulous, Neil Nag, John M. Preis, John Quiñones, Maureen Haley, Lisa Worthy, James G. Kirschner
Front Row, left to right: Elizabeth Delgado, Hunter S. Reisner, Elizabeth A. Kurilla, Marcela Deitrich, Kerri R. Hayes, Elliott C. Buchholz

SENIOR LEADERSHIP
John M. Preis
President and CEO
Hunter S. Reisner
Chief Investment Officer
Vanessa A. Boulous
Chief Operations Officer – External
Elliott C. Buchholz
Chief Operations Officer – Internal & Chief Information Officer
Vincent M. De Sio
Chief Financial Officer
James G. Kirschner
Chief Strategy Officer
John Quiñones
General Counsel
Marcela Deitrich
Senior Vice President – Customer Service & Marketing
Lisa Worthy
Senior Vice President – Finance
Elizabeth Delgado
Vice President – Human Resources
Elizabeth A. Kurilla
Vice President – Internal Audit
Maureen Haley
Vice President of Applications Development
Kerri R. Hayes
Senior Counsel
Neil Nag
Senior Portfolio Manager

INDEPENDENT CONSULTANTS
Actuary
Conduent
Compensation
Willis Towers Watson
Investment Advisor
Cambridge Associates
Auditor
KPMG LLP
Insurance
Willis
Legal Counsel
Patterson Belknap Webb & Tyler LLP
“I’m proud of the fact that we made life good for a lot of people.”

In Memoriam and Gratitude
Rev. Dr. Harold C. Smith
January 11, 1934 – March 21, 2017

Harold began his career with the YMCA Retirement Fund in 1958, and became the fourth president and CEO of the Fund in 1983. During Harold’s 17-year leadership tenure, the Fund experienced unprecedented growth in membership and assets.

Harold’s greatest strengths included his devotion to Fund Participants and the YMCA Movement. He would often visit YMCAs across the country to provide retirement guidance, and he greatly enriched the Movement. He was passionate about, and committed to, educating and helping people plan for retirement. He once stated, “I’m proud of the fact that we made life good for a lot of people.”

Throughout his lifetime, Harold touched many lives and was extraordinarily generous, supporting many causes close to his heart, both locally and throughout the world.