



THE FINANCES OF THE ROTARY FOUNDATION

FISCAL 2009-10

RRFC INSTITUTE

February 2011

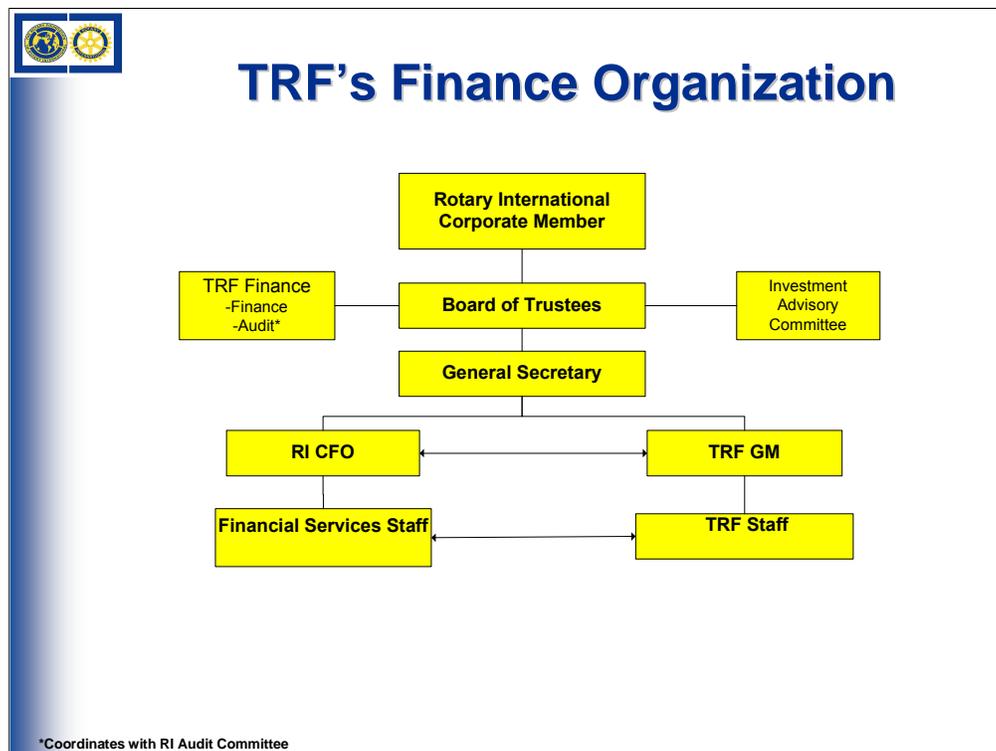


OVERVIEW

- Rotary Finance Overview
- Revenues and Spending
- Net Assets and Operating Reserve
- TRF Investments
- Results 30-Nov-2010

This presentation will cover the following topics:

- Rotary Financial Structure Overview
- Revenues and Spending
- Net Assets and Operating Reserve
- TRF Investments
- Results 30-November-2010



This slide represents the current TRF Finance Organization

The following section of the TRF Bylaws support this structure:

Section 2.4 Corporate member approves certain actions of the trustees.

Section 3.1 Defines Trustee responsibilities – to hold, invest, manage, and administer all funds and property of the Foundation. Lists several specific tasks the Trustees are authorized to do.

Section 6.4 TRF is required to have a finance committee. Committee duties are set forth by the Trustees from time to time.

Section 5.9 General Secretary is the chief financial officer of TRF, subject to the direction of the Trustees and the chairman and responsible for implementation of the Trustees' policies and for general management and administration of the corporation.

The General Secretary relies on RI's CFO to perform financial functions for the Foundation.

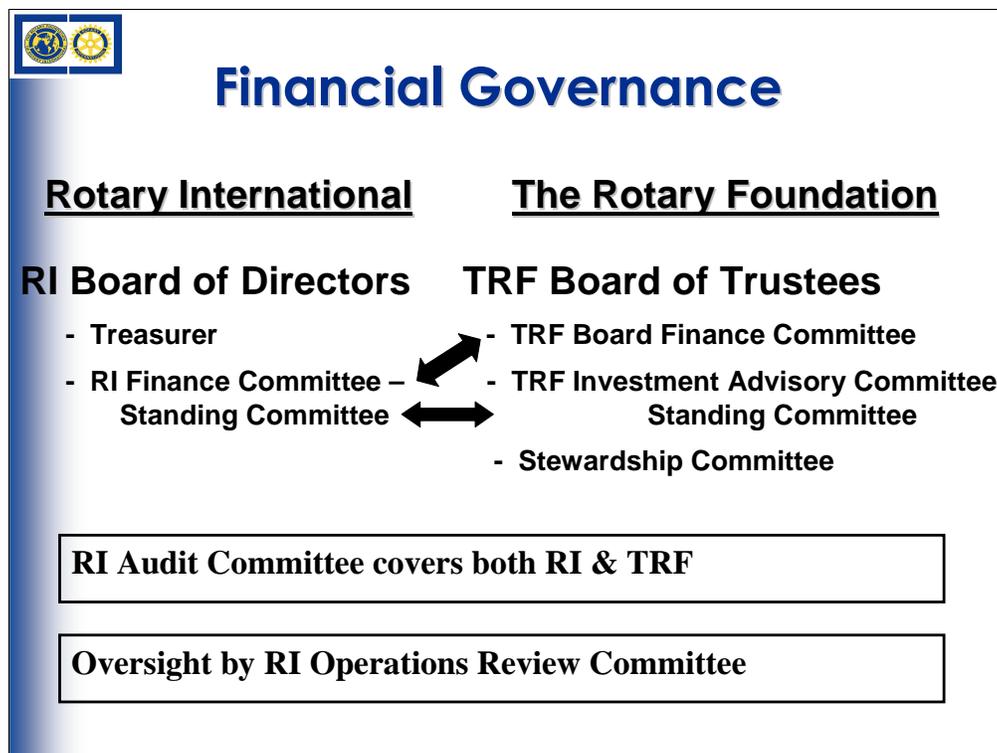
The CFO and the Financial Services staff work closely with the TRF General Manager and the TRF staff on all financial matters.



Rotary's Finances

<u>Rotary International</u>	<u>The Rotary Foundation</u>
<ul style="list-style-type: none"> ■ <u>Revenue Sources</u> <ul style="list-style-type: none"> ■ Dues ■ Services & Other Activities ■ Investment Income ■ <u>Expenses</u> <ul style="list-style-type: none"> ■ Related to Dues ■ Related to Services & Other Activities 	<ul style="list-style-type: none"> ■ <u>Revenue Sources</u> <ul style="list-style-type: none"> ■ Contributions ■ Investment Income ■ <u>Expenses</u> <ul style="list-style-type: none"> ■ Program Awards ■ Program Operations ■ Fund Development ■ Administration

This slide explains the Revenue and Expense components of RI and TRF.



This slide shows the Financial Governance of the organization.

CLICK

Major Changes:

Rotary International

- Strengthened relationship between the Board and RIFC
- Improved Continuity – within committees and between committees

CLICK

TRF –

- Strengthened Investment Advisory Committee –
 - Standing Committee
 - 6 non trustee Rotarians, seasoned investment professionals
- Improved Continuity – within committees and between committees
- Liaison to RI Committees

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Audit –

- Continuity improved with non director members, audit professionals
- Meets SOX requirements
- Combined RI and TRF

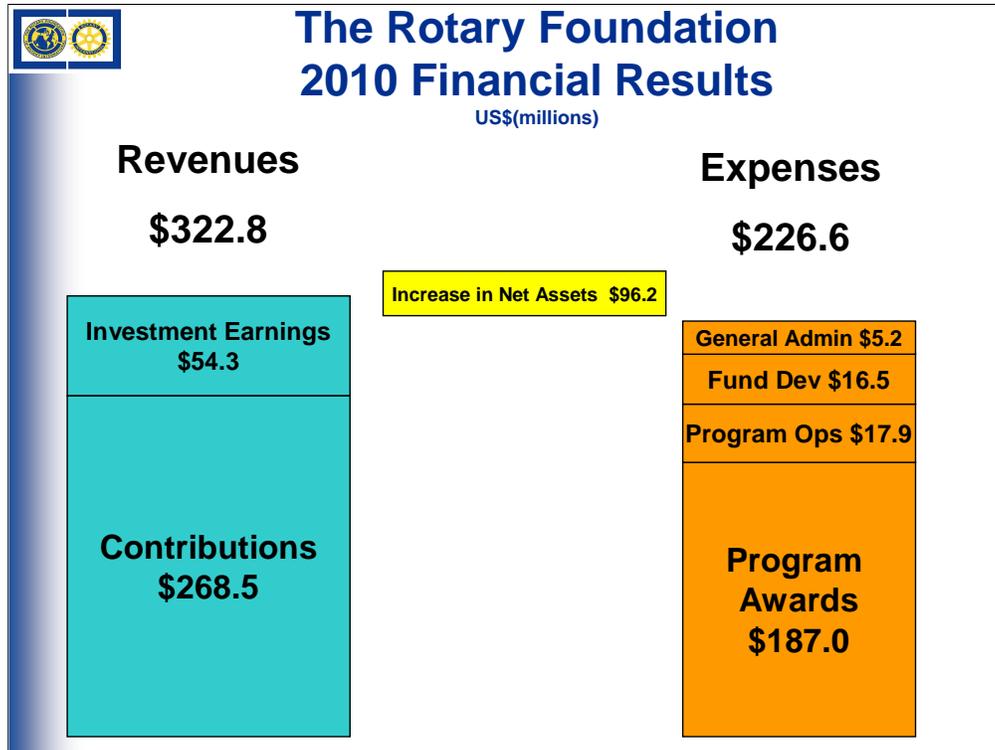
Strong, qualified financial professionals: CPA's, Chartered Accountants, investment experts; bankers; attorneys and seasoned business executives.



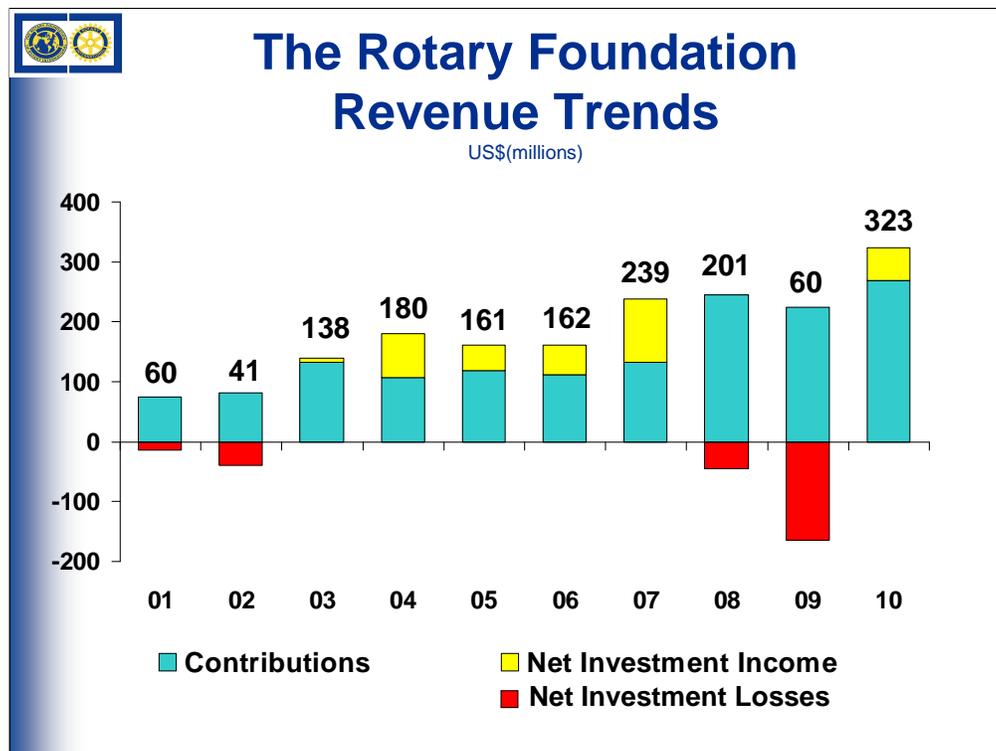
Revenues and Spending

2009-10 Results

And 10 Year Trends



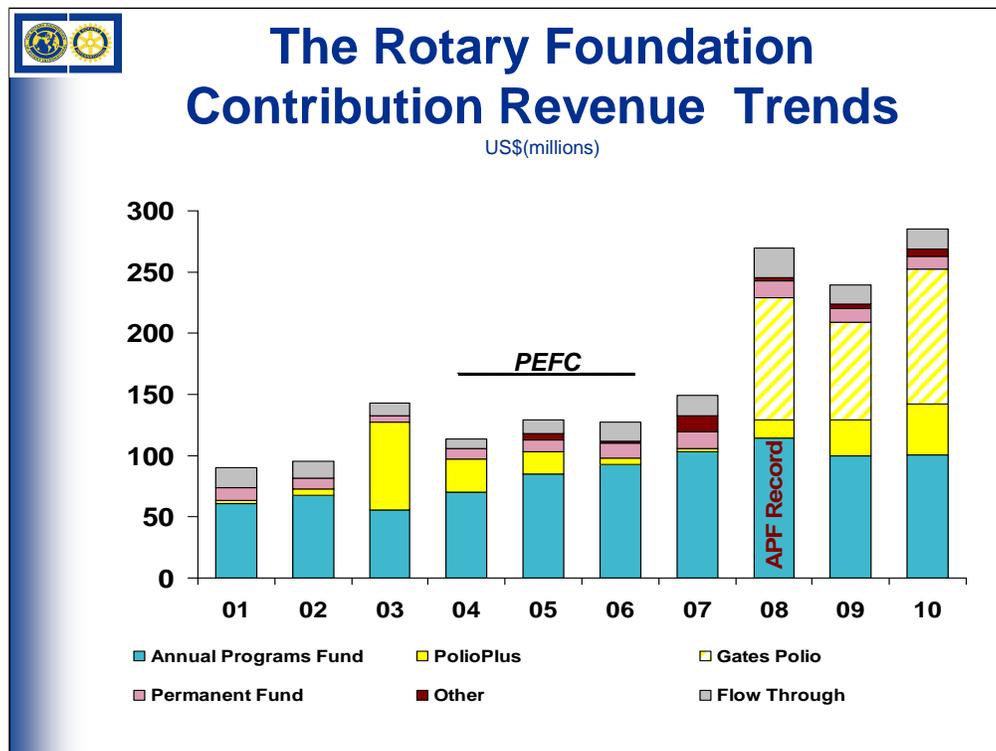
This slide represents the breakdown of the 2010 audited financial results.



This slide represents the revenue trends by component over the past 10 years.

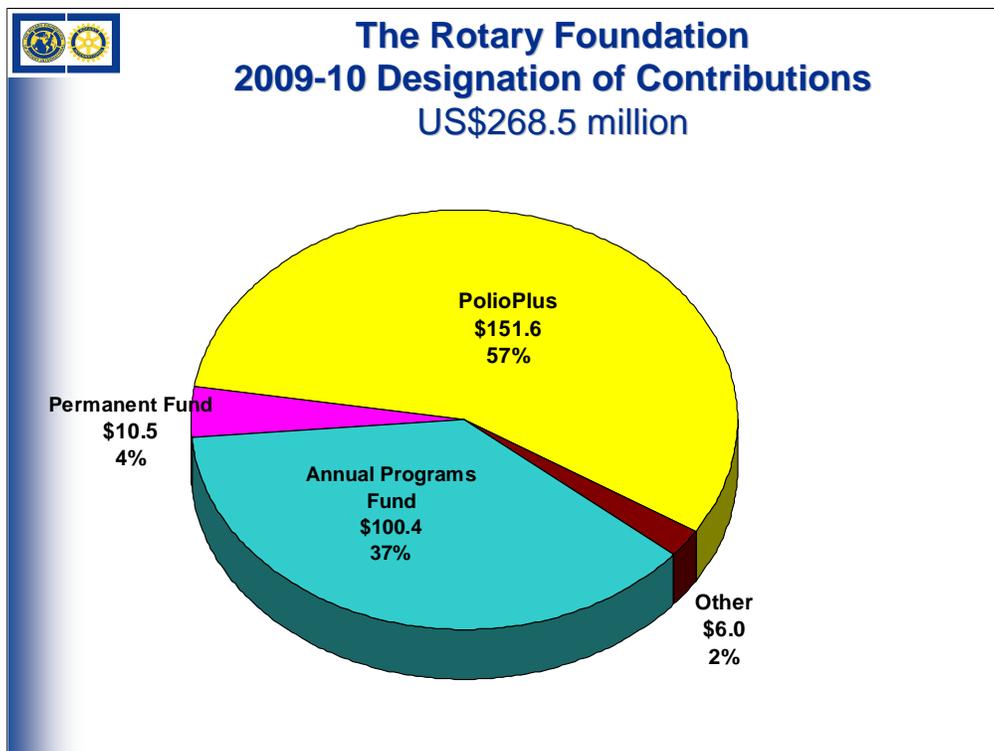
Contributions to the Foundation have had a steady growth due to Rotarians identifying with TRF's motto of "Doing Good in the World". The spike in contributions in fiscal year 2003, 2008, 2009 and 2010 is due to the Polio Eradication campaign and Gates/Google challenges.

You can see that FY2010 total revenues exceeded US\$300 million for the Foundation, which is an all time high.



This slide represents contribution trends by Fund over the past 10 years.

- Contributions to the **Annual Programs Fund** remained relatively consistent through 2002. Contributions to both the Annual Programs Fund and Permanent Fund increased in 2004, 2005, 2006 and 2007, with the **2008 contributions to the Annual Programs Fund reaching an all time high of US\$115 million**. Fiscal year 2009 and 2010 actual results were lower from prior years due to slow economic growth and the \$255 million Polio Challenge. Similar decreases occurred in fiscal year 2003 when the focus on the Polio Eradication Fund Raising Campaign (PEFC) reduced contributions to both the Annual Programs Fund and to the Permanent Fund.



This slide represents Designation of Contributions in dollars and percentages for fiscal year 2010.

- Other consist of Donor Advised Funds and Disaster Recovery/Named Funds.



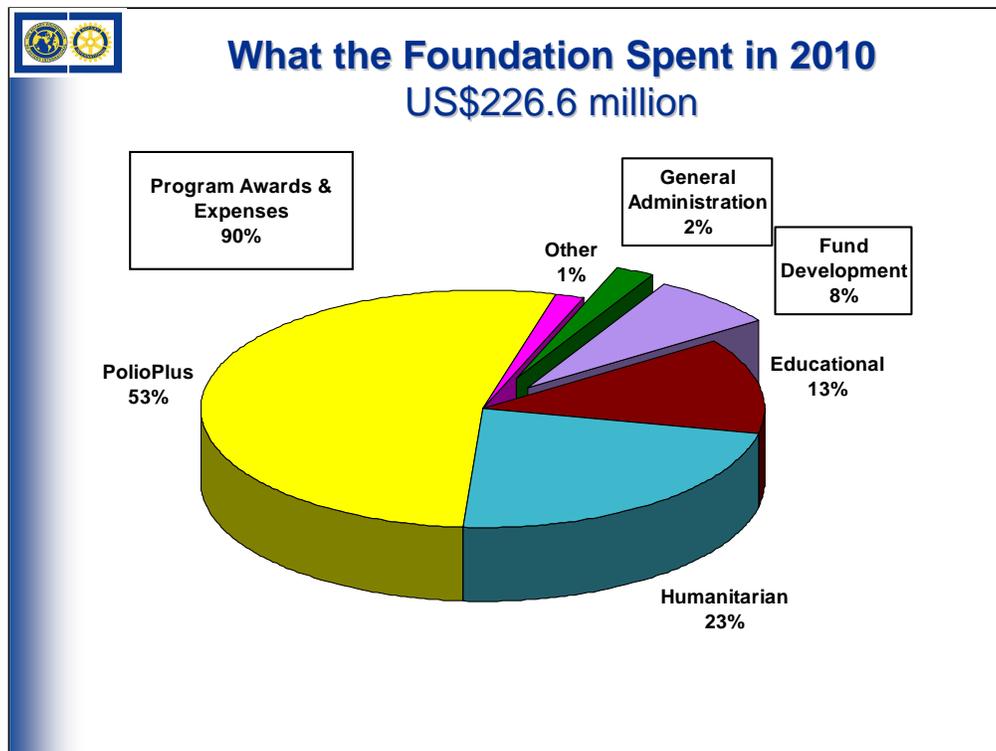
The Rotary Foundation Expense Categories

- **Program Operations**
Scholarship and grant administration for EP, HP and PP programs as well as support for Rotarians who implement international activities.
- **Fund Development**
Personnel services, communications, public relations, supplies, computer support, legal counsel and recognition (ranging from awards to events).
- **General Administration**
Personnel services, communications, computer support, audit fees, Associate Foundations and Trustee services (administrative support, travel, meetings and committees).

This slide represents the breakdown of expenses by three categories.

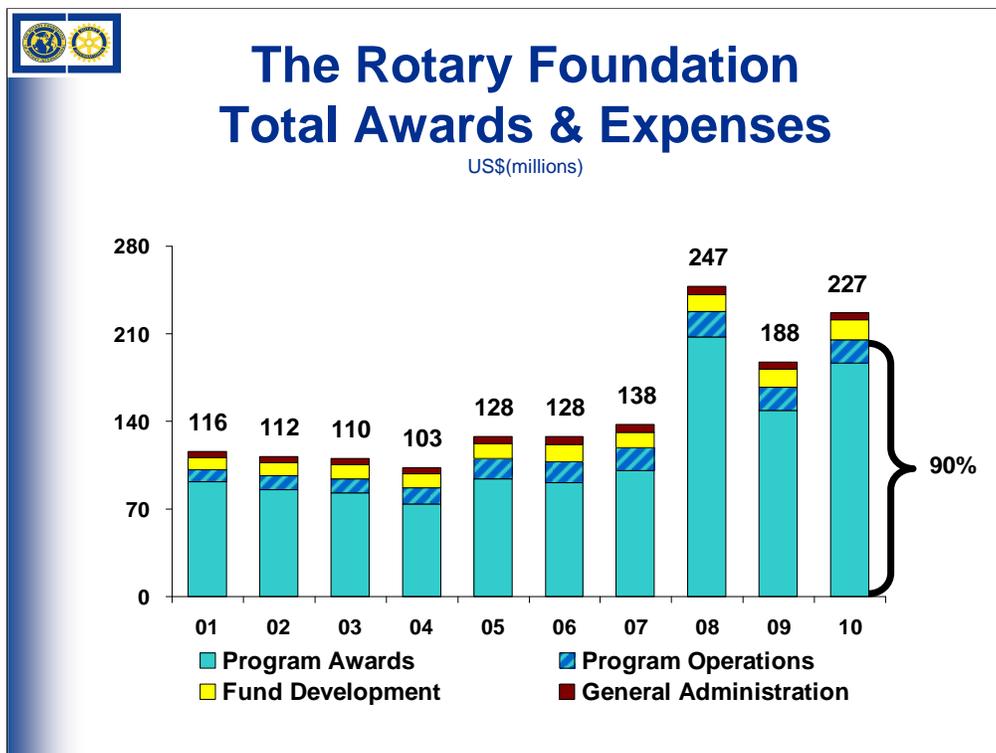
The Rotary Foundation breaks expenses into the following three categories:

- Program Operations
- Fund Development
- General Administration



This slide shows the composition of TRF's expenses for fiscal year 2009-10.

During Fiscal 2010, 90% of the Foundation's spending went to Program Awards and Program Operations expenses which compares favorably with US benchmarks (such as the Better Business Bureau) that stipulate "at least **65%** of a Foundation's expenses should be for programs."

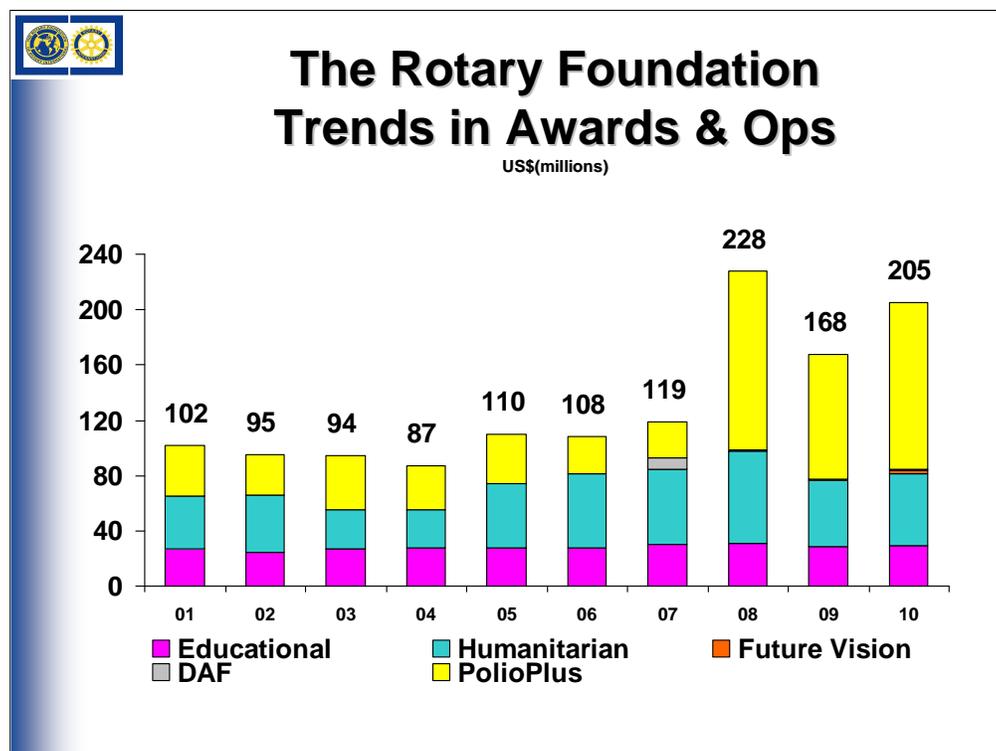


This slide represents spending trends by component over the 10 past years.

Over the past ten years, the Foundation had spent on **Program Awards and Operations** an average of 88%. The program awards areas are Educational, Humanitarian and PolioPlus which will be covered in detail in the next slide.

Fund Development expenses have averaged 9% of the Foundation's spending over the past ten years. In fiscal year 2010, only 8% were spent on fund development activities as part of the Secretariat's effort to minimize costs. These activities include donor administration and services, gift officers, Arch C. Klumpf and Paul Harris recognition, etc.

General Administration expenses have averaged 4% of the Foundation's spending over the past ten years. General administration expenses include Trustee meetings, TRF committees, operations and administration (for example, the general manager, RRFC support, information systems, office space, international offices and publications.)

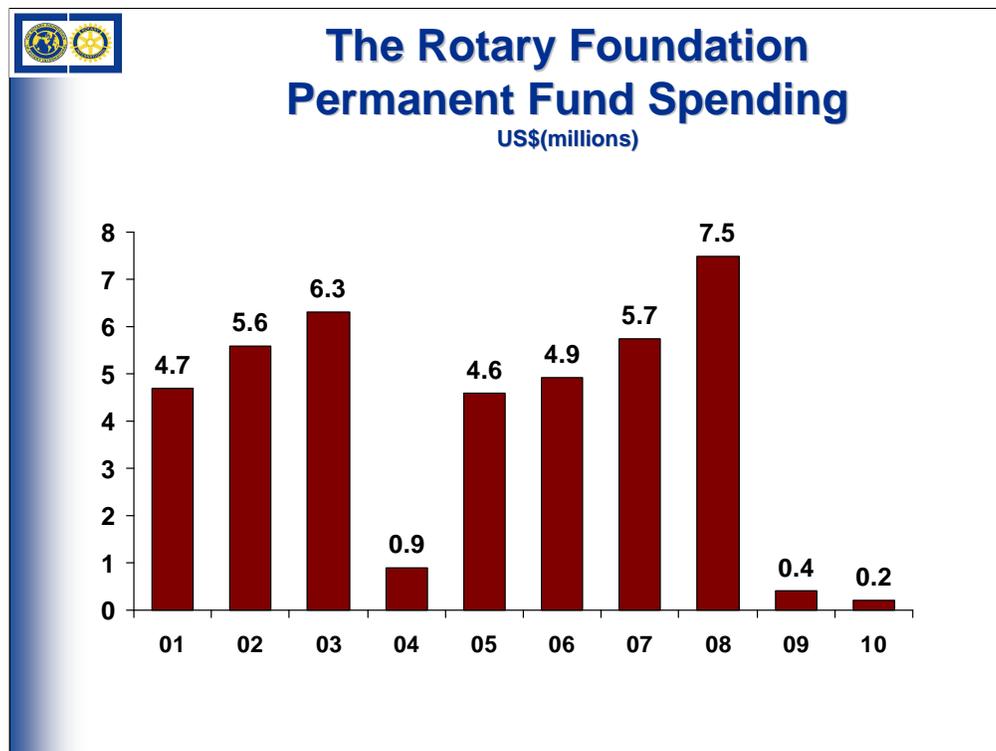


This slide represents Program spending trends by component over the past 10 years. The spending numbers include both program awards and expenses.

- You can see that the **Educational Program** spending has remained steady during this period.

- Total spending on **Humanitarian Programs** declined in 2003, 2004 and 2009 due to a decline in funds available to support the matching grants program and the suspension of the 3-H program. From 2005 through 2008, Humanitarian Program spending steadily increased principally resulting from increases in matching grant awards and reinstatement of the 3-H program.

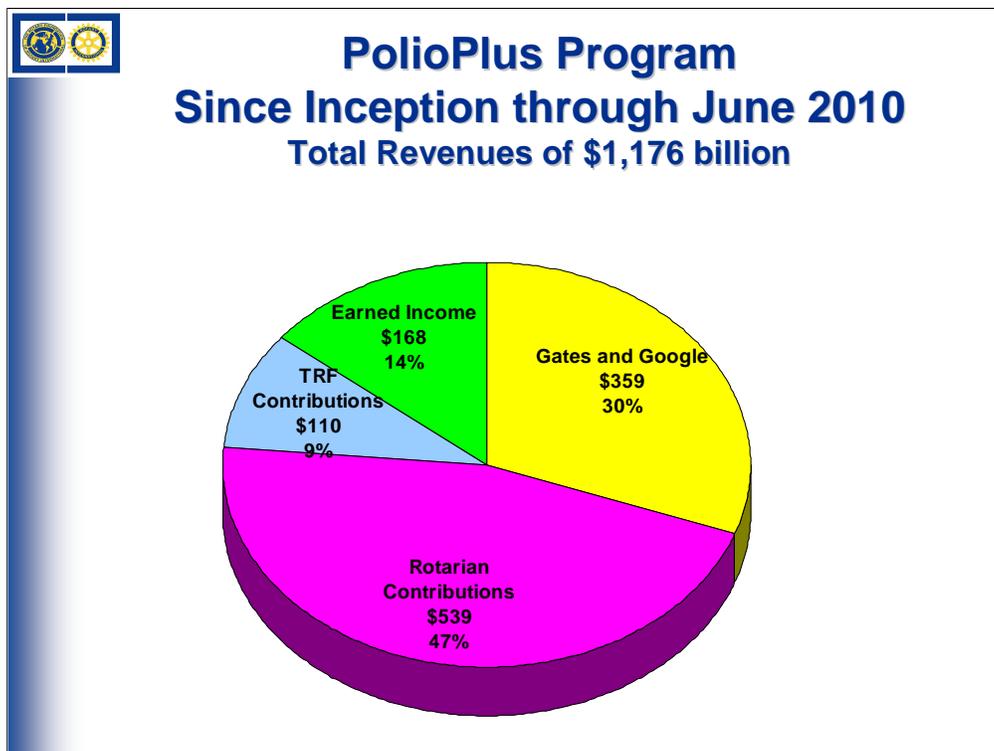
PolioPlus Program spending has increased in fiscal year 2008, 2009 and 2010 due to the significant increase in contributions previously mentioned.



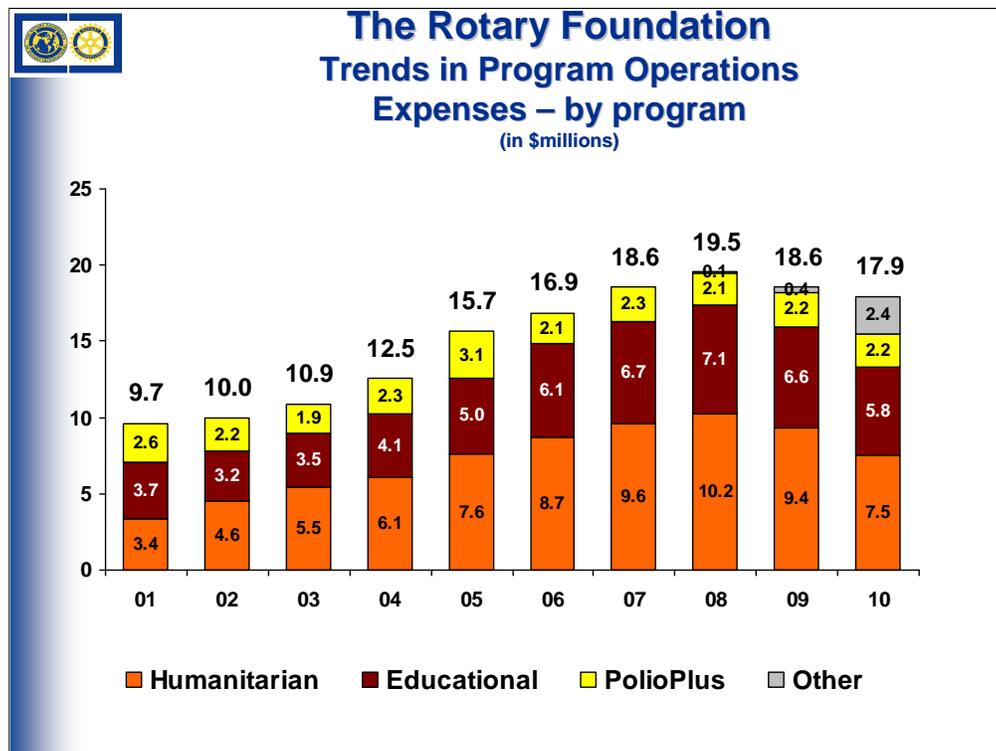
This slide represents the earned income transferred amount from Permanent Fund to other programs based on Trustee spending policy over the past 10 years. Trustees approved a Permanent Fund spending of 4.5% through 30 June 2007. Effective 1 July 2008, the spending policy changed from 4.5% to 5.0%.

Due to decline in Permanent Fund market value, no spending was authorized from the PF for fiscal 2004, 2009 and 2010, except for scholarship awards that had already been committed and earnings/spend down from the Wyman endowment.

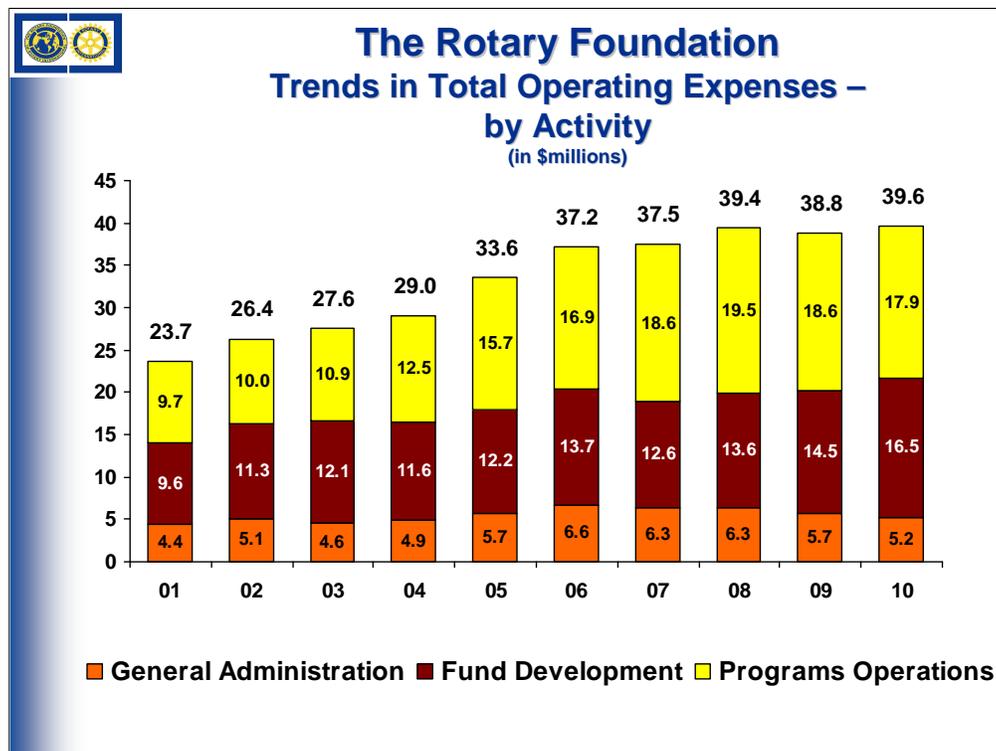
For fiscal year 2011, the Trustee approved a spending rate of 4.5% against "above water endowed gifts" (endowed gifts whose market value exceed their accumulated gift values) or US\$5.7 million.



This slide reflects the total revenues received by the PolioPlus Fund since its inception through 30 June 2010.



This slide represents 10 year trend in program operations spending. Historically, program operations expenses by program have been increasing primarily due to volume in program awards. Due to economic conditions, for fiscal year 2009 and 2010, the Foundation cancelled all non discretionary and non essential spending resulting in a lower expenses.



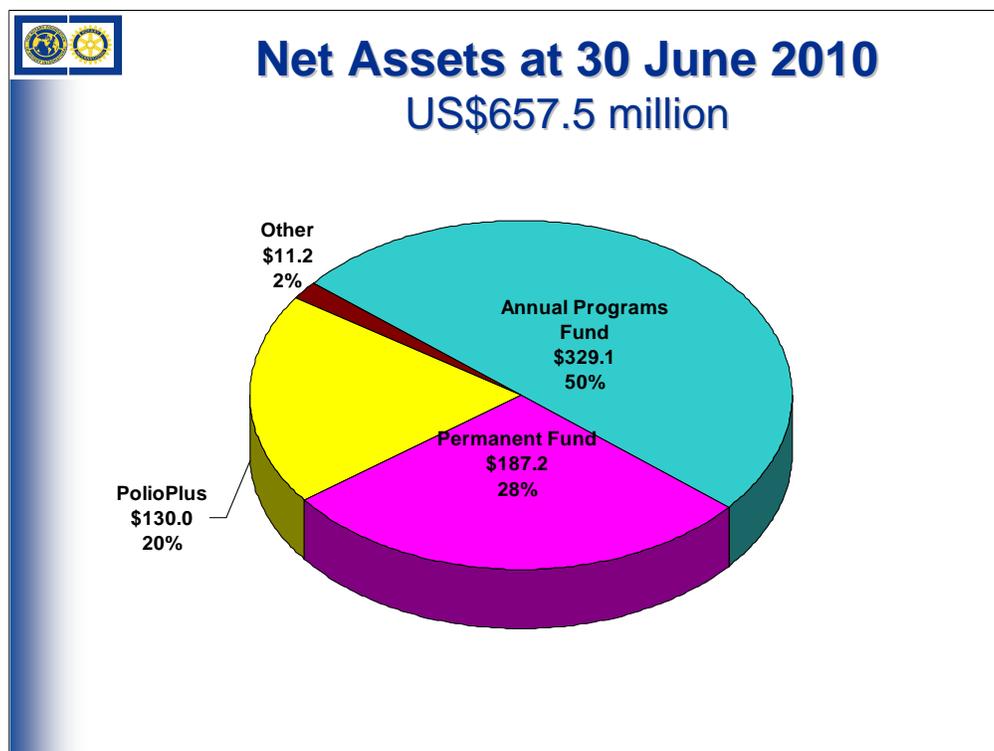
This slide represents trends in Total Operating Expenses by Activity over the past 10 years.

For fiscal year 2009, due to the economic conditions, all non essential and non discretionary spending was cancelled. You can see that program operations and General Administrations expenses decreased from prior year.

For fiscal year 2010, fund development expenses increased from prior year due to multiple fundraising initiatives such as the Gates Challenge. Fund Development staff expansion is partially financed by the Gates Foundation.



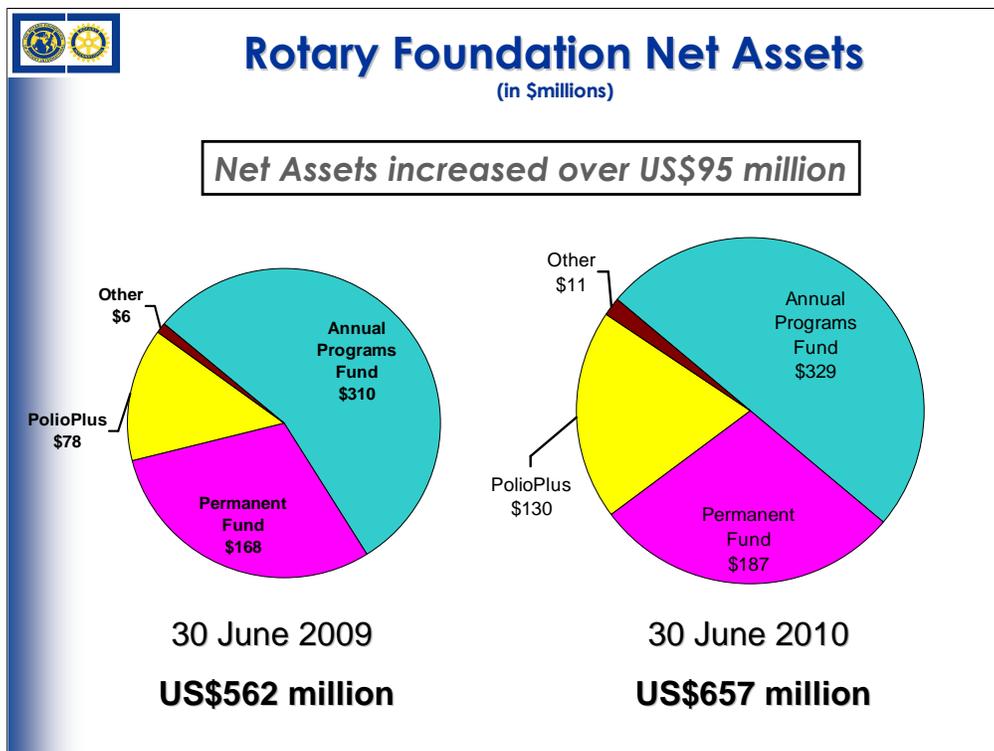
Net Assets and Operating Reserve



This slide illustrates the Foundation's Net Assets at 30 June 2010.

Assets are categorized into the following fund:

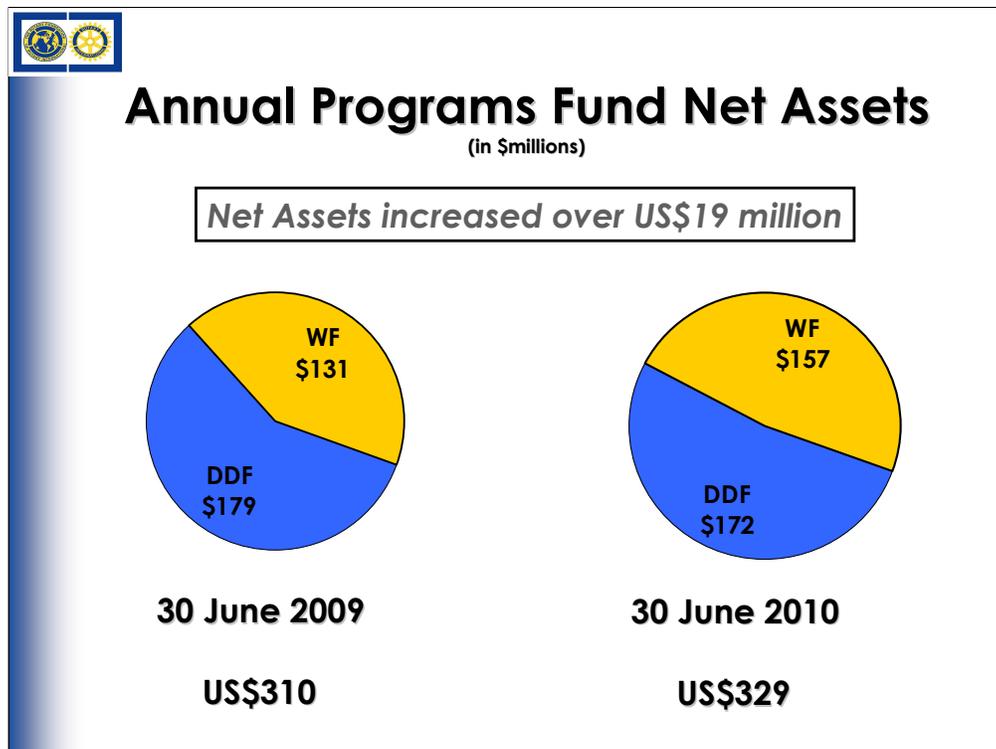
- Annual Programs Fund: 50%
- Permanent Fund: 28%
- PolioPlus Fund: 20%
- Other (Donor Advised Fund): 2%
- Within the Annual Programs Fund:
 - Earned Income reserve
 - World Fund
 - District Designated Fund
- The Permanent Fund is the Foundation's endowment fund whose corpus remains permanent and earnings are used for program services as per donor and Trustee designations.
- The PolioPlus Fund is dedicated to eradicating polio.



This slide represents the net assets for the Foundation at 30 June 2009 and 2010.

CLICK

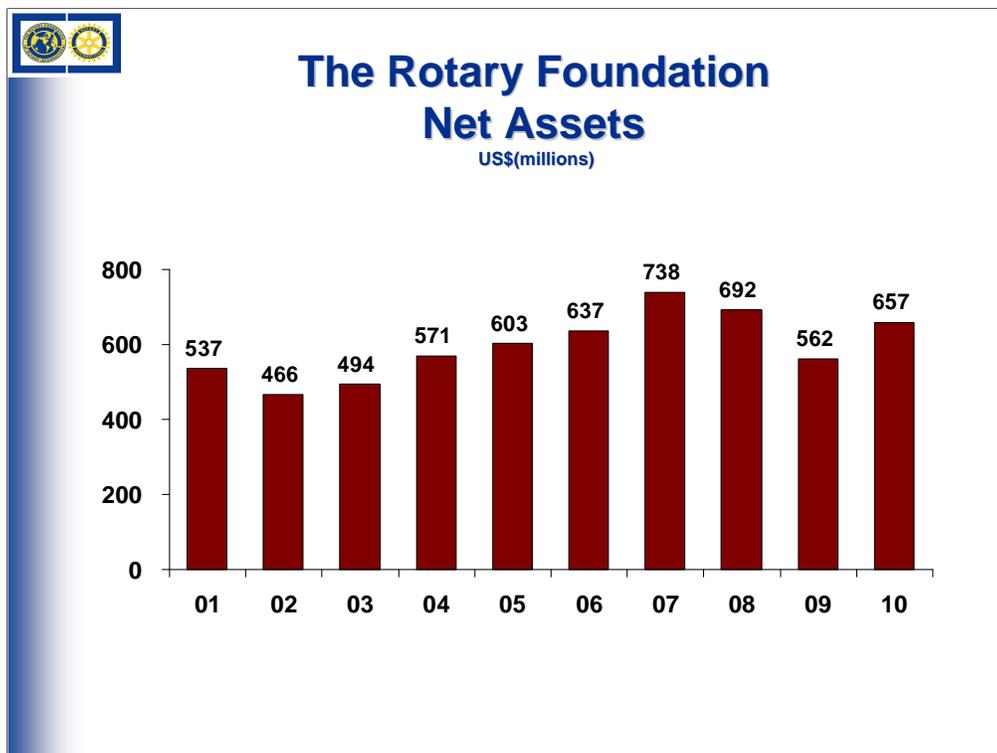
As you can see, the Foundation's net asset increased by US\$95 million primarily due to improved market conditions.



This slide presents the Annual Programs Fund's Net Assets by fund at 30 June 2009 and 2010.

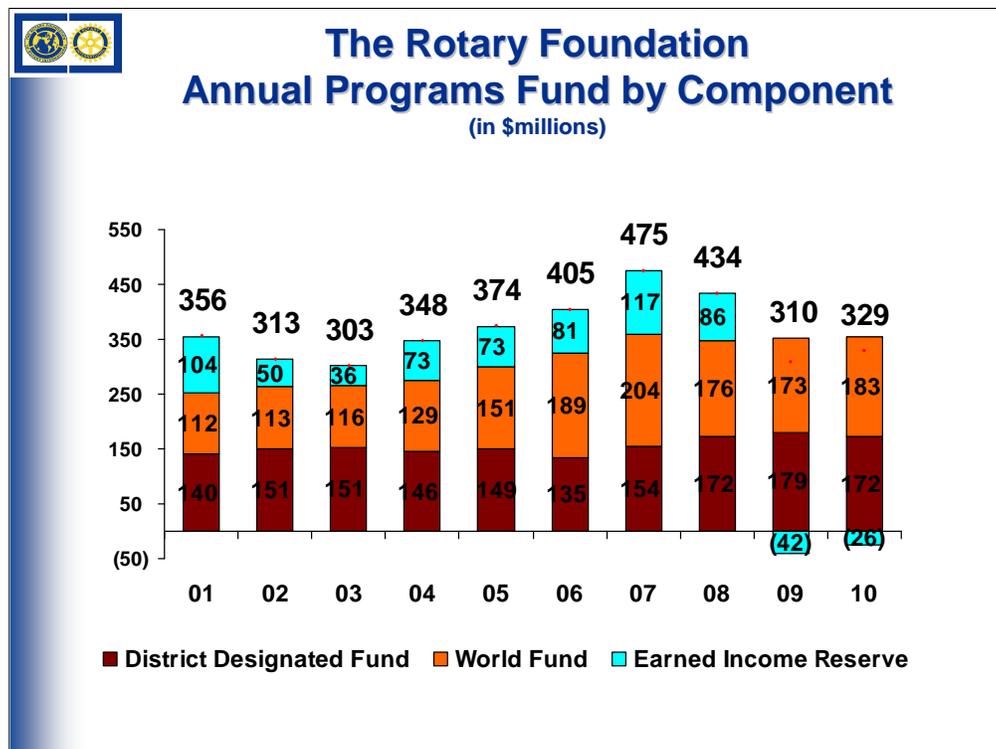
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The Annual Programs Fund increased by US\$19 million due to improved markets, greater contributions and timing of when program awards are paid out.



This slide represents the 10 year balances of the Foundation's Net Assets.

- 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 \$562 million as of fiscal year 2009.
- The decline in FY2002, FY2008 and FY2009 results principally from losses in those years on the Foundation's investments.
- Investment losses as well as program spending decreased the Foundation's net assets by US\$130 million in fiscal year 2009.
- At 30 June 2010, Foundation increased by US\$95 million due to improved market conditions.



This slide shows the composition of the Annual Programs Fund. The Annual Programs Fund represents approximately 50% of the Foundation's total net assets.

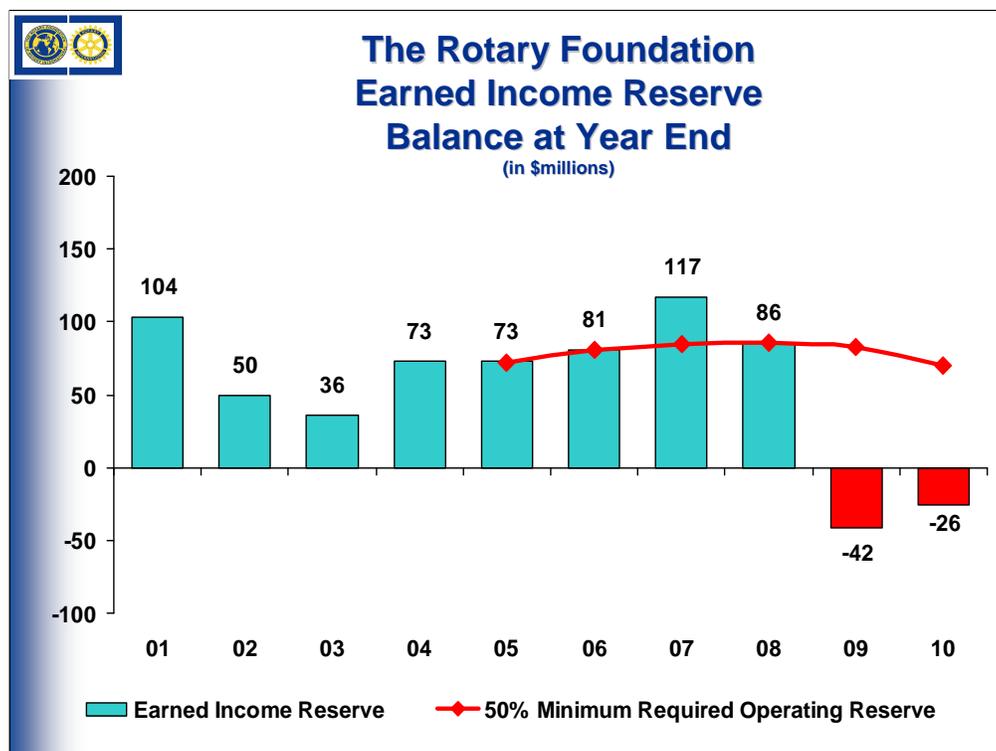
The APF consists of 3 components:

- The District Designated Funds (DDF);
- The World Fund; and
- The Earned Income Reserve.

-The Earned Income Reserve declined significantly during fiscal year 2001, 2002 & 2008 when TRF's investments returns were negative. As of 30 June 2009, the earned income reserve is negative US\$42 million. Operating expenses were partially covered by the World Fund. All the losses sustained by the Foundation were absorb by the WF.

-Fiscal year 2010 EIR balanced improved to negative US\$26 million.

-Note that the relative size of the World Fund and the DDF do not reflect the sharing percentages; 50/50. This is due to a continuing annual carryover of DDF funds and for fiscal year 2009, World Fund cover the program operating expenses of TRF due to the negative earned income reserve.



This slide represents the Earned Income Reserve (EIR) balances for the past 10 years.

The Reserve is necessary to provide funding for the Foundation's operating expenses when investment earnings are insufficient in a given year. The balance can fluctuate based on the Foundation's investment return and annual spending.

From the late '90's to FY2000, the Earned Income Reserve exceeded 100% of requirements, which enabled the Trustees to transfer US\$99.3 million to fund program awards; specifically polio eradication, the Children's Fund and Humanitarian Programs.

For fiscal year 2009, the EIR were at a negative US\$42 million. This is primarily due to the current economic conditions. The Trustees used the Earned Income Reserve and a portion of the World Fund to absorb the impact of declining value of the Foundation's assets. The Trustees have appointed a special sub-committee to review this issue which met in October 2009.

At their April 2010 meeting, the Trustees adopted a new operating reserve policy that requires an operating reserve to be initially funded with 2009-10 investment earnings in excess of 2009-10 fund development, general, and administrative expenses. At the time of that meeting, the initial funding amount was estimated at US\$19.5 million.

On 30 June 2010, the Trustees established a separate operating reserve and funded it with \$20 million, which is the investment earnings in excess of G&A and Fund Development expenses. The targeted size of the reserve is three years of fund development and general administrative expenses (about \$70 million, this is the minimum amount as represented in the graph in fiscal year 2010).

The APF earned income balance plus the new operating reserve balance totaled to negative US\$26 million at 30 June 2010.



INVESTMENTS



Trustees' Responsibilities

- **Formulate investment policies**

- **Develop investment objectives**

- **Establish asset allocation strategies**

This slide lists the Directors' and Trustees' responsibilities.

TRF Code of Policies sections reference the investment policy statements:

18.020 Annual Programs Fund

18.030 Permanent Fund

18.040 Pooled Income Fund

18.050 Charitable Remainder Trusts

18.060 Gift Annuity Fund

18.070 Life Income Agreements (also referred to as Split Interest Agreements in financial statements)

18.080 PolioPlus

18.090 RF (Canada)

TRF Code of Policies section 2.020



Investment Advisory Committee

- 9 members, of whom 6 are Rotarians with professional investment experience; 6-year terms
- Responsibilities:
 - Review and monitor investment results
 - Recommend changes to investment policy and structure, as appropriate
 - Recommend and approve hiring and termination of managers
 - Advise Trustees on investment matters

This slide provides information on the membership of the Investment Advisory Committee and its responsibilities.

CLICK

CLICK

Source: The Rotary Foundation Code of Policies – section 2.020.4



Investment Consultant

- NEPC was appointed by TRF and RI effective 1 December 2009.
- Greg Bauer, CFA, CAIA
Kristin Reynolds, CFA, CAIA
- Consults for RI General Fund, APF, and PF.
- Annual full-retainer fee of \$275,000 plus out-of-pocket expenses.
- RI's cost is estimated at \$40,000

NEPC was recommended to the Board of Directors and the Trustees after an extensive RFP process, which included site visits by staff and two of the Investment Advisory Committee members.

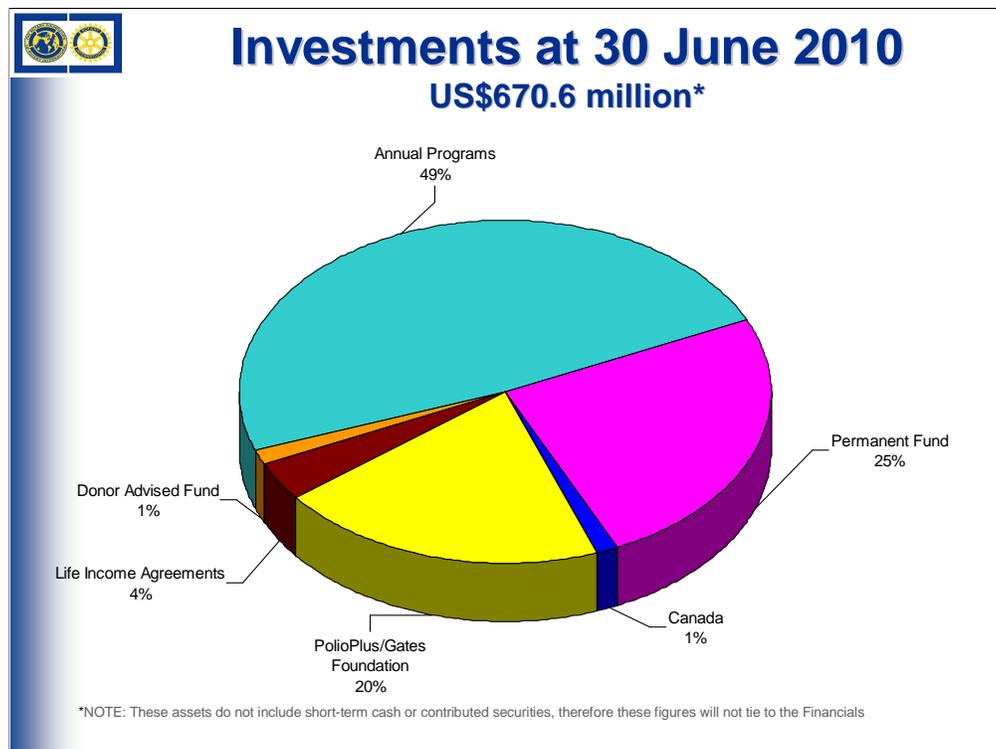
Both Boards approved retaining NEPC for a five year term beginning 1 December 2009.

Prior to NEPC, Hewitt Investment Group provided investment consulting services to both organizations for ten years. Hewitt was replaced due to the desire to have a firm with more experience in consulting for endowment and foundation clients.

Note, additional information is provided below regarding IAC's process for selecting the investment consultant.

There are several steps in selecting Rotary's investment consultant.

1. Develop a request for proposal.
2. Identify consulting firms that appear to be a good fit for Rotary's needs and send RFP to those firms. For most recent search – we sent out 8 RFP's and received 7 responses.
3. Receive, review and summarize responses for IAC review.
4. IAC reviews and selects top 3 firms for further consideration.
5. Conduct reference checks and site visits. For the most recent search, 2 IAC members accompanied 2 staff members on site visits.
6. Invite finalists to present to the IAC and select firm.



This slide shows the breakdown of the Foundation's investment assets as of 30 June 2010. Please note these figures do not include short term cash or contributed securities. Therefore, they will not tie to the financials.

49% in Annual Programs Fund

25% in Permanent Fund

20% in Polio Plus/Gates Gift

1% TRF Canada

4% in Life Income Agreements

1% in Donor Advised Fund



Changes to APF & PF Investment Programs

Calendar Year 2010

- Hired new investment consultant with more expertise in endowment and foundation funds
- Modified policy asset allocations to reduce equity risk and volatility of returns
- Added real assets to provide protection against inflation
- Terminated 5 managers and appointed 8 new managers
- Established operating reserve and completed initial funding of US\$20 million

This slide lists the investment actions taken since the 2008-09 investment losses.

CLICK Hired new investment consultant

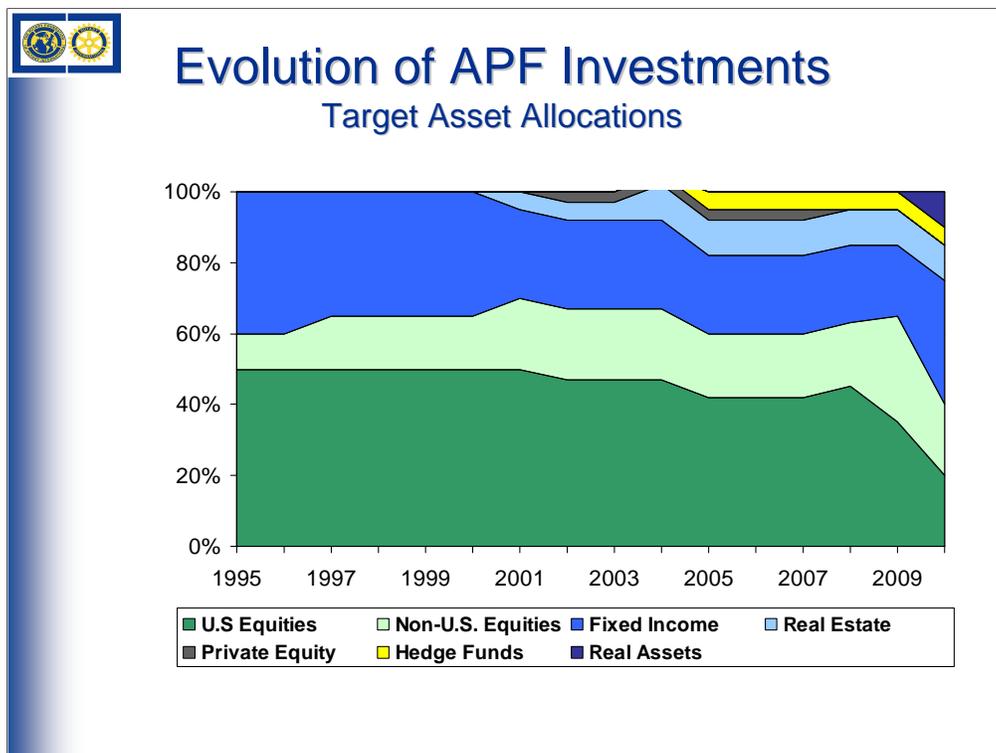
CLICK Reviewed all RI and TRF investment policies; updated and modified as needed

CLICK Trustees established a funded operating reserve and allocated \$20 million to it as of 30 June 2010.

CLICK Revised the Permanent Fund spending policy

For FY 2011, approved a 4.5% spending rate, with 3.75 percentage points allocated to program awards and 0.75 percentage points allocated to program operations

They also a) established a subcommittee of the Trustees to restore the operating reserve; and b) improved the speed of executing IAC recommendations.



This slide shows the evolution of APF investments.

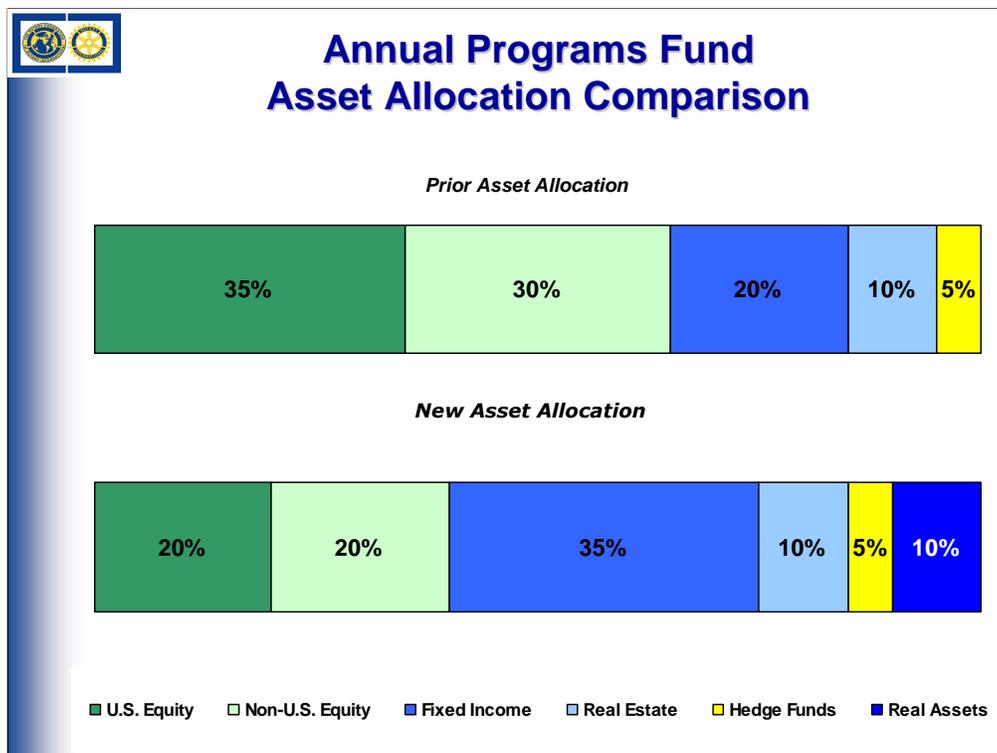
Asset classes & strategies: 3 in 1995 to 6 in 2010

Investment Managers/Products: 7 in 1995 to 16 in 2010

Investments: \$266.8 million in 1995 vs. \$325.1 million in 2010

	<u>1995</u>	<u>2010</u>
U.S. stocks	50%	20%
Non-U.S. stocks	10%	20%
Fixed income	40%	35%
Real estate		10%
Private equity		
Hedge funds		5%
Real assets		10%

- More diversified by asset class and strategy
- Once fully funded, the policy allocation to cash for the operating reserve is 34%. The reserve is funded at \$20 million as of January 2011, of which the entire amount is invested in cash.
- Private equities were introduced in 2003 and eliminated in 2008.



This slide shows the Asset Allocation comparison.

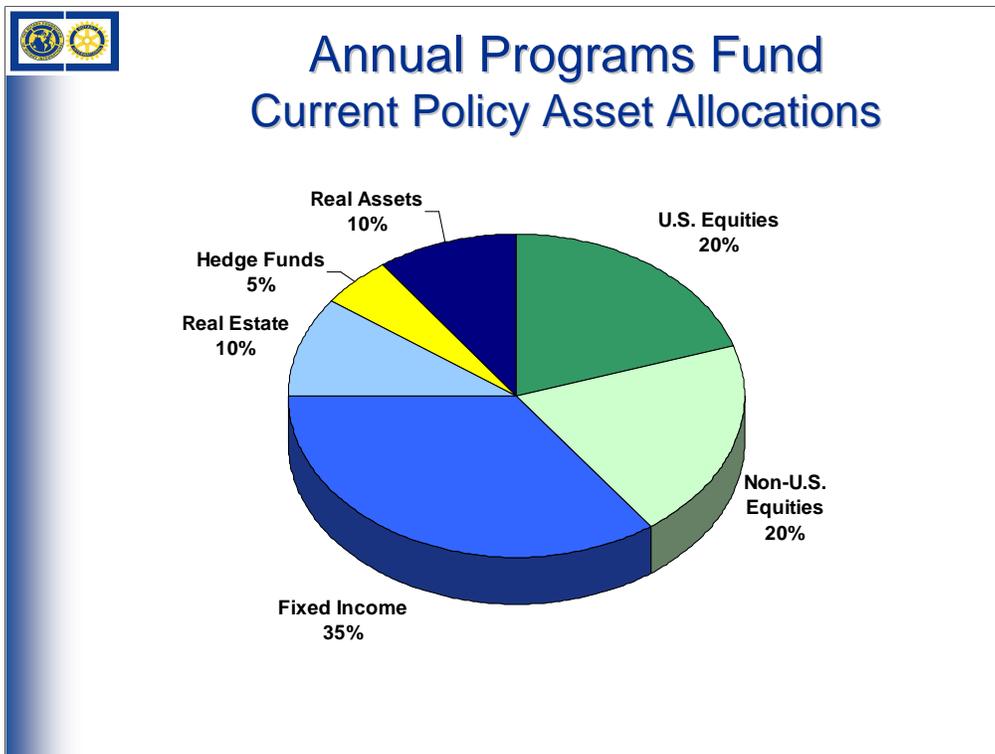
Equities were reduced from 65% to 40%.

- Within equities, US equities were reduced to have a 50/50 split between US and non-US.

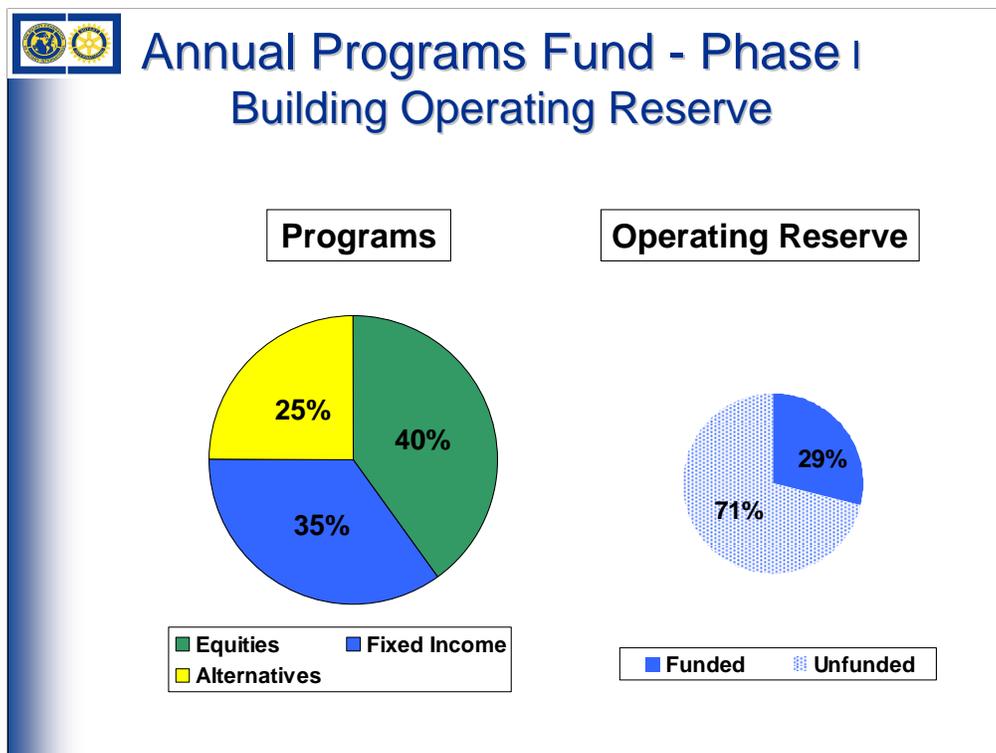
Allocation to fixed income increased from 20% to 35%. This allocation includes a funded reserve, which is shown on the next slide.

The Real Assets allocation is invested primarily in liquid strategies that may include commodities, inflation linked bonds, and global natural resource stocks.

These changes should mitigate downside risk and protect the fund against rising inflation.



Real assets include commodities, inflation linked bonds, and global natural resource stocks.

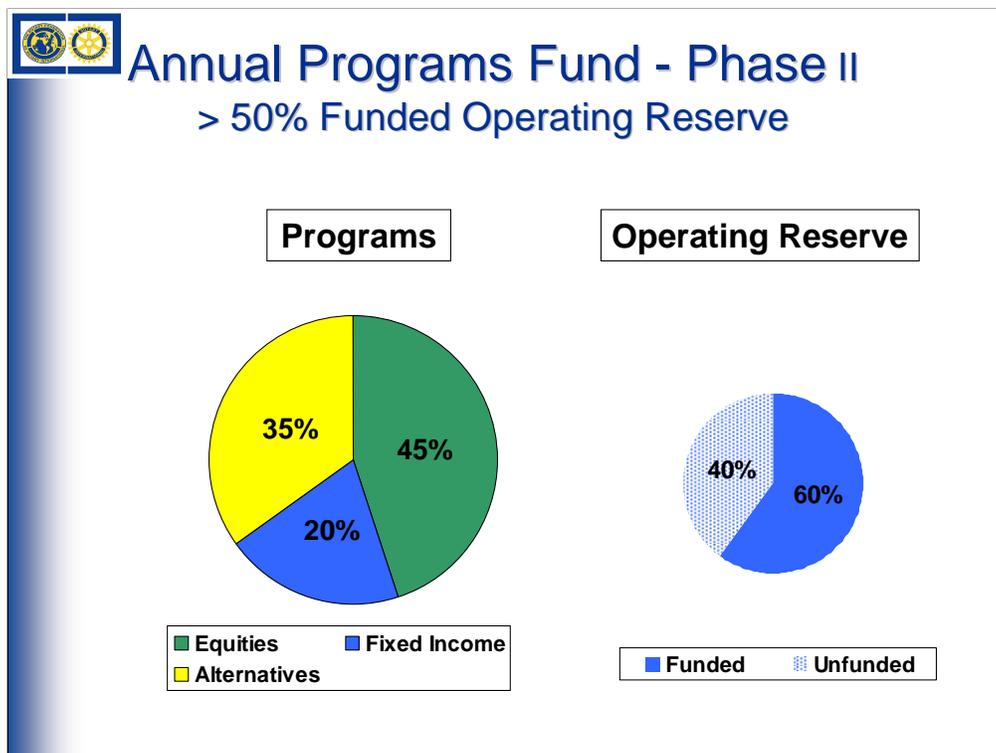


This slide shows Phase I of funding the operating reserve.

On 30 June 2010, the Trustees established an operating reserve and funded it with \$20 million. A funding source for this reserve is investment earnings in excess of G&A and Fund Development expenses. The Trustees will determine other funding sources as needed.

The targeted size of the reserve is three years worth of fund development and general administrative expenses (about \$70 million).

Once established and fully funded – the Foundation would have designated assets for both programs and operating expenses.

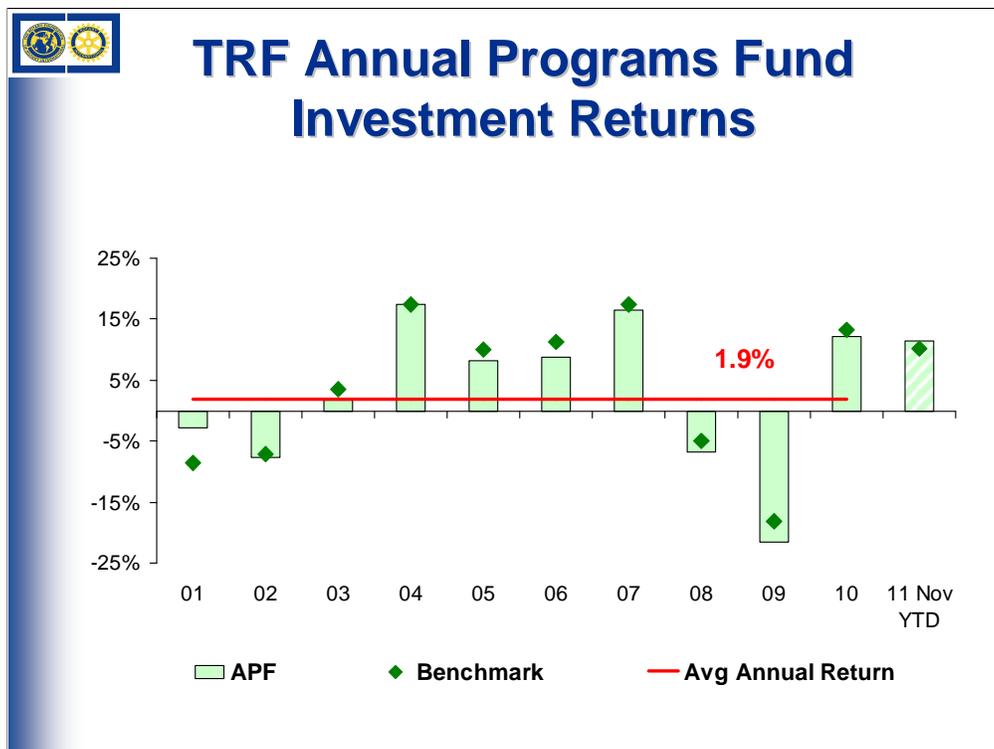


This slide shows Phase II of funding the operating reserve.

When the Operating Reserve is more than 50% funded, the assets for the “Programs” fund will be invested more aggressively (i.e. higher allocation to equities). **Total** APF assets, however, will be somewhat more conservatively invested with target asset allocations as follows once the operating reserve is 100% funded:

Total APF – programs and reserve

Equities	36%
Fixed Income	36%
Alternatives	28%

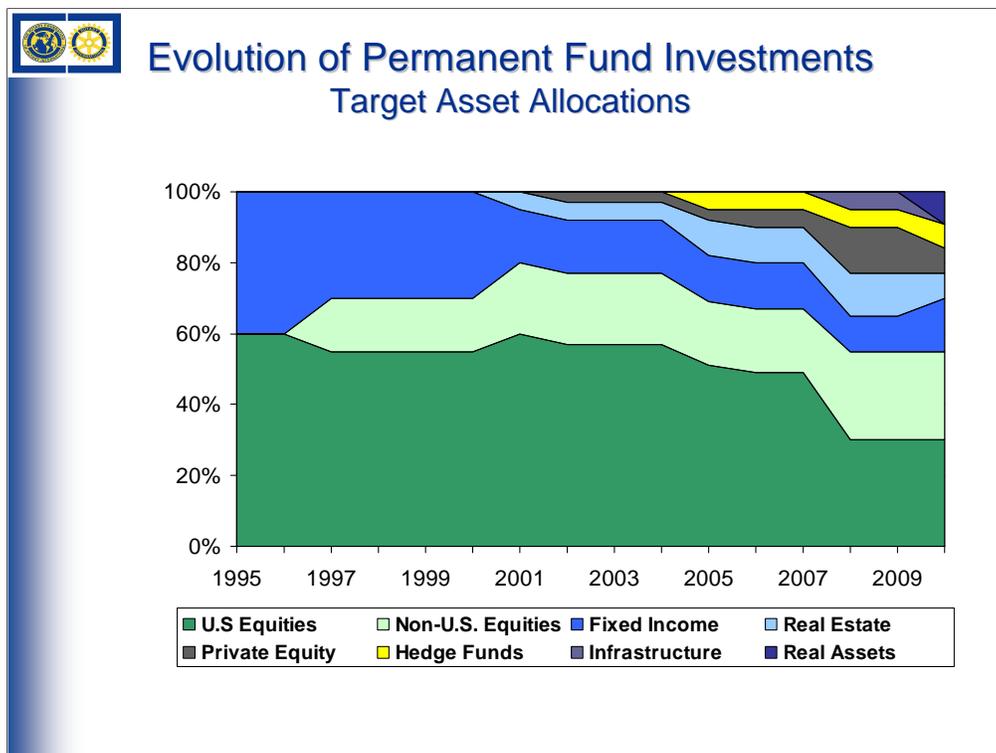


This slide shows APF investment returns over the past 10 years and for the fiscal-year-to date through November 2010.

2009 had a very detrimental impact to the 10-year annualized rate of return number which was only 1.9%. The annualized rate of return for 15 years was 5.9%, while the annualized rate of return for 20 years was 7.5%.

You can see that the current year to date returns are strong, 11.4% through November. These results exceed the benchmarks and shows continued recovery in the financial markets.

	APF	Benchmark
00-01	-2.8%	-8.5%
01-02	-7.7%	-7.2%
02-03	1.7%	3.6%
03-04	17.4%	17.4%
04-05	8.2%	10.1%
05-06	8.7%	11.3%
06-07	16.6%	17.5%
07-08	-6.7%	-5.0%
08-09	-21.5%	-18.1%
09-10	12.2%	13.2%
Annualized	1.9%	2.7%
Nov 11 FYTD	11.4%	10.2%



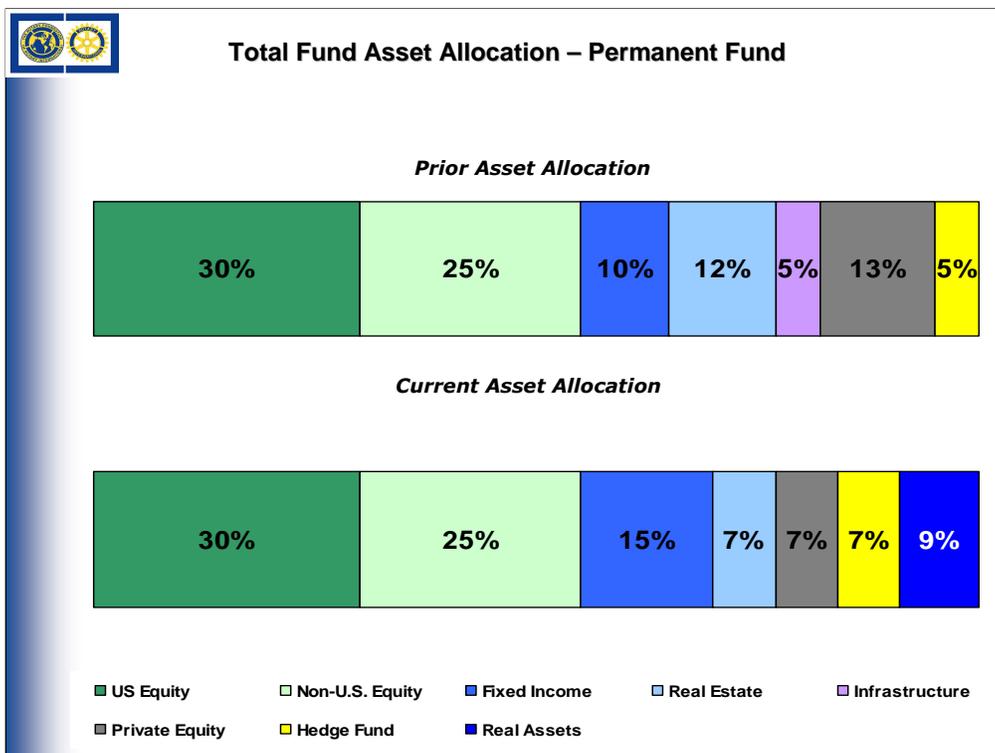
Evolution:

Asset classes & strategies: 2 in 1995 to 7 in 2010

Investment Managers/Products: 7 in 1995 to 20 in 2010

Investments: \$29.5 million in 1995 vs. \$168.5 million in 2010

	1995	2010
U.S. stocks	60%	30%
Non-U.S. stocks		25%
Fixed income	40%	15%
Real estate		7%
Private equity		7%
Hedge funds		7%
Real assets		9%



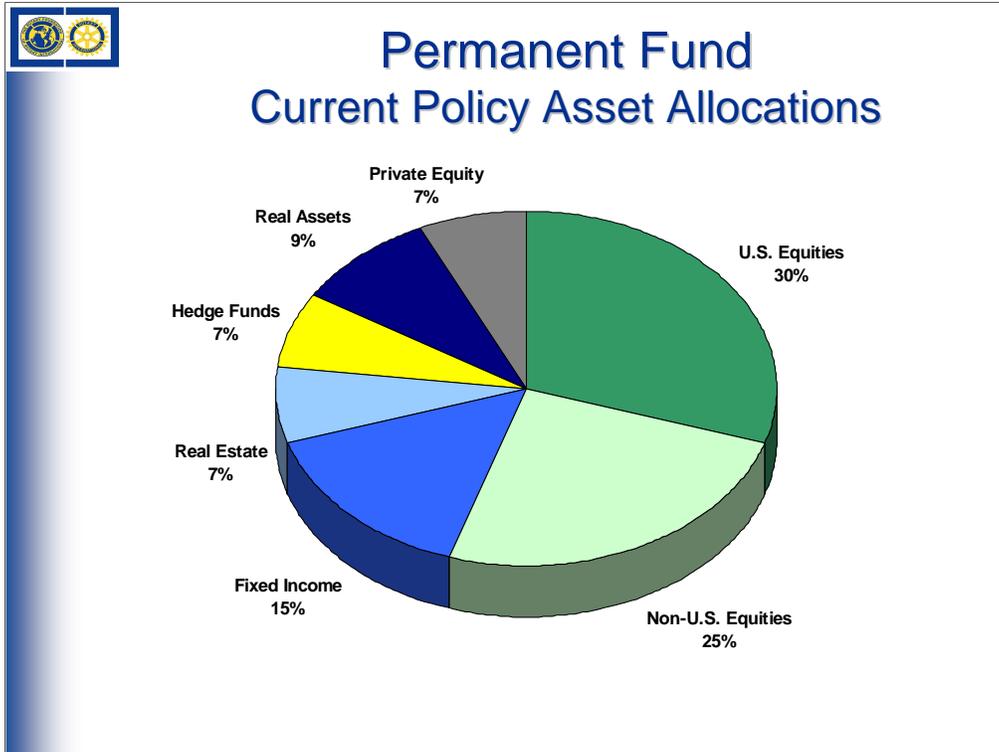
The Investment Advisory Committee was comfortable maintaining a relatively large allocation to equities (55%) due to the permanent nature of endowment funds (i.e. – the corpus or contributions are never spent – only a portion of investment earnings is spent on programs.)

However, in order to provide protection against inflation, real assets were added to the portfolio. The real assets allocation will be invested primarily in liquid strategies that may include commodities, inflation linked bonds, and global natural resource stocks.

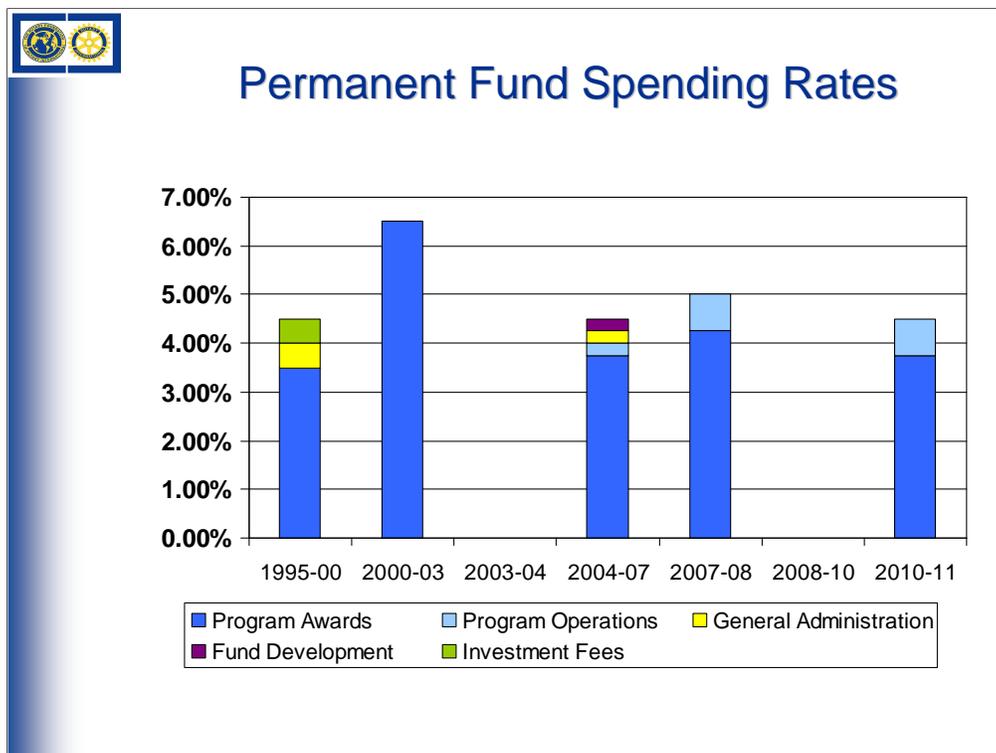
Risk From Equity:

Prior policy - 64%

Current policy – 75%



Real assets include commodities, inflation linked bonds, and global natural resource stocks.

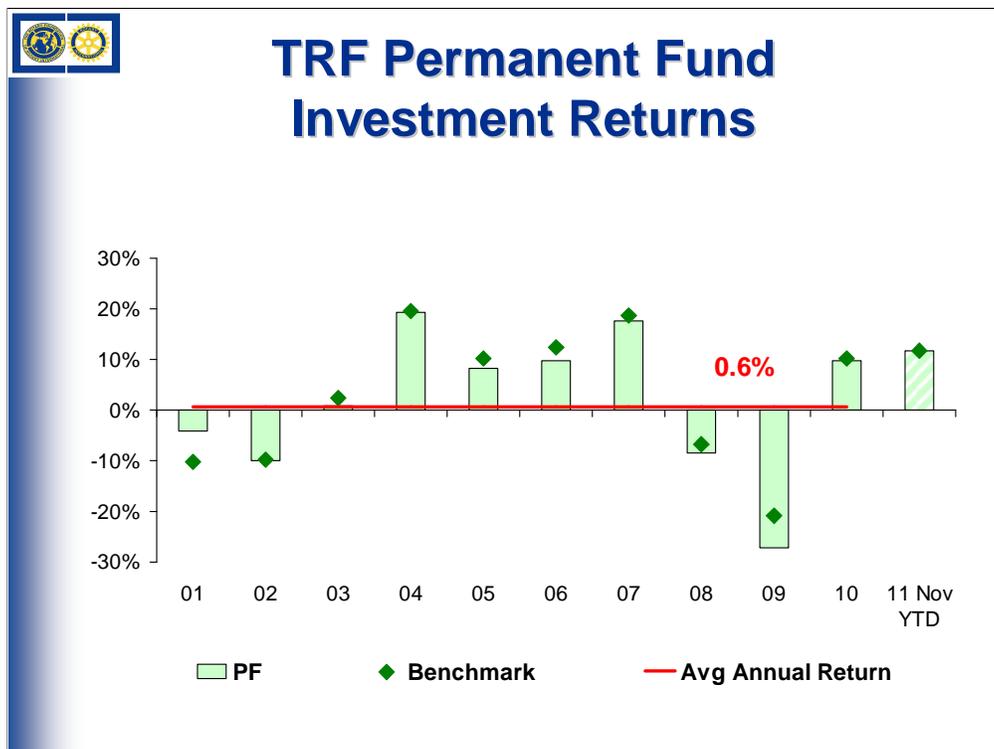


Spending Policies:

April 2010 – Annual spending from the PF will occur each year from all “above water endowed gifts” (endowed gifts whose market values exceed their accumulated gift values) at the Trustee-approved Spending Rate. Annually, the Trustees will approve a Spending Rate, including the allocation to program awards and any other expenses, based on recommendations from Staff. The Fund will make an annual distribution to the APF equal to the amount of Spendable Earnings.

April 1996 – Annual spending is targeted at a percent stipulated by the Trustees of the Fund’s average market value over the previous 12-quarter period. The Fund will make an annual distribution to the APF for program awards and expenses based on its stated spending policy providing that the corpus of the Fund is not invaded.

	1995-2000	2000-03	2003-04	2004-07	2007-08	2008-10	2010-11
Program Awards	3.50%	6.50%	0.00%	3.75%	4.25%	0.00%	3.75%
Program Operations	0.00%	0.00%	0.00%	0.25%	0.75%	0.00%	0.75%
General Administration	0.50%	0.00%	0.00%	0.25%	0.00%	0.00%	0.00%
Fund Development	0.00%	0.00%	0.00%	0.25%	0.00%	0.00%	0.00%
Investment Fees	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Spending Rate	4.50%	6.50%	0.00%	4.50%	5.00%	0.00%	4.50%

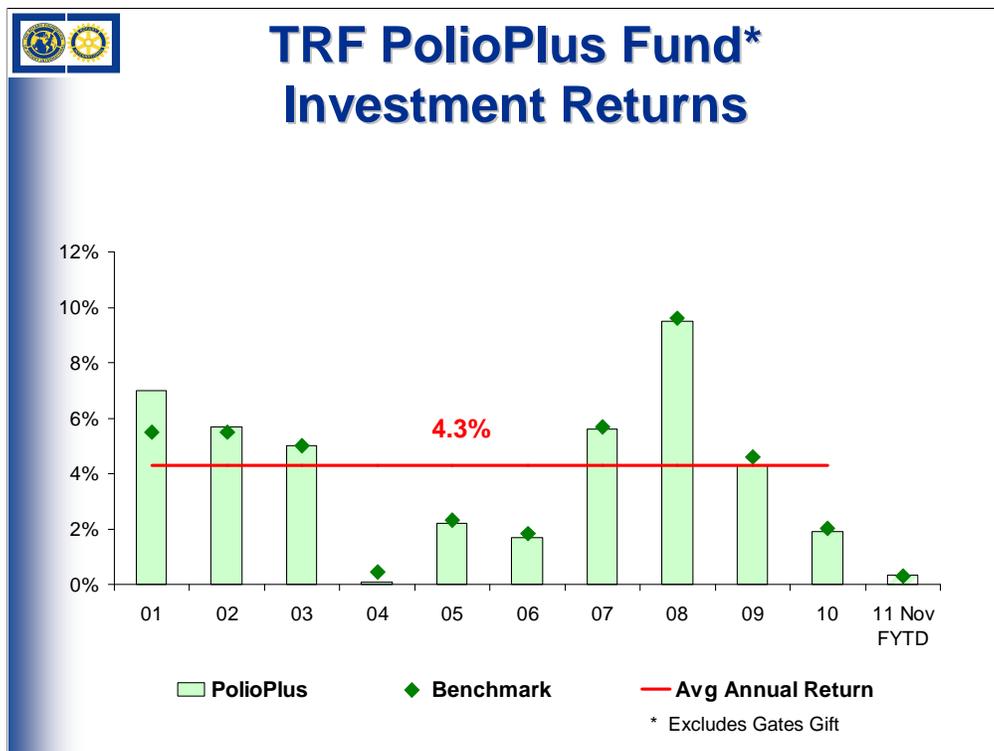


This slide shows the Permanent Fund returns over the past 10 years and for the fiscal-year-to date through November 2010.

2009 had a very detrimental impact to the 10-year annualized rate of return number which was only 0.6%. The annualized rate of return for 15 years was 5.3%, while the annualized rate of return for 20 years was 7.1%.

You can see that the current year to date returns are strong, 11.8% through November. These results are in line with the benchmarks and shows continued recovery in the financial markets.

	PF	Benchmark
00-01	-4.2%	-10.3%
01-02	-9.9%	-9.8%
02-03	0.8%	2.5%
03-04	19.3%	19.6%
04-05	8.2%	10.2%
05-06	9.7%	12.3%
06-07	17.7%	18.8%
07-08	-8.5%	-6.7%
08-09	-27.2%	-21.0%
09-10	9.8%	10.2%
Annualized	0.6%	1.7%
Nov 11 FYTD	11.8%	11.8%



This slide shows the PolioPlus Fund return over the past 10 years and for the fiscal-year-to-date through November 2010.

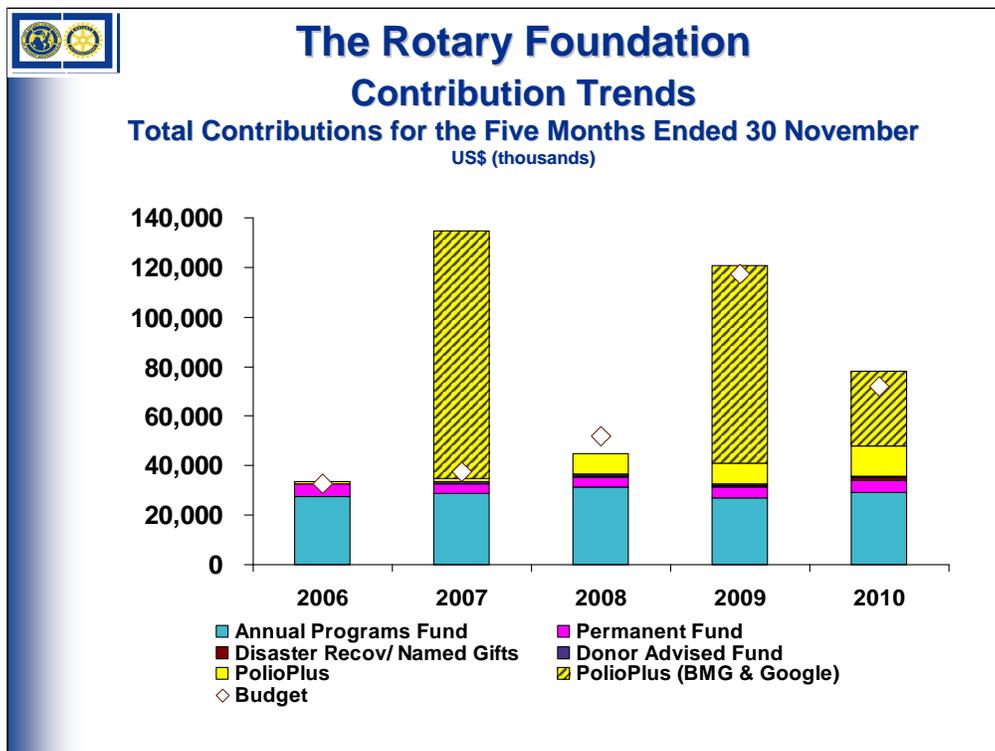
PolioPlus funds are invested 100% in fixed income securities and therefore were not adversely impacted by the steep market declines in 2008-09.

	PP	Benchmark
00-01	7.0%	5.5%
01-02	5.7%	5.5%
02-03	5.0%	5.0%
03-04	0.1%	0.4%
04-05	2.2%	2.3%
05-06	1.7%	1.8%
06-07	5.6%	5.7%
07-08	9.5%	9.6%
08-09	4.3%	4.6%
09-10	1.9%	2.0%
Annualized	4.3%	4.2%
Nov 11 FYTD	0.32%	0.29%

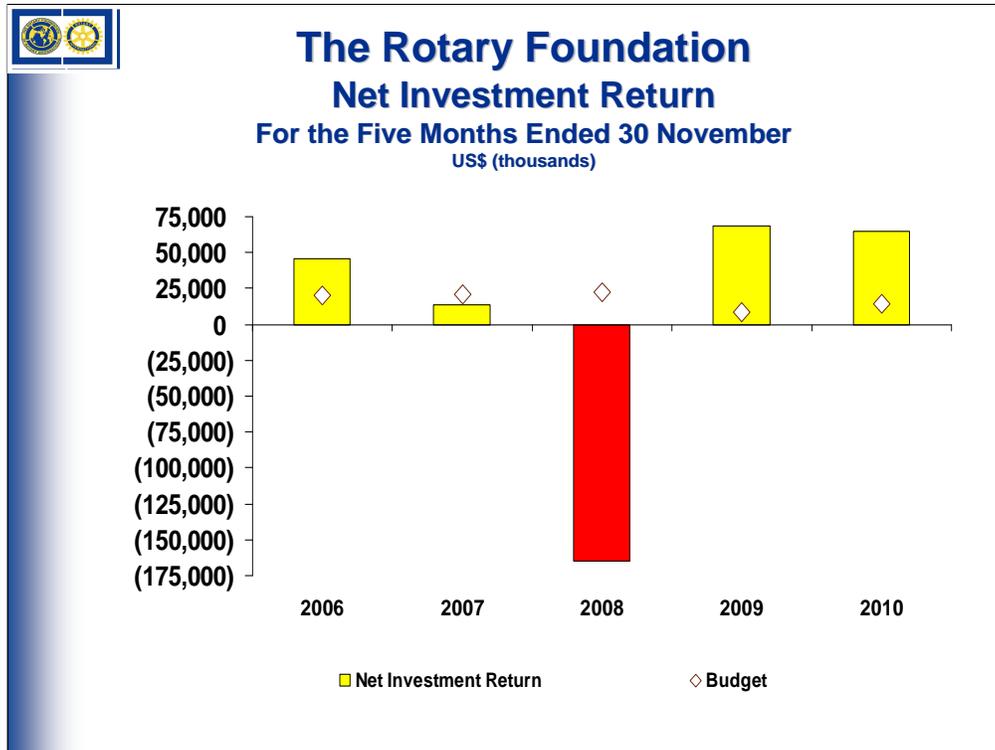


THE ROTARY FOUNDATION

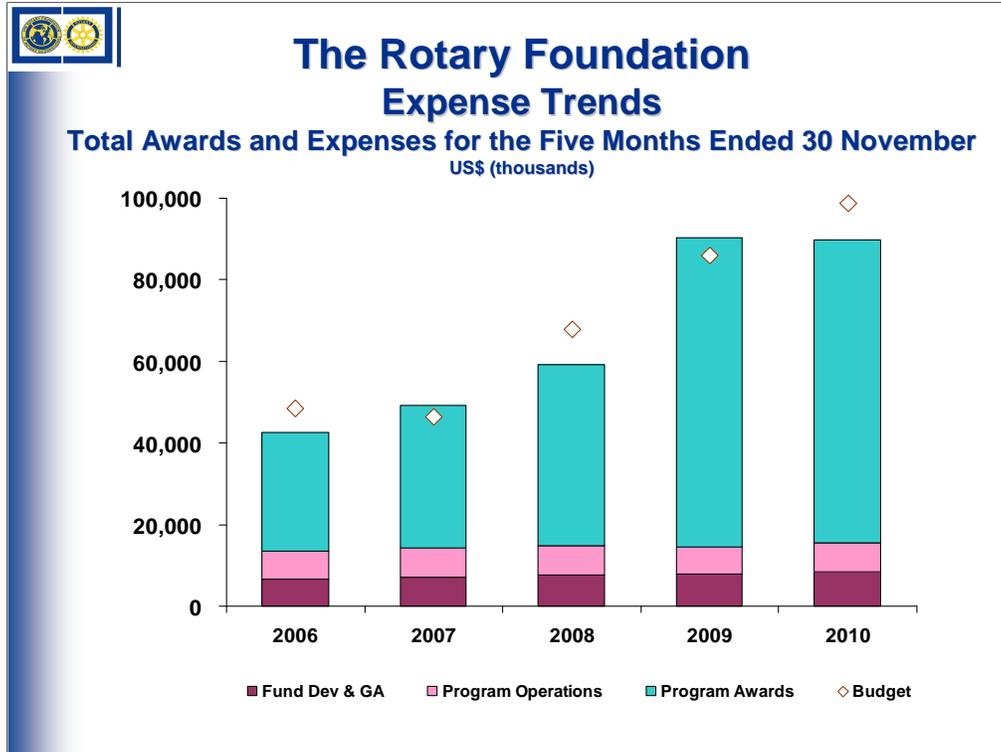
RESULTS FOR THE FIVE MONTHS ENDED
30 November 2010



This slide shows the composition of contributions to the Rotary Foundation over the past 5 years through 30 November.



This slide shows the trend of the Rotary Foundations Net Investment Return over the past 5 years through 30 November.



This slide displays the trend of the Rotary Foundation's spending over the past 5 years through 30 November.



Here is the way to quickly access financial information for both Rotary International and The Rotary Foundation:

- Go to Rotary’s website: <http://www.rotary.org>
- Click on the first tab - “**About Us**” and you will see another tab - “**Financials**”
- Click on “**Financials**” and you will see general financial information and a menu with several options that include Rotary’s investment philosophy, Frequently Asked Questions (FAQ) and Download Documents.
- If you click on **Download Resources**, you can find RI’s and TRF’s financial statements, annual reports, government filings and more.

