

# The Rotary Foundation Permanent Fund Financial Report

## 2006–07 (unaudited)

The Rotary Foundation is committed to supporting the efforts of Rotary International as it works to fulfill Rotary's mission of world understanding and peace through humanitarian, educational and cultural programs.



The educational and humanitarian programs of the Foundation are made possible by the enthusiastic support of Rotarians who give generously of their time and financial resources. These programs not only give Rotarians a sense of great satisfaction and fulfillment, but also reinforce the powerful network that links Rotarians in local, national and international service. The Foundation focuses its strength and resources to bring harmony, friendship and understanding among nations to achieve peace.

### What is the purpose of the Permanent Fund?

The Permanent Fund was established in 1982 to ensure a strong future for the Foundation by providing an extra stream of income to meet the increasing demand by Rotary clubs and districts to expand the Foundation programs and ability to meet human needs in the world. Contributing to the Permanent Fund secures the Foundation's future and provides long-term stability. The current goal is to grow the Permanent Fund to one billion dollars by 2025.



The following Foundation programs have been identified by Rotarians as priorities for spending:

PolioPlus  
Rotary Centers for International Studies in peace and conflict resolution  
Ambassadorial Scholarships  
Group Study Exchange (GSE)  
Matching Grants  
Health, Hunger & Humanity (3-H) Grants

## How are Permanent Fund investments managed and evaluated?

The Trustees of The Rotary Foundation are responsible for the general direction and control of the Foundation's investments and have established a specific investment policy for the Permanent Fund.



The Rotary Foundation Board of Trustees 2006-07

The Rotary Foundation invests Permanent Fund assets to ensure funding for today's programs while sufficiently growing the portfolio to support Foundation programs in the future. The primary investment goal is to preserve and grow the corpus at a rate greater than inflation so the real purchasing power of the fund is maintained. During a reasonable time period the funds are expected to achieve a rate of return in excess of the *Policy Benchmark* (see page 4) and the average return of similarly managed endowments.

Experienced external investment managers are appointed to invest Foundation assets in accordance with the Trustees' investment policies. The Foundation's Investment Advisory Committee, staff and investment consultants closely monitor the performance of the investment managers and compliance with policy guidelines. Quarterly investment performance is reported to the Trustees and key investment issues are discussed in depth semi-annually at the Investment Advisory Committee meetings.

## What is the Permanent Fund's investment structure?

The Permanent Fund is invested in six asset classes. The chart below shows the managers and composition for each of the investment pools. The target asset allocation of the fund is 49% U.S. stocks, 18% Non-U.S. stocks, 13% fixed income securities and 20% alternatives (5% private equity, 5% hedge funds, 10% real estate).

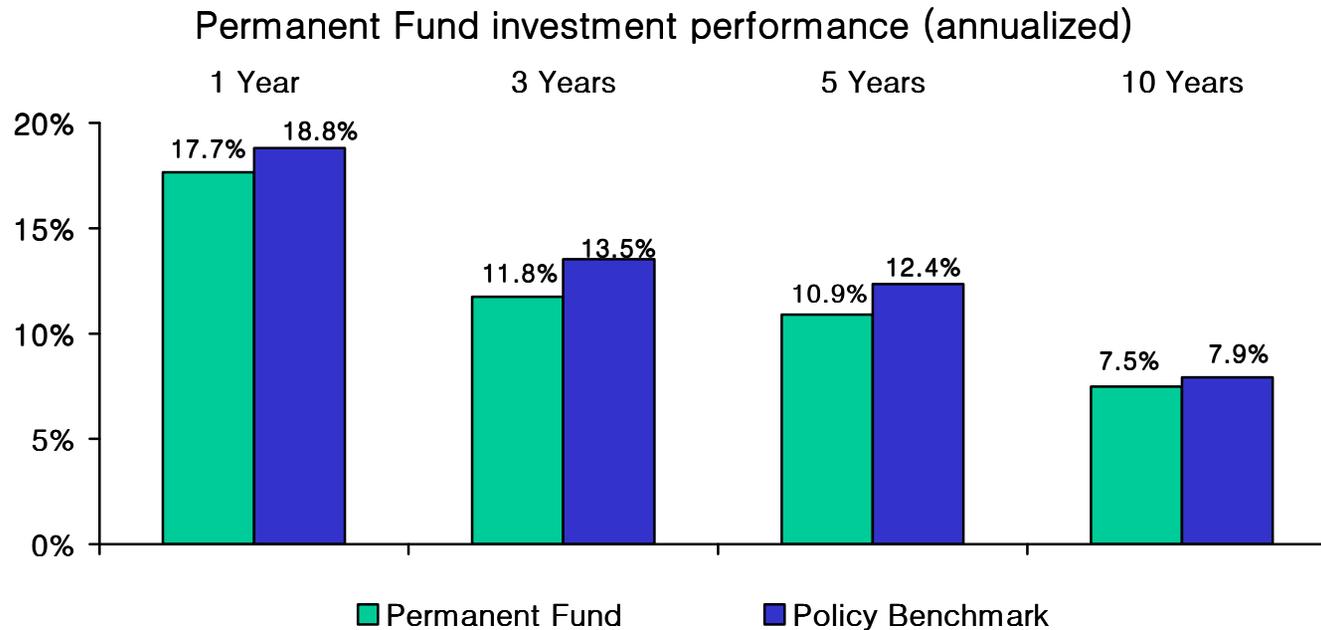
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<sup>(1)</sup> At 30 June 2007, this pool was in liquidation and is being transitioned to two new hedge fund managers.

## What are the investment returns for the Permanent Fund?

The investment returns for the Permanent Fund are shown net of fees and are compared to policy benchmark returns. The policy benchmark is the weighted average return of the market indices for those asset classes in which the fund is invested.

The benchmark for the Fund has changed over time as the asset allocation of the Fund has changed. For example, since 31 March 2006, the policy benchmark has been the weighted average return of the Wilshire 5000 stock index (54% U.S. stocks and private equity), the MSCI EAFE index (18% non-U.S. stocks), the Lehman Brothers Aggregate Bond Index (13%), the NCREIF index (10% real estate) and the 90-day U.S. T-Bills +4% (5% hedge fund).

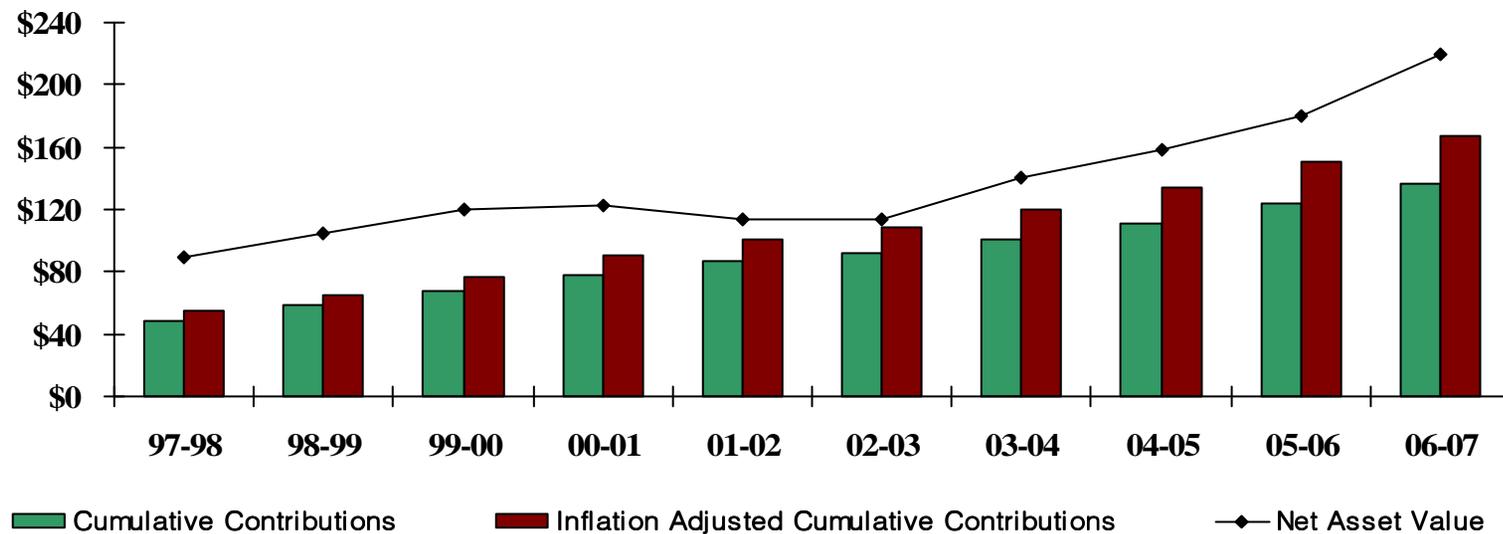


## What is the spending rate for the Permanent Fund?

Each year the Trustees review the spending rate to ensure that the real value of the Permanent Fund grows over time and that the annual spending rate does not exceed the expected long-term rate of return, less the expected rate of inflation. In years when the inflation-adjusted investment return is greater than the spending rate, the "surplus" will be reinvested to cover those periods when the inflation-adjusted investment return is less than the spending rate.

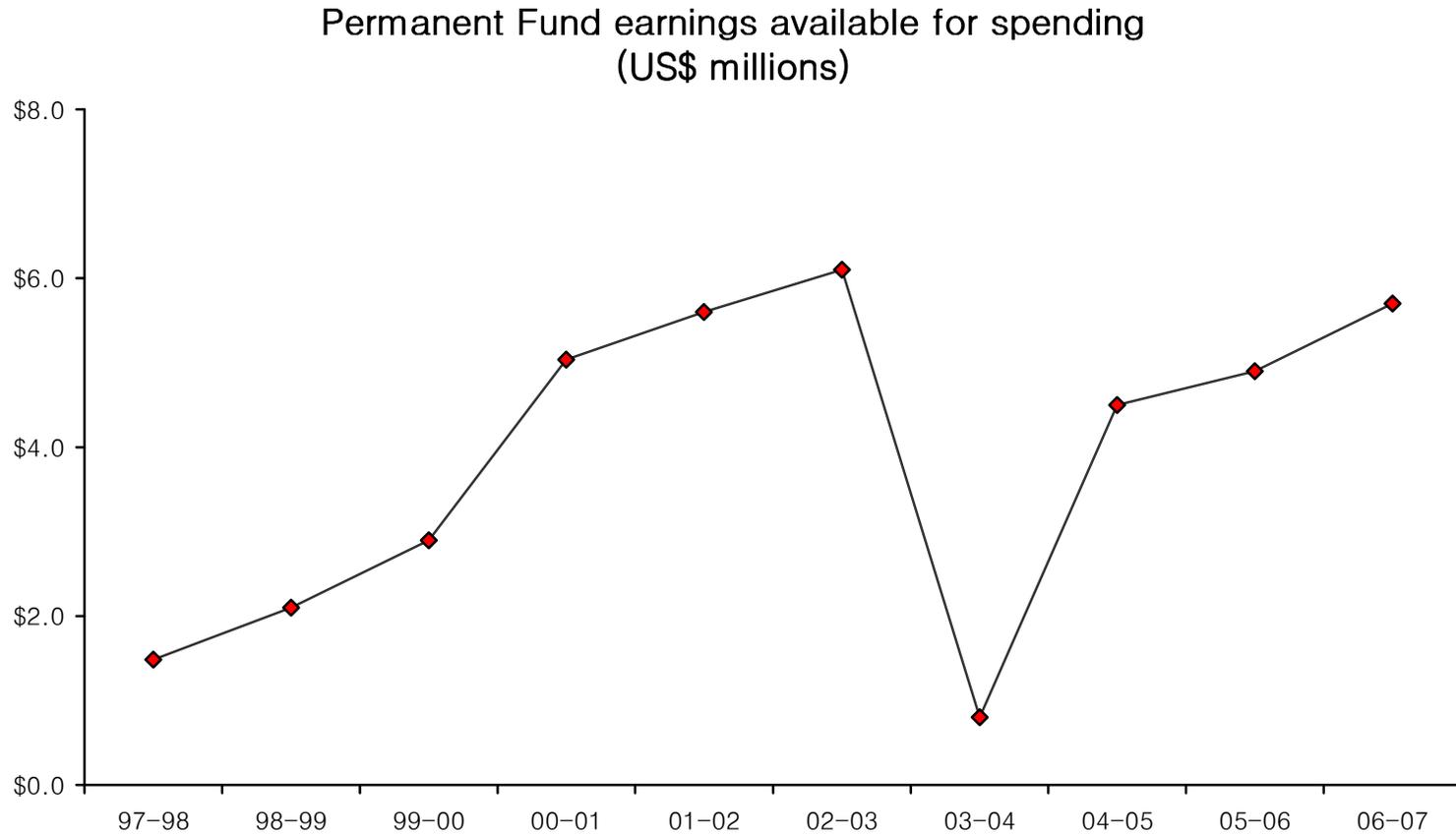
During fiscal year 2006-07, the policy called for spending 4.5 percent of the twelve-quarter average of the fund's market value. 3.75 percent of the spending was allocated to program awards, 0.25 percent to program operation expenses and 0.50 percent to fund development and general administrative costs. Effective 1 July 2007, the spending rate will change to 5.0 percent; 4.25 percent of the spending will be allocated to program awards and 0.75 percent of the spending will be allocated to program operation expenses.

Net assets versus cumulative contributions  
(US\$ millions)



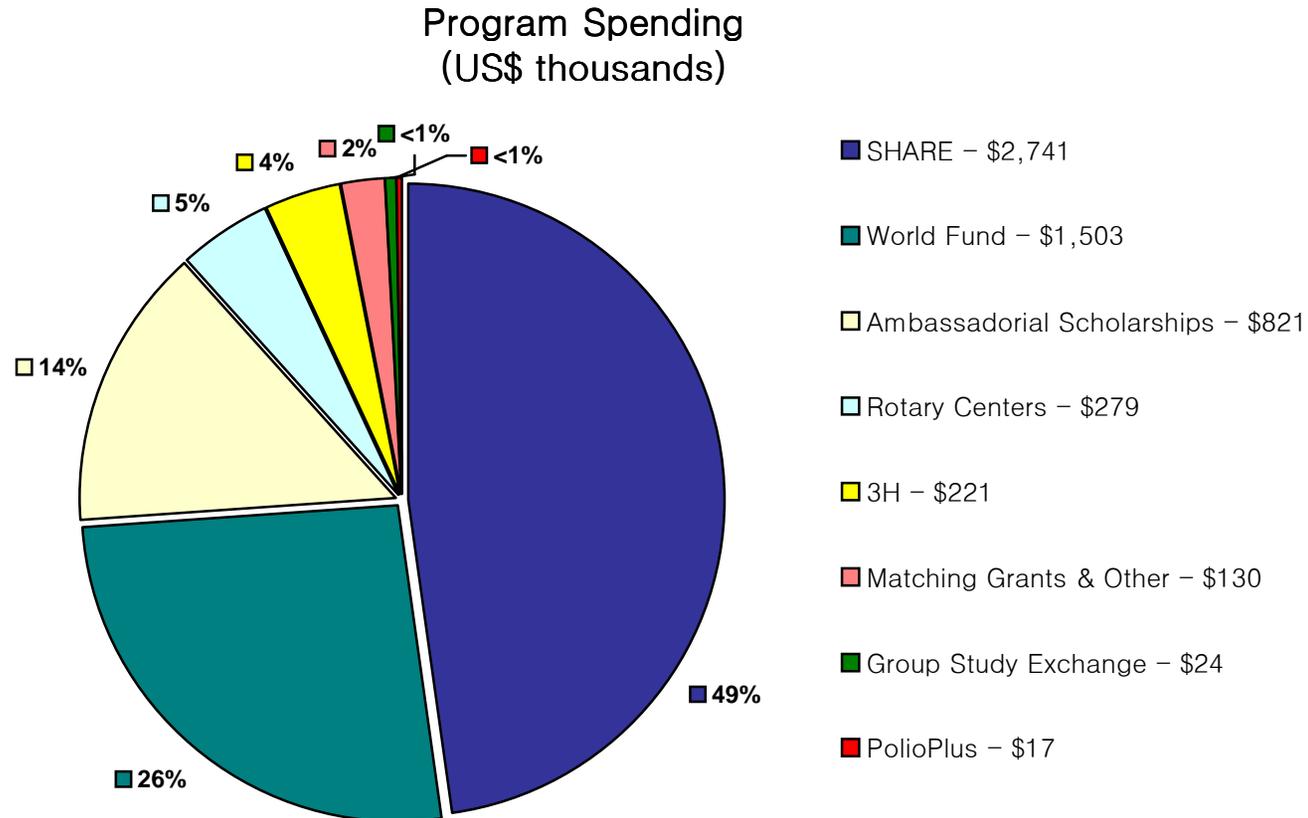
## What is spent from the Permanent Fund?

The following chart details Permanent Fund spendable earnings available in support of The Rotary Foundation's programs. Due to steep declines in the financial markets at the beginning of the decade, there was limited spending from the fund in fiscal 03-04 to avoid invading the corpus.



## How did donors allocate the 2006–07 Permanent Fund spendable earnings?

Fiscal year 2006–07 Permanent Fund spendable earnings totaled \$5.7 million. The diagram below shows the allocation of these earnings as directed by Trustee policy or donor directive, when appropriate.



Note: The Trustees and Rotary districts make decisions on specific program support for the spending portion directed to SHARE after being invested for up to three years through the SHARE system. The 2006–07 Annual Report of The Rotary Foundation provides more detailed information on overall program support. Please note that the dollar amounts listed in this diagram are inclusive of funds to be spent on program operation expenses, fund development and general administration costs.

## What has been the growth of the Permanent Fund?

As of 30 June 2007, the net assets of the Permanent Fund were \$219.6 million, including life income gifts. The Rotary Foundation also tracks expectancies to the fund. Expectancies represent commitments made for future gifts, which are not currently assets of the Foundation and are not included in the audited financial statements. These commitments typically appear as a provision in a person's will or other estate plan that names the Foundation's Permanent Fund as beneficiary. The fund's net assets plus expectancies totaled \$575.9 million as of 30 June 2007.

### Five-year overview of Permanent Fund growth (US\$ millions)<sup>(1)</sup>

	02-03	03-04	04-05	05-06	06-07
<b>Beginning Net Assets</b>	\$113.1	\$112.6	\$141.3	\$157.8	<b>\$179.6</b>
<b>Contributions and Pledges<sup>(2)</sup></b>	5.2	9.3	9.9	12.1	<b>13.9</b>
<b>Investment Income</b>	0.4	20.2	11.1	14.6	<b>31.8</b>
<b>Total Spending</b>	(6.1)	(0.8)	(4.5)	(4.9)	<b>(5.7)</b>
<b>Ending Net Assets<sup>(3)</sup></b>	112.6	141.3	157.8	179.6	<b>219.6</b>
<b>Expectancies<sup>(4)</sup></b>	234.6	261.8	283.2	314.3	<b>356.3</b>
<b>Total</b>	<b>\$347.2</b>	<b>\$403.1</b>	<b>\$441.0</b>	<b>\$493.9</b>	<b>\$575.9</b>

<sup>(1)</sup> Certain reclassifications have been made to prior years' balances to conform with the 2006-07 presentations.

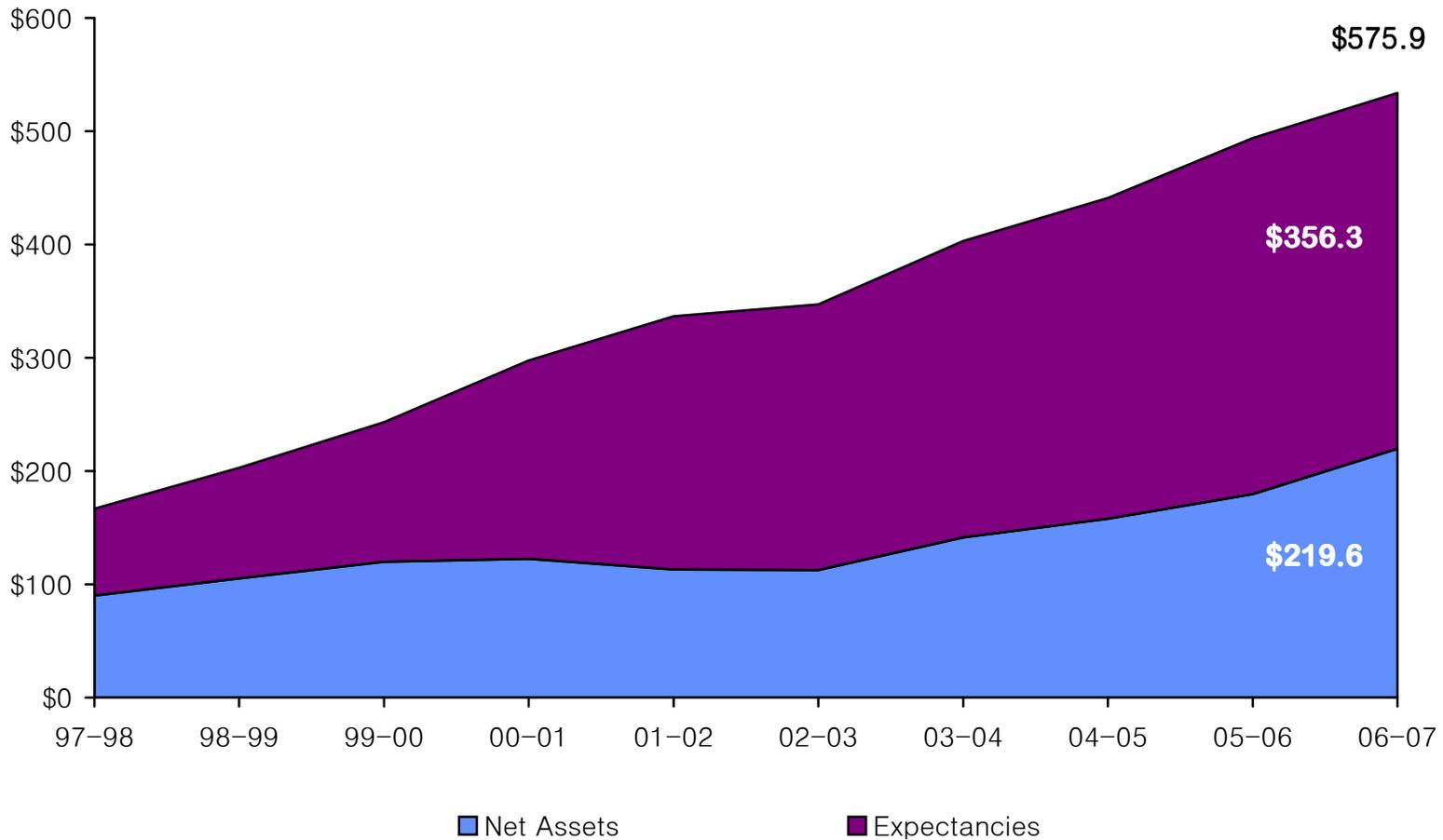
<sup>(2)</sup> Includes \$.6 million in transfers between Funds.

<sup>(3)</sup> Life income gifts (net) are included in Ending Net Assets. Net life income gift amounts (in US\$ millions) are as follows: \$8.0 in 2002-03; \$9.8 in 2003-04; \$11.5 in 2004-05; \$14.0 in 2005-06; and \$18.6 in 2006-07.

<sup>(4)</sup> The expectancies figure is the total number of reported testamentary commitments as of 30 June, which totaled 44,307 in 06-07. Due to a change in accounting for owned life insurance gifts, the expectancies figures 02-03 through 04-05 do not match the 04-05 Permanent Fund Financial Report on expectancies.

## How has the Permanent Fund grown over time?

Permanent Fund market value and expectancies  
(US\$ millions)



## How can I leave a legacy with The Rotary Foundation?

With a gift to the Permanent Fund of The Rotary Foundation, you will join a strong tradition of charity, education and community service that began in 1917 when Rotary International's sixth president, Arch C. Klumph, called for the creation of an endowment fund for Rotary to *"do good in the world."*

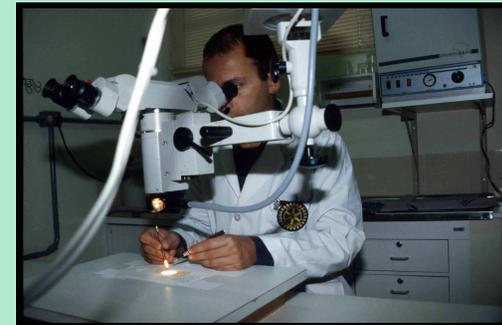
In 1930, The Rotary Foundation began its legacy of doing good in the world by making a grant to an organization that would later become the Easter Seals. From that first grant of \$500 in 1930 to program awards of \$100.2 million in 2006–07, the generosity of Rotarians has been the cornerstone of what can be done in the world through The Rotary Foundation.

The world is ever-changing, but like the Foundation it continues to build on lessons shared by leaders long ago. Foundation programs will be developed to meet future needs as they are identified and provide new solutions as they are developed. Your gift to the Permanent Fund will join the hopes of many others and add to the promise of what Foundation programs offer today and for future generations.

The Permanent Fund provides Rotarians and friends of the Foundation a way to create their own lasting legacy with Rotary. Your legacy can begin today with an outright gift that starts helping immediately or you can include a provision in your final estate plans.

As of 30 June 2007, there were 568 named funds in the Permanent Fund, including 76 endowed Ambassadorial Scholarships, 26 endowments supporting Rotary World Peace Fellowships, 3 endowed Group Study Exchanges and 13 endowed funds to benefit Humanitarian Programs. The remainder of the endowment is comprised of smaller contributions. Every gift is appreciated and put to good use.

For special endowing opportunities for gifts of \$25,000 or more, please refer to the Foundation's Named Funds brochure or contact Foundation staff (see page 13).



## Can I contribute to the Permanent Fund and receive lifetime income payments?

An increasingly popular way of giving to the Permanent Fund is through life income gifts, especially in countries where, like the United States, they are encouraged by law and custom. Life income gifts are designed to provide an income stream during the lifetime of the named beneficiary. After the death of the last named beneficiary, the remaining assets are placed in the Permanent Fund. Life income gifts offer possible benefits such as an annual income stream, an immediate U.S. federal income tax deduction, reduction of capital gains taxes on gifts of appreciated assets and possible estate tax savings. Because of the unique nature of life income gifts, they are managed outside of the fund and each has a separate investment structure.

Life income gift assets are not included in the spending calculations for the Permanent Fund. However, they are included in part in the net assets of the fund in the table on page 8. As of 30 June 2007, the face value of life income gifts managed by the Foundation was \$27.2 million.



### Life income gifts offered by the Foundation include:

- **Charitable Remainder Trust**: A charitable remainder trust is an irrevocable trust that provides a distribution to the donor or other individuals named by the donor for a lifetime or term of years. Trust payments can be fixed or variable. When the Foundation is the trustee, the trusts typically maintain a fairly high equity allocation to generate long-term growth greater than the rate of inflation.
- **Charitable Gift Annuity**: In exchange for an irrevocable gift of cash or securities to establish a charitable gift annuity, the Foundation agrees to pay one or two annuitants a fixed sum each year for life. The number of annuitants and their ages determine the annuity rate.
- **Pooled Income Fund**: An irrevocable donation of cash or securities to the pooled income fund is invested together with the gifts of all other pooled income fund donors. Quarterly income payments are made on a proportional share of the fund's income to each participant; the amount of the payments varies with the fund's earnings and performance. The fund is invested in a mix of stocks and bonds to balance the need for current income with long-term growth of principal.



## How is my commitment or gift to the Permanent Fund recognized?

Those who inform The Rotary Foundation in writing of a provision in their will or estate plan that names the Permanent Fund as a beneficiary, or anyone who makes an outright gift of US\$1,000 or more to the Permanent Fund, is recognized as a Benefactor.



Bequest Society membership is extended for those who inform the Foundation in writing of a provision in their will or estate plan that names the Permanent Fund as a beneficiary of US\$10,000 and greater.

Major donor recognition is presented for outright contributions and life income gifts of US\$10,000 and greater. As described on page 10, the Foundation honors contributions of US\$25,000 or more by establishing a special Named Fund within the Permanent Fund.



Donors whose cumulative gifts total US\$250,000 or more become Arch C. Klumph Society members and will have their photos displayed permanently in the Arch C. Klumph Gallery at Rotary International headquarters.

As of 30 June 2007, The Rotary Foundation had recognized:

- ❖ 189 Arch Klumph Society Members
- ❖ 8,707 Major Donors
- ❖ 5,590 Bequest Society Members
- ❖ 74,791 Benefactors

*Thank you!*

## How do I obtain additional information?

For more information, visit Rotary's Web site at [www.rotary.org](http://www.rotary.org). If you are interested in learning more about the benefits of giving, life income gifts or endowment opportunities, please contact your District Permanent Fund Chair, your Rotary Zone's Major Gifts Advisor or your Regional Rotary Foundation Coordinator.

The Rotary Foundation staff listed below, or staff at your local Rotary International office, would also welcome the opportunity to provide additional information.

Fund Development Manager	Donald Balcom	<a href="mailto:Donald.Balcom@Rotary.org">Donald.Balcom@Rotary.org</a>	(847) 866-3222
Director of Planned and Major Gifts	Karena J. Bierman, J.D.	<a href="mailto:Karena.Bierman@Rotary.org">Karena.Bierman@Rotary.org</a>	(847) 866-4458
Director of International Fundraising	Eric C. Schmelling	<a href="mailto:Eric.Schmelling@Rotary.org">Eric.Schmelling@Rotary.org</a>	(847) 866-3351
Senior Major Gifts Officer, Zones 23 & 24	David E. Bender	<a href="mailto:David.Bender@Rotary.org">David.Bender@Rotary.org</a>	(847) 866-3456
Major Gifts Officer, Zones 22, 25 & 26	Sean C. Allen	<a href="mailto:Sean.Allen@Rotary.org">Sean.Allen@Rotary.org</a>	(847) 866-3190
Major Gifts Officer, Zones 27 & 28	Jamie Revord	<a href="mailto:Jamie.Revord@Rotary.org">Jamie.Revord@Rotary.org</a>	(847) 866-3150
Major Gifts Officer, Zones 29 & 30	Michael Smith	<a href="mailto:Michael.Smith@Rotary.org">Michael.Smith@Rotary.org</a>	(847) 866-3220
Major Gifts Officer, Zones 31 & 32	Richard Kean	<a href="mailto:Richard.Kean@Rotary.org">Richard.Kean@Rotary.org</a>	(847) 424-5251
Major Gifts Officer, Zones 33 & 34	Jackie McGuire	<a href="mailto:Jackie.McGuire@Rotary.org">Jackie.McGuire@Rotary.org</a>	(847) 866-4450
Planned Giving Officer	Jenna Steiner	<a href="mailto:Jenna.Steiner@Rotary.org">Jenna.Steiner@Rotary.org</a>	(847) 866-3833



To Secure Tomorrow.