



## CURRENT STATUS OF TRF FINANCES

AT REGIONAL ROTARY FOUNDATION SEMINAR

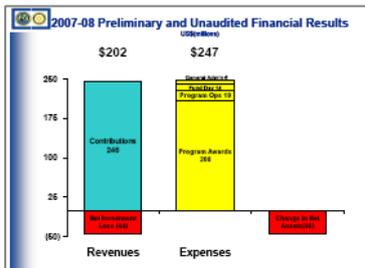
### Eric Schmelling

Fund Development Manager,  
The Rotary Foundation  
International Reception Room, 1st Floor  
0930-0945, Friday, Oct. 17, 2008

Good morning. It is my honor to be with you today. Please note that these numbers are preliminary and unaudited. Final figures will be available after the Trustees have a chance to review and approve the audited numbers during their meeting later this month.

For Fiscal Year 2008:

- contributions were very strong and totaled US\$246 million and
- Investment loss of US\$44 million, resulting in



- Total revenues of US\$202 million

Let's look at expenses. They included:

- US\$208 million on program awards
- US\$19 million on program operations;
- The foundation also spent, US\$14 million on Fund Development;
- US\$6 million general administration.
- **Total expenses were \$247 million.**

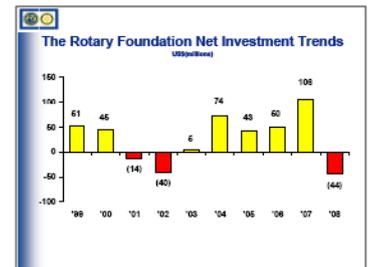
This meant the Foundation's net assets decreased by US\$46 million. This change results mainly from the Net Investment Losses which will be addressed in the next slide.

*Note: These revenues exclude "Flow Through" contributions such as Matching Grants and PolioPlus Partners, 3-H grants that pass through the Foundation for donor recognition. These are not reported as contributions in the financial statements.*

### Investment Income (Loss)

As you know, the investment markets can be uncertain over time:

- During the late 1990's, investment returns were strong and provided more funds than required to absorb the Foundation's operating expenses. The excess earnings helped both to build the Foundation's operating reserve and to fund program awards.
- But for FY01, FY02 and FY03, the Foundation's investments generated losses and a low return.
- FY04 to FY07 were again strong investment return years. [FY07 returns of 16.6% or US\$72 million for Annual Programs Fund and 17.7% or US\$32 million for the Permanent Fund.]
- For FY08, the Foundations investments returned a loss of US\$44 million due to declining market conditions, including US\$69 million in unrealized losses. [Note: the Net Investment loss in FY08 was -6.7% or US\$30 million for Annual Programs Fund and -8.5% or US\$19 million for the Permanent Fund, offset by US\$5 million in PolioPlus.]



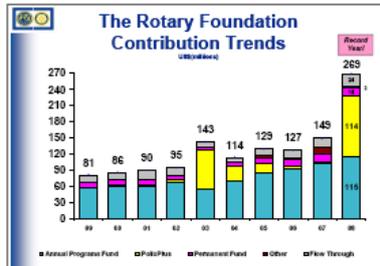
Due to the volatility in the U.S. stock market over the past several years, the Foundation has been reducing its exposure to this market and increasing its exposure to alternative asset classes such as real estate, private equity and hedge funds.

Furthermore, as you will see later in this presentation,

the Foundation maintains an Earned Income Reserve which provides funding for the Foundation's operating expenses when investment earnings are insufficient in a given year.

Even with a few ups and downs, the average net investment has averaged \$27.5 million a years since 1999.

This slide shows the composition of contributions to the Foundation over the past 10 years.



· In FY08, **Annual Programs Fund**

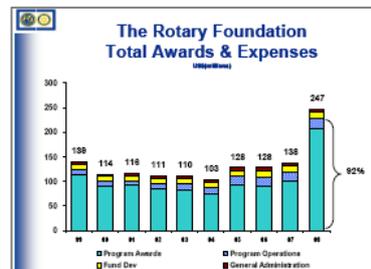
contributions reached record levels at US\$115 US\$12 million compared to FY07; primarily due to the Every Rotarian Every Year campaign.

· **PolioPlus Contributions** also reached record levels in FY08 at US\$114 million. US\$103.5 million of these contributions were due to the Bill & Melinda Gates Foundation and Google Foundation Grants.

· Contributions to the **Permanent Fund** have increased steadily in FY04 FY05, FY06, FY07, and FY08, with the FY08 at a record high of US\$14 million.

**Additional Notes**

There are "Flow Through" contributions of US\$24 million included on this slide. These are contributions, i.e.



Matching Grants and PolioPlus Partners and 3H Grants. These pass through the Foundation for donor recognition, but are not reported as contributions in the financial statements.

This slide displays the Foundation's spending trend over the past ten years.

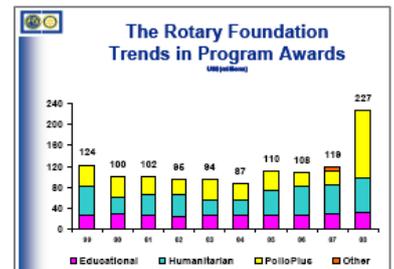
· The Foundation spends most if its money on **Program Awards**, which includes Education, Humanitarian and PolioPlus Programs. The next slide will show the individual program amounts.

- Next, is the **Programs Operations Expenses** that the Foundation spends to operate these programs.
- Next, is the **Fund Development Expenses**, which support Fund Development , Donor Service and all recognition costs; and
- **General Administration Expenses**, i.e. expenses for the Trustees, General Manager, and strategic planning

**Additional Notes**

TRF's expenses have steadily increased over the past decade. On average, total expenses have increased principally from an increase in the number of Foundation programs; an increase in program activity; inflationary cost increases; Associate Foundations; and an increase in administrative, reporting and auditing requirements.

This chart shows the trend in program spending during the past ten years. The spending numbers include both program awards and operational expenses.

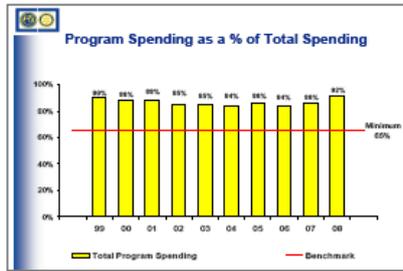


- You can see that the **Educational Program** spending has remained steady during this period. Although the number of Ambassadorial Scholars has declined in recent years, this has been offset by increased spending to support the Rotary Centers.
- Total spending on **Humanitarian Programs** declined in both FY03 & FY04 due to a decline in funds available to support the matching grants program and the suspension of the 3-H program. However, since FY05, Humanitarian Program spending has steadily increased primarily due to increases in matching grant awards and the number of approved grants. The reinstatement of the 3-H program contributed to the increase in HP spending in FY06.
- **PolioPlus Program Awards** increased significantly in FY08 primarily due to the challenge grant received from Bill and Melinda Gates and Google Foundation

of over US\$100 million.

**Program Spending as a % of Total Spending**

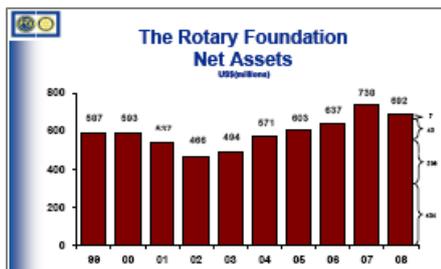
- The 10 year history of TRF's program spending as a percentage of total spending.
- Over the past 10 years, 87% of the Foundation's total spending has been for programs.
- The Foundation's program spending compares favorably with industry benchmarks that stipulate "at least 65% of a foundation's expenses should be for programs.



Note:

- The Foundation's program spending percentage increased from 86% in 2007 to 92% in 2008 due mainly to large PolioPlus grants.
- The Foundation program spending for FY08 without Polio would amount to 83%.

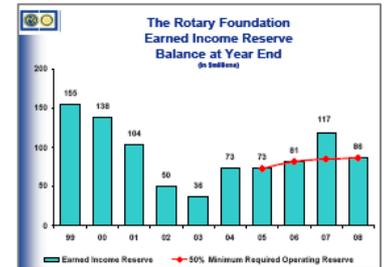
- Net assets, in accounting terms, equate to a comparison between an organization's assets and liabilities.



- For the Foundation, its assets are greater than its liabilities by US\$692 million as of FY08 year end.
- Net assets, in practical terms, result from revenues exceeding expenses as adjusted by changes in the valuation of assets (i.e., investments) and liabilities (i.e., payable obligations).
- The declines in FY01, FY02 and Preliminary FY08 results principally from unrealized losses in those years on the Foundation's investments.
- In FY08, contribution growth increased, but investment returns declined resulting in a decrease the Foundation's net assets by US\$46 million.
- For FY08, the components of Net Assets by Fund are as follows:

- Annual Programs Fund US\$434 million
- Permanent Fund US\$208 million
- PolioPlus Fund US\$43 million
- Other US\$7 million

- The Earned Income Reserve is necessary to provide funding for the Foundation's operating expenses when investment earnings are insufficient in a given year.



- The Earned Income Reserve balances for the past 10 years.
- The Reserve balances can fluctuate significantly based on the Foundation's investment returns, the annual operating expenses and program award distributions.
- For fiscal years 1998, 1999 and 2000, when the Earned Income Reserve exceeded 100% of requirements, the Reserve funded US\$99.3 million in program awards; specifically polio eradication, the Children's Fund and Humanitarian Programs.
- During FY2003 and FY2004, when the Earned Income Reserve was below the 50% minimum requirement, US\$29.8 million of program operations expenses were paid from the World Fund. In FY2008, when the Earned Income Reserved was below the 50% minimum requirement, US\$35.6 million of program operation expenses were paid from the World Fund.
- 30 June 2008, the Reserve balance is US\$86 million and the Reserve ratio is at the minimum 50% requirement.

**Additional notes**

**TRF Operating Reserve Policy:**

- The Foundation shall maintain an operating reserve equal to the sum of:
  - Budgeted operating expenses for the current year,
  - Forecasted operating expenses for the next two fiscal years, and

- 50% of the budgeted Annual Programs Fund awards for the current year.
  - The reserve will be allowed to grow to 1.5 times the targeted reserve level.
  - The Trustees will allocate funds in excess of 1.5 times the targeted reserve level at their discretion.
- If the level of the reserve falls below 50% of the targeted reserve level, program operating expenses will be charged to the World Fund as required to maintain a minimum reserve level equal to 50% of the target.

Although this presentation is designed to give an update on The Rotary Foundation's finances for the fiscal year 2007-08, the events of the past few weeks in the financial markets lead the General Secretary to provide an update on Rotary's website.



**Recent Financial Tsunami**

- Limited exposure to initial problems
- Benefits of diversified portfolio
- PolioPlus Fund invested in US treasuries
- Strong cash balances
- Adequate reserves to operate without sell investment securities at a loss

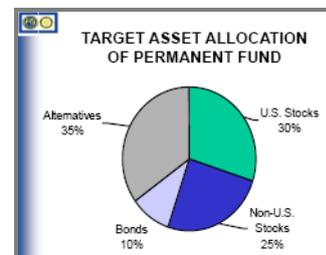
Although our investments have lost value in the short term, we believe they will recover when the financial markets stabilize. In addition, Rotary maintains a diversified portfolio that includes investments outside of the markets that were adversely impacted by recent events. Rotary's investment policies have proven to be sound through past down markets. This prudent management should allow our programs and projects to continue as planned.

- Both The Rotary Foundation's and RI's investment portfolios have only minor exposure to the companies that were taken over by the U.S. government (Fannie Mae, Freddie Mac, and AIG), purchased by other financial institutions (Merrill Lynch and WaMu), or declared Chapter 11 bankruptcy (Lehman).
- Both RI and the Foundation have strong cash balances, and year-to-date revenues from sources other than investments are ahead of last year.
- All money in the PolioPlus Fund is invested in U.S. treasuries, the safest securities available.
- Both RI and the Foundation have adequate reserves

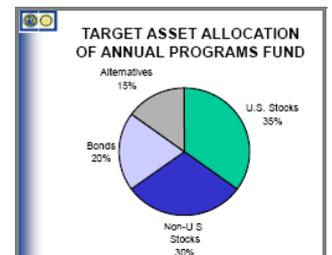
to operate without having to sell investment securities at a loss.

Very recently, The Rotary Foundation Investment Advisory Committee met with Rotary's independent investment consultant and several money managers for its regular investment review. The committee confirmed that the current investment policies set by the RI Board and Foundation Trustees continue to be appropriate for the long term. The committee advised the Trustees to continue diversifying the portfolio to further mitigate the impact of losses in any particular market.

Thank for involvement in TRF programs and their financial generosity. Reinforce why importance of giving to PF to create a stable future for Foundation programs.



Alternatives include real estate (13%), hedge funds (5%), private equity (12%) and infrastructure (5%).



Alternatives include real estate, hedge funds, private equity and infrastructure.

