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YEARS

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Endowment Partners Seminar

Friday, September 19, 2014

8:00 a.m. – 11:00 a.m.

Endowment Partner Seminar

Agenda

Friday, September 19, 2014

8:00 a.m. – 11:00 a.m.

Time	Topic	Speaker
8:00 a.m. – 8:30 a.m.	Registration	
8:30 a.m. – 8:35 a.m.	Welcome	Max Williams
8:35a.m. – 9:00 a.m.	Endowment & OCF Partner Program Review	Val Rundquist
9:00 a.m. - 9:45 a.m.	Endowment Investing	Bill Berg
9:45 a.m.	BREAK	
10:00 a.m. –11:00 a.m.	Legacy Giving for your Organization & Q/A	Arlene Siegel Cogen and Wendy Chou
11:00 a.m.	END	

History of UPMIFA and UMIFA

At its annual meeting in July 2006, the National Conference of Commissioners on Uniform State Laws (NCCUSL) approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and recommended it for enactment by the legislatures of the various states. UPMIFA is designed to replace the existing Uniform Management of Institutional Funds Act (UMIFA), which was approved by NCCUSL in 1972 and has since been enacted in 47 states. UMIFA was a pioneering statute, providing uniform and fundamental rules for the investment of funds held by charitable institutions and the expenditure of funds donated as "endowments" to those institutions. Those rules supported two general principles: 1) that assets would be invested prudently in diversified investments that sought growth as well as income, and 2) that appreciation of assets could prudently be spent for the purposes of any endowment fund held by a charitable institution. These two principles have been the twin lodestars of asset management for endowments since UMIFA became the law of the land in nearly all U.S. jurisdictions.

UPMIFA continues these fundamental principles as a needed upgrade of UMIFA. Both investment in assets and expenditure for charitable purposes have grown exponentially in the 35 years since UMIFA was drafted; asset management theory and practice have also advanced. UPMIFA, as an up-date and successor to UMIFA, establishes an even sounder and more unified basis for charitable fund management than UMIFA has done.

INVESTMENT

In 1972, UMIFA represented a revolutionary advance over prevailing practices which imposed upon endowments the limited investment opportunities available for managing trust assets – even endowments not organized as trusts. By stating the first prudent investor rule in statutory law, UMIFA allowed endowments to invest in any kind of assets, to pool endowment funds for investment purposes, and to delegate investment management to other persons (e.g., professional investment advisors), as long as the governing board of the charitable institution exercised ordinary business care and prudence in making these decisions. A range of factors guided the exercise of prudence.

UPMIFA incorporates the experience gained in the last 35 years under UMIFA by providing even stronger guidance for investment management and enumerating a more exact set of rules for investing in a prudent manner. It requires investment "in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances." It requires prudence in incurring investment costs, authorizing "only costs that are appropriate and reasonable." Factors to be considered in investing are expanded to include, for example, the effects of inflation. UPMIFA emphasizes that investment decisions must be made in relation to the overall resources of the institution and its charitable purposes. No investment decision may be made in isolation, but must be made in light of the fund's entire portfolio, and as a part of an investment strategy "having risk and return objectives reasonably suited to the fund and to the institution." A charitable institution must diversify assets as an affirmative obligation unless "special circumstances" dictate otherwise. Assets must be reviewed within a reasonable time after they come into the possession of the institution in order to conform them to the investment strategy and objectives of the fund. Investment experts, whether in-house or hired for the purpose, are held to a standard of care consistent with that expertise.

UMIFA initiated the era of modern portfolio management for charitable institutions. UPMIFA provides the

standards and guidelines that subsequent experience tells us are the most appropriate for the purpose. Charitable institutions will have more precise standards to guide them. Courts will have more precise standards with which to measure prudence in the event of a challenge. The result should be more money for programs supported by charitable funds, including endowments.

EXPENDITURE

UMIFA initiated the concept of total return expenditure of endowment assets for charitable program purposes, expressly permitting prudent expenditure of both appreciation and income and replacing the old trust law concept that only income (e.g., interest and dividends) could be spent. Thus, asset growth and income could be appropriated for program purposes, subject to the rule that a fund could not be spent below "historic dollar value."

UPMIFA builds upon UMIFA's rule on appreciation, but it eliminates the concept of "historic dollar value." UPMIFA, instead, provides better guidance on prudence and makes the need for a floor on spending unnecessary. UPMIFA states that the institution "may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established." Seven criteria guide the institution in its yearly expenditure decisions: "1) duration and preservation of the endowment fund; 2) the purposes of the institution and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the institution; and, 7) the investment policy of the institution." These standards mirror the standards that apply to investment decision-making, thus unifying both investment and expenditure decisions more concretely.

UPMIFA includes an optional provision that allows states to enact another kind of safeguard against excessive expenditure. If a state does not want to rely solely upon the rule of prudence provided in UPMIFA, the state may adopt a provision that creates a rebuttable presumption of imprudence if an institution expends an amount greater than seven percent of fair market value of a fund, calculated in an averaging formula over three years. While the seven percent rule is likely not to be necessary, it is available for those states that may be uncomfortable with the general standards.

RELEASE OR MODIFICATION OF RESTRICTIONS

UPMIFA recognizes and protects donor intent more broadly than UMIFA did, in part by providing a more comprehensive treatment of the modification of restrictions on charitable funds. Sometimes a restriction imposed by a donor becomes impracticable or wasteful or may impair the management of a fund. The donor may consent to release the restriction, if the donor is still alive and able to do so, but if the donor is not available the charity can ask for court approval of a modification of the restriction. The trust law doctrines of cy pres (modifying a purpose restriction) and deviation (modifying a management restriction) probably already apply to charitable funds held by nonprofit corporations. UPMIFA makes this clear. Under UMIFA, the only option with respect to a restriction was release of the restriction. UPMIFA instead authorizes a modification that a court determines to be in accordance with the donor's probable intention. If the charity asks for court approval of a modification, the charity must notify the state's chief charitable regulator and the regulator may participate in the proceeding.

UPMIFA adds a new provision that allows a charity to modify a restriction on a small (less than $25,000) and old (over 20 years old) fund without going to court. If a restriction has become impracticable or wasteful, the charity may notify the state charitable regulator, wait 60 days, and then, unless the regulator objects, modify the restriction in a manner consistent with the charitable purposes expressed in any

documents that were part of the original gift.

CONCLUSION

UPMIFA reflects and incorporates the 35 years of experience that has accumulated under the original UMIFA. Rather than changing institutional investment or expenditure practices, it brings them up to date and unifies them across a broad range of charitable funds. The better charitable institutions manage investments and prudently control expenditures, the more money they should have for program purposes.

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UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

128.305 Short title. ORS 128.305 to 128.336 may be cited as the Uniform Prudent Management of Institutional Funds Act. [2007 c.554 §10]

Note: Section 7, chapter 554, Oregon Laws 2007, provides:

Sec. 7. Sections 1 to 10 of this 2007 Act [128.305 to 128.336] apply to institutional funds existing on or established after the effective date of this 2007 Act [January 1, 2008]. As applied to institutional funds existing before the effective date of this 2007 Act, sections 1 to 10 of this 2007 Act governs only decisions made or actions taken on or after the effective date of this 2007 Act. [2007 c.554 §7]

128.316 Definitions for ORS 128.305 to 128.336. As used in ORS 128.305 to 128.336:

(1) "Charitable purpose" means the relief of poverty, the advancement of education or religion, the promotion of health, the promotion of a governmental purpose or any other purpose the achievement of which is beneficial to the community.

(2) "Endowment fund" means an institutional fund or part of an institutional fund that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. "Endowment fund" does not include assets that an institution designates as an endowment fund for the institution's own use.

(3) "Gift instrument" means a record or records, including an institutional solicitation, under which property is granted to, transferred to or held by an institution as an institutional fund.

(4) "Institution" means:

(a) A person, other than an individual, organized and operated exclusively for charitable purposes;

(b) A government or governmental subdivision, agency or instrumentality, to the extent that it holds funds exclusively for a charitable purpose; and

(c) A trust that had both charitable and noncharitable interests, after all noncharitable interests have terminated.

(5) "Institutional fund" means a fund held by an institution exclusively for charitable purposes. "Institutional fund" does not include:

(a) Program-related assets;

(b) A fund held for an institution by a trustee that is not an institution;

(c) A fund in which a beneficiary that is not an institution has an interest, other than an interest that could arise upon violation or failure of the purposes of the fund; or

(d) A fund managed by the State Treasurer, moneys held by the State Treasurer for investment or moneys managed or held for investment by or on behalf of the State Treasurer under ORS chapter 293 or 348.

(6) "Person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, public corporation, government or governmental subdivision, agency or instrumentality, or any other legal or commercial entity.

(7) "Program-related asset" means an asset held by an institution primarily to accomplish a charitable purpose of the institution and not primarily for investment.

(8) "Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form. [2007 c.554 §1]

128.318 Standard of conduct in managing and investing institutional fund. (1) Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, shall consider the charitable purposes of the institution and the purposes of the institutional fund.

(2) In addition to complying with the duty of loyalty imposed by law other than ORS 128.305 to 128.336, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

(3) In managing and investing an institutional fund, an institution:

(a) May incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the institution and the skills available to the institution; and

(b) Shall make a reasonable effort to verify facts relevant to the management and investment of the fund.

(4) An institution may pool two or more institutional funds for purposes of management and investment.

(5) Except as otherwise provided by a gift instrument, the following rules apply:

(a) In managing and investing an institutional fund, the following factors, if relevant, must be considered:

(A) General economic conditions;

(B) The possible effect of inflation or deflation;

(C) The expected tax consequences, if any, of investment decisions or strategies;

(D) The role that each investment or course of action plays within the overall investment portfolio of the fund;

(E) The expected total return from income and the appreciation of investments;

(F) Other resources of the institution;

(G) The needs of the institution and the fund to make distributions and to preserve capital; and

(H) An asset's special relationship or special value, if any, to the charitable purposes of the institution.

(b) Management and investment decisions about an individual asset must be made not in isolation, but instead in the context of the institutional fund's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.

(c) Except as otherwise provided by law other than ORS 128.305 to 128.336, an institution may invest in any kind of property or type of investment consistent with this section.

(d) An institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.

(e) Within a reasonable time after receiving property, an institution shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the institutional fund into compliance with the purposes, terms and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of ORS 128.305 to 128.336.

(f) A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds. [2007 c.554 §2]

128.322 Appropriation for expenditure or accumulation of endowment fund; rules of construction. (1) Subject to subsection (4) of this section and the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

(a) The duration and preservation of the endowment fund;

(b) The purposes of the institution and the endowment fund;

(c) General economic conditions;

(d) The possible effect of inflation or deflation;

(e) The expected total return from income and the appreciation of investments;

(f) Other resources of the institution; and

(g) The investment policy of the institution.

(2) To limit the authority to appropriate for expenditure or accumulate under subsection (1) of this section, a gift instrument must specifically state the limitation.

(3) Terms in a gift instrument designating a gift as an endowment, or a direction or authorization in the gift instrument to use only "income," "interest," "dividends" or "rents, issues or profits," or "to preserve the principal intact," or words of similar import:

(a) Create an endowment fund of permanent duration unless other language in the gift instrument limits the duration or purpose of the fund; and

(b) Do not otherwise limit the authority to appropriate for expenditure or accumulate under subsection (1) of this section.

(4) The appropriation for expenditure in any year of an amount greater than seven percent of the fair market value of an endowment fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made, creates a rebuttable presumption of imprudence. For an endowment fund in existence for fewer than three years, the fair market value of the endowment fund must be calculated for the period the endowment fund has been in existence. This subsection does not:

(a) Apply to an appropriation for expenditure permitted under law other than ORS 128.305 to 128.336 or by the gift instrument; or

(b) Create a presumption of prudence for an appropriation for expenditure of an amount less than or equal to seven percent of the fair market value of the endowment fund. [2007 c.554 §3]

128.326 Delegation of management and investment functions. (1) Subject to any specific limitation set forth in a gift instrument or in law other than ORS 128.305 to 128.336, an institution may delegate to an external agent the management and investment of an institutional fund to the extent that an institution could prudently delegate under the circumstances. An institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, in:

(a) Selecting an agent;

(b) Establishing the scope and terms of the delegation, consistent with the purposes of the institution and the institutional fund; and

(c) Periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the scope and terms of the delegation.

(2) In performing a delegated function, an agent owes a duty to the institution to exercise reasonable care to comply with the scope and terms of the delegation.

(3) An institution that complies with subsection (1) of this section is not liable for the decisions or actions of an agent to which the function was delegated.

(4) By accepting delegation of a management or investment function from an institution that is subject to the laws of this state, an agent submits to the jurisdiction of the courts of this state in all proceedings arising from or related to the delegation or the performance of the delegated function.

(5) An institution may delegate management and investment functions to its committees, officers or employees as authorized by law of this state other than ORS 128.305 to 128.336. [2007 c.554 §4]

128.328 Release or modification of restrictions on management, investment or purpose. (1) If the donor consents in a record, an institution may release or modify, in whole or in part, a restriction contained in a gift instrument on the management, investment or purpose of an institutional fund. A release or modification may not allow a fund to be used for a purpose other than a charitable purpose of the institution.

(2) The court, upon application of an institution, may modify a restriction contained in a gift instrument regarding the management or investment of an institutional fund if the restriction has become impracticable or wasteful, the restriction impairs the management or investment of the fund or, because of circumstances not anticipated by the donor, a modification of a restriction will further the purposes of the fund. The institution shall notify the Attorney General of the application, and the Attorney General must be given an opportunity to be heard. To the extent practicable, any modification must be made in accordance with the donor's probable intention.

(3) If a particular charitable purpose or a restriction contained in a gift instrument on the use of an institutional fund becomes unlawful, impracticable, impossible to achieve or wasteful, the court, upon application of an institution, may modify the purpose of the fund or the restriction on the use of the fund in a manner consistent with the charitable purposes expressed in the gift instrument. The institution shall notify the Attorney General of the application, and the Attorney General must be given an opportunity to be heard.

(4) If an institution determines that a restriction contained in a gift instrument on the management, investment or purpose of an institutional fund is unlawful, impracticable, impossible to achieve or wasteful, the institution, within 60 days after notification to the Attorney General, may release or modify the restriction, in whole or part, if:

(a) The institutional fund subject to the restriction has a total value of less than $25,000;

(b) More than 20 years have elapsed since the fund was established; and

(c) The institution uses the property in a manner consistent with the charitable purposes expressed in the gift instrument.

(5) The provisions of this section apply to property and other interests given by private donors as a gift to a public body, as defined by ORS 174.109, or to any instrumentality of a public body. This subsection does not limit any other authority that a public body or an instrumentality of a public body may have to release or modify a restriction contained in a gift instrument on the management, investment or purpose of funds. [2007 c.554 §5]

128.332 Reviewing compliance. Compliance with ORS 128.305 to 128.336 is determined in light of the facts and circumstances existing at the time a decision is made or action is taken, and not by hindsight. [2007 c.554 §6]

128.334 Relation to Electronic Signatures in Global and National Commerce Act. ORS 128.305 to 128.336 modify, limit and supersede the Electronic Signatures in Global and National Commerce Act, 15 U.S.C. 7001 et seq., but do not modify, limit or supersede 15 U.S.C. 7001(a), or authorize electronic delivery of any of the notices described in 15 U.S.C. 7003(b). [2007 c.554 §8]

128.336 Uniformity of application and construction. In applying and construing ORS 128.305 to 128.336, consideration must be given to the need to promote uniformity of the law with respect to its subject matter among states that enact the Uniform Prudent Management of Institutional Funds Act. [2007 c.554 §9]

THE OREGON COMMUNITY FOUNDATION

Here for Oregon. Here for Good.

Endowment Partners Program

OCF's Deferred Giving Program for Endowment Partners

The Oregon Community Foundation supports Endowment Partner organizations in building their endowment through deferred gifts (also called planned gifts). Endowment Partners may participate in OCF's deferred giving program to create bequests, charitable remainder trusts (CRTs), and charitable gift annuities.

OCF staff is available to meet with your board or donors, either individually or as group to discuss how they can contribute to your endowment, enjoy income for life - or a specified number of years - and obtain an income or estate tax benefit. When the trust or gift annuity ends, the assets remaining will create a permanent addition to the organization's endowment fund at OCF and provide ongoing support for your organization.

Further details of deferred giving options include:

- **Charitable Remainder Trusts**

  The minimum amount to fund a CRT is $100,000. OCF may act as trustee for no fee. If OCF does act as trustee, we require at least 50 percent of the charitable remainder to be permanently added to the organization's fund at OCF. The remaining 50 percent may be distributed directly to the organization.

- **Charitable Gift Annuities**

  A minimum of $25,000 can create a gift annuity. During the term of the gift annuity, OCF requires the endowment partner's fund be held in reserve for 50 percent of the amount of the gift. This is for the unlikely possibility that the annuity could be exhausted. At the end of the term of the gift annuity, the remainder creates a permanent addition to the organization's fund at OCF and the reserve is removed.

For more information on how OCF may support your organization's deferred giving efforts contact your local OCF office.

Portland	Bend	Eugene	Medford	Salem
503.227.6846	541.382.1170	541.431.7099	541.773.8987	503.779.1927

Approved by DW & JV 1/15/10

THE OREGON COMMUNITY FOUNDATION

Overview of Endowment Partner Fund Distributions

OCF makes distributions from permanent Endowment Partner Funds based on the Spending Policy included in OCF's Investment Policy. The Spending Policy calls for the OCF board to set an annual payout rate for permanent funds. The payout rate is set each August with the goal of maintaining the purchasing power of permanent funds and is based on the Investment Committee's projected ten-year investment returns. If projected ten-year returns are 9% or higher, the payout rate for the following year will be 5%; if projected ten-year returns are below 9%, the payout rate for the following year will be 4.5%.

The annual distribution amount from each fund is calculated by applying the payout rate to the fund's average market value over a 13-quarter period ending on September 30 of the previous year.

Example:

Sample Fund

Quarter	Date	Market Value
1	9/30/2013	$106,000
2	6/30/2013	105,200
3	3/31/2013	105,000
4	12/31/2012	104,300
5	9/30/2012	102,700
6	6/30/2012	103,500
7	3/31/2012	102,000
8	12/31/2011	99,400
9	9/30/2011	98,000
10	6/30/2011	99,100
11	3/31/2011	97,250
12	12/31/2010	96,300
13	9/30/2010	96,500
	Total	$1,315,250
Average (Total Divided by 13)		$101,173
2014 Distribution Amount (Average multiplied by 4.5%)		$4,553

August 2011

Distribution Schedule

Distributions from Endowment Partner Funds are typically made semi-annually. Half of the annual amount is paid in June and the other half in December.

New Funds

It is OCF's policy to invest new funds for six months before approving distributions. In the first year, the amount available for distribution from a new fund is prorated based on the date the contribution was made.

Example I: a fund that is established in December 2013 will receive a full year 2014 distribution based on the amount of the gift. Distributions from the fund will be available for the June 2012 distribution.

Example II: a fund established in April 2014 will receive a prorated distribution for 2014. Because the fund will exist for 8 months of the year, the distribution will be 8/12's (67%) of a full year distribution and be available for a December 2014 distribution.

Fund Additions and Distributions

If a gift is made to an established fund, the average market value will be adjusted to incorporate the gift. The adjustment is intended to increase the next calendar year distribution by the payout rate times the gift amount.

Carry-Forward for Endowment Partner Funds

If an Endowment Partner does not take a distribution during the current year (or takes a partial distribution), the undistributed amount is reinvested into the fund and is not added to the amount available for distribution in future years.

Please direct questions regarding spending policy calculations and requests for extraordinary distributions to Val Rundquist, Endowment Partners Program Officer, 503.552.3510.

The Oregon Community Foundation Endowment Partners Program

Sample Marketing Language

This information will help explain your Endowment Fund at The Oregon Community Foundation to current and potential donors. It is intended as a template to be used with your organization's "case for endowment statement" and will be stronger if adapted to your particular style and tone.

The case for endowment should include:

- Who your organization is and what you provide to the community
- Why your organization needs an endowment
- Financial goals for endowment
- How endowment funds are used
- Why donors should support your endowment

The [*name of organization*] has partnered with the Oregon Community Foundation (OCF) by creating the [*name of fund*] of the Oregon Community Foundation. With OCF's stewardship and long term investment program, our endowment fund will be maintained in perpetuity to provide a stable stream of income that will support [describe cause].

With this partnership, we are able to offer our donors the opportunity to make a permanent gift to ensure future funding for our work. Through OCF, [*name of organization*] is able to accept gifts such as securities, personal property, and real property upon approval of OCF's gift acceptance committee. We are also able to offer our donors the option of making a planned gift, often called a deferred gift, that will ultimately benefit our endowment fund. OCF staff works with our staff and donors to create bequests, charitable remainder trusts (CRT) and gift annuities.

A **bequest**, made through the donor's will or living trust, is the most direct form of planned gift. Bequests are easy to establish and the estate receives a tax deduction for 100% of the value of the gift.

CRTs and **gift annuities** are planned gifts that allow a donor to make a gift to [*organization*], enjoy income for life or a specified number of years, and obtain an income or estate tax benefit. Assets remaining at the termination of the trust or gift annuity will be added to the [*name of fund*] of The Oregon Community Foundation to provide ongoing support for [*organization*].

Donors may also make **cash contributions** directly to [*organization*] to be added to the [*name of fund*] of The Oregon Community Foundation.

The Oregon Community Foundation is a statewide nonprofit organization that administers permanent charitable funds established through gifts from individuals, families, businesses and other organizations. OCF currently administers over 1700 permanent funds with assets over $1.3 billion.

Please call [phone number] to discuss how you can help build our endowment and support [*cause*] for the future.

Reserves and Endowments: Creating a Financial "Nest Egg"

By Pat Munoz

In these challenging times, it is important for all groups, large and small, to think about building a financial "nest egg" to help the organization weather difficulties of all kinds. Like families, organizations need different kinds of nest eggs for different purposes. In this article, we will discuss two varieties, operating reserves and endowments.

1. OPERATING RESERVES

What is an Operating Reserve?

An operating reserve is an organizational "savings account," usually equal to a percentage of an organization's annual budget, set aside for emergencies or other uses.

Why Have a Reserve?

The usual purpose of a reserve is to provide the funding needed to keep an organization going during a crisis, such as the loss of an Executive Director, or a devastating fire. However, reserves can have other uses. Thomas Raffa, in an article entitled "Criteria for Nonprofits' Operating Reserves," (see Hot Websites) mentions several more:

- Enable an organization to survive operating shortfalls caused by economic conditions or management error. Without such reserves or use of other assets, survival of an organization during a steep or protracted budget deficit may be threatened.
- Enhance the flexibility of an organization when used as venture capital to develop new programs, replace outdated programs or expand the organization's interests and services.
- Expand credit opportunities and permit favorable financing of an organization's growth and expansion. This includes permitting a change in direction or focus of programs and activities.

Characteristics of an Operating Reserve:

- Reserves are usually accumulated gradually over several years.
- An operating reserve is usually very flexible; funds can be taken out when needed and put back when the need is over.
- The staff, with board approval, usually has control over the reserve and can make decisions based on the needs of the organization.

Who Should Have a Reserve?

All organizations, no matter how large or small, should have some kind of operating reserve.

When Should You Establish a Reserve?

The best time to start a reserve is right now, or as soon as you can.

How Large Should Your Reserve Be?

Reserves generally range from 25% of the annual operating budget to 100%. The average appears to be around 33%. Thomas Raffa suggests that the size of your reserve will depend upon the individual characteristics and circumstances of your organization:

1. **The reliability and diversity of your revenue streams**. If you are dependent on a few large funders, you may need a larger reserve.
2. **Stability of expenses**. If your expenses are primarily fixed and predictable, reserves can be lower than if your expenses vary and are unpredictable.
3. **Nature of liabilities**. Your reserve should be larger if your organization has significant liabilities including long-term debt.
4. **Nature of other assets**. Your reserve may be smaller if you have an endowment or other assets.
5. **Nature of opportunities**. If unexpected opportunities requiring large expenditures occur periodically, your reserve should generally be higher than if opportunities occur on a more predictable basis.

How to Set Up an Operating Reserve:

While establishing a reserve can be as simple as opening a separate reserve account, the board of directors should draft policy governing the reserve as soon as possible. This policy should specify 1) the desirable size of the reserve; 2) the purposes for which the reserve is intended; 3) the rules and restrictions imposed by the board upon the use of the reserve, including guidelines for replenishment; and 4) a policy for investing the reserve.

2. ENDOWMENTS

What Is an Endowment?

An endowment is the organizational equivalent of a trust fund or a retirement plan. There are two kinds of endowments.

1. **A pure endowment** is a pot of money that you agree to invest forever, leaving the principal untouched and using only the earnings on the investment. Recently issued rules of the Financial Accounting Standards Board specify that the term "endowment" only applies if an external agent (such as a donor) makes the requirement that the funds be permanently invested, or if the organization advertises to its donors that the funds in its endowment will be permanently invested.

2. **A quasi-endowment, or board-designated endowment** is similar to a pure endowment, with the difference that the funds, both principal and interest are controlled by the board.

Why Have an Endowment?

The purpose of any endowment is to generate a permanent, steady stream of income for your organization, sometimes for unrestricted purposes, often for some particular project or purpose favored by a particular funder or group of funders. While an endowment will never relieve your organization entirely from the stresses of fundraising, it can provide a wonderful complement to your regular fundraising efforts.

Some types of expenses that are particularly appropriate for endowment funding include:

- Your general operating expenses (the hardest thing to raise money for!)
- The ongoing maintenance costs of a building or property
- Expenses for a particular ongoing program, such as an annual river cleanup

- Costs of work in a particular geographic area, such as a particular watershed or stretch of river.

Characteristics of Endowments:

- An endowment provides an exciting vehicle for funders to express their commitment to the future of an organization through planned gifts such as bequests and annuities.
- Most organizations reinvest some percentage of the interest generated by their endowments to keep up with inflation and grow their nest egg.
- Donors often endow specific programs, which can become a problem if program needs shift dramatically.
- Raising money for an endowment can be time-consuming and difficult, and may detract from your other fundraising efforts.
- A very large amount of upfront capital must be raised before an endowment can make a significant impact on the financial situation of a nonprofit organization. For example, in order to generate an annual income stream of $25,000 from an endowment, you would need to raise approximately $500,000 (at 5% annual earnings).
- Even endowments can let you down. There is no guarantee that your endowment will not shrink in a sagging economy or as the result of a bad investment strategy.

Who Should Have an Endowment?

The number one question you should ask yourself when considering creating an endowment is "Are we in this for the long haul? Will we still be delivering our services 50 years from now?" If your answer to this question is "yes," Andy Robinson, an independent fundraising trainer and consultant, suggests certain additional guidelines:

- The organization should be at least ten years old.
- There should be a dynamic five to ten year plan.
- The budget should have been in the black for several years.
- There should be at least a thousand regular donors.
- There should be a healthy "major donor" program in place.
- There should be a "Planned Giving" program. Donors should be able to leave assets to the organization.

I would add to the above that there should be an operating reserve in place, since an endowment will not usually solve problems involving an immediate need for large sums of cash.

When Should You Create Your Endowment?

There is no "magic moment" for creating your endowment. Some event, such as a donor's offer, a matching grant opportunity or an anniversary year, is often the trigger point. Christine Graham, in her article "Is an Endowment for Us?" (see bibliography) lists some of the most common points at which organizations usually start an endowment:

- When a new building is purchased or built, and fundraising can include an endowment component
- During a capital campaign that includes a variety of projects
- When a special drive is established to honor a person or accomplishment
- When the money is there, the organization is riding a crest of accomplishment, and donors want to secure the future of the organization.

She goes on to note, “probably the only bad time to establish and fundraise for an endowment is when the organization is in financial stress and needs to fund its operating budget. Even if you could convince donors to make endowment gifts at that point, the return would probably be too small to get you back in stable financial condition fast enough.”

How to Set Up an Endowment:

When setting up your endowment, the most important consideration is to establish clear governing policies that honor both the wishes of the funder(s) and the needs and wishes of the organization. Another consideration is the amount of staff time and expertise available to “manage” the endowment. For smaller organizations with limited staff resources and expertise, one good option is to ask your local community foundation to “hold” the endowment. This has several advantages:

1. Placing your fund with a community foundation leaves you free to do your program work and puts your funds in the hands of “experts” who are experienced in stewarding such funds.
2. The community foundation provides a “safety check” against your using funds from the endowment for inappropriate purposes, such as defraying a deficit or paying off a debt. The foundation staff can ask the tough questions and enforce the restrictions of the endowment more easily than can your staff and board.
3. In case of a legal action against your organization, the endowment funds will be off limits.
4. To encourage small groups to build endowments, some community foundations offer matching grants for creating, or expanding, your endowment.
5. Because most community foundations have large amounts of money to invest, your endowment investments will be more diversified and will most likely perform better than if you, or your board, invested the money.
6. Endowments held by a community foundation are often more attractive to donors because:
   - They cannot be “invaded” by your organization during times of crisis
   - Should your organization fold, the community foundation will use the funds to endow another group similar to yours.

There are, of course, some disadvantages to placing your endowment with a community foundation:

1. 1. Your endowment funds become assets of the community foundation. You can no longer use them as collateral for loans.
2. 2. The community foundation charges a fee (usually between1% and 2%) to manage your endowment. This will reduce the amount of payout you receive from the funds.
3. 3. The community foundation makes the final decisions on the use of the endowment funds, both with respect to the payout rate that your organization receives, and with respect to any requests to “use” the principal for purposes other than fund generation.

To locate the community foundation nearest you, go to www.communityfoundationlocator.org and click on your state or use the search function on the home page.

3. HOW TO BUILD YOUR RESERVE AND/OR ENDOWMENT

Here are a number of strategies you can use to begin building your financial nest egg:

1. **Budget a surplus each year**. If you budget both your income and expenses carefully, and if you always budget 5-10% more income than expenses, you will generate extra funds which can go into your operating reserve or endowment.

2. **Put unexpected gifts into the reserve or endowment**. Establish (and follow) a policy that all "windfall" gifts such as bequests and memorial gifts, go into the reserve or the endowment, not into the operating budget. These gifts were not anticipated; if your budgeting is well done, you will not need them to meet your annual fundraising goals.

3. **Inform your funders about the operating reserve and/or endowment.** Funders usually make their renewal and special appeal gifts out of current income. They must be educated about your need for larger gifts out of their assets to help insure your organization's future. Take every opportunity to educate your funders with articles and stories about gifts to the operating reserve and/or endowments in your newsletter or other publications and your website.

4. **Conduct an annual appeal to your membership.** Give your reserve or endowment a catchy name like "TheWhat Next Fund" (for unanticipated emergencies) or "The Fund for the Future" (for endowment) and send out a special appeal explaining your need and asking all your members to help keep you in business with a generous donation.

5. **Personally approach major funders (individuals, corporations and foundations) who have a stake in your organization.** The best way to approach funders for contributions to the reserve and/or endowment is to meet face-to-face with them and explain your need. Most donors will perceive the establishment of a reserve/endowment to be a sign of good planning and long-range thinking on the part of your organization.

6. C**onduct a capital campaign**. Capital campaigns seem to be the vehicle of choice for raising funds for an endowment, particularly when the endowment can be "piggy-backed" onto other projects such as acquiring land, building a new headquarters or establishing a nature center. Such projects much be maintained, so providing an endowment to insure their ongoing upkeep is logical and compelling. Capital campaigns can be a tremendous strain on an organization, however, and before undertaking one, be sure to read up on them, and consider undertaking a feasibility study to make sure you are ready.

7. **Invest your "Nest egg" wisely.** An important part of building your nest egg, whether it be an operating reserve, an endowment or both, is to invest the monies wisely. While asset management practices differ widely among nonprofits, every organization should have a system for the responsible management and investment of its financial assets. This begins with a written investment policy developed by your board of directors which specifies what to—and what not to—invest in for each of your financial nest eggs. Your policy may also specify percentages to be invested in certain types of investments and certain criteria (such as Moody's BBB rating for corporate bonds) for investment selection, and may prohibit certain practices such as investing in companies owned or controlled by board members.

   Depending on the size and the purpose of your nest egg, you will need to decide who should manage your assets. Smaller "eggs" can be managed by the Executive Director, but as your egg grows, most experts recommend an investment or finance committee to draft investment policy, manage investments and recommend policy changes to the board. This committee is usually made up of the Treasurer and any board members or non-board members with investment experience.

If you have asked a community foundation to hold your nest egg, they will invest your money for you. Another route is to find a member who is also an investment advisor and engage his services. Both community foundations and investment professionals will usually charge an annual fee based on the size of the assets managed ranging from .4% to 2%.

In summary, all organizations, from the smallest to the largest, need to have some "rainy day" funds tucked away for emergencies. A small pot of money, equal to 90 days of operating expenses, may be all that your group can manage now, but as your organization grows, you should consider having a variety of nest eggs, for different purposes, tucked away in safe places and generating funds for your organization.

Pat Munoz is the Director of River Network's Eastern Office in Washington, D.C. She can be reached at 202/ 364-2550, or by email at pmunoz@rivernetwork.org.

The "Endowment Survey Report," a survey of subscribers conducted by *Planned Giving Today* (see Bibliography), included the following ideas for effectively marketing endowment funds:

- A new "Acorn Endowment" lets donors start small and build their funds over time.
- We send an endowment brochure with a personalized letter to planned gift prospects, such as current and former board members and major donors.
- We produce an occasional institutional "white paper" on our institution's strategic financial priorities that always makes a very strong case for endowment gifts.
- For us, the best cultivation for gaining endowment funds is to send letters from scholarship recipients or news reports from the departments benefiting from endowment resources.
- We have an annual scholarship awards dinner where we recognize endowment donors and cultivate new donors.
- Each year, a different trustee makes a $10,000 challenge to be matched by annual fund donors. We always exceed the match. So far we have created endowments for our music program, our outdoor program, technology and our middle-school teaching program using this method.
- Our annual report always emphasizes endowments. We highlight donor stories and recipient testimonials.
- We have an endowment campaign every five years to create visibility and encourage donations. It's a yearlong effort and our endowment committee goes all out to make it a success.

- We developed a slide-illustrated talk to communicate the history and mission of our organization as well as to emphasize the importance of endowments. It is interesting and entertaining, and we offer to present it as a program to local service clubs and other organizations in the community.
- Each year we produce a "Catalog for Giving" and send it to our total mailing list. It includes information on all our endowment funds and what they are accomplishing. We include a response form, and we offer to send every donor of a certain amount or more a Christmas ornament identical to the one displayed on the cover of the catalog.
- We are using our 75th anniversary as an opportunity to build endowment for the next 75 years.

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A Tale of Two Endowments

BY JEAN McCORD

In the late 1960s, each of two moderate-sized comparable churches in the same city had about $100,000 in its endowment fund. The two ministers met often and talked of many things, including their differing philosophies about endowment.

A planned giving professional who is a member of one of the congregations told me this tale. I've been asked not to identify the congregations.

Church A

The minister of one of the congregations was excited about legacy gifts, especially bequests. He frequently spoke of leaving bequest gifts, both from the pulpit and when meeting with individual parishioners. Some congregants thought he talked it up too much, but many did leave bequests to the church. That church's policy was to put into endowment all gifts that donors had designated for endowment and also to put into board-designated endowment (quasi endowment or funds functioning as endowment) all unrestricted bequests.

The church invested its endowments moderately aggressively. By 2000 it had more than $15 million in endowments, which generated about $750,000 annually. This enabled the church to extend its ministries in many ways, and to do so year after year. That congregation felt economic fluctuations as they occurred, but was able to maintain its outreach even in difficult times.

Church B

The minister of the other congregation felt there was always a current need, either at the church or in the community, so all unrestricted bequests went for current needs. Only gifts that donors designated for endowment went into endowment, and there was little quasi endowment.

This church invested its endowments mostly in safe bonds and some stocks, and spent only the bond interest. By 2000 it had about $1.5 million, generating about $75,000 annually. Obviously, it could not do as much outreach ministry.

My friend joined the second congregation, was put on the endowment committee, and suggested a switch to a total return spending policy in which the original principal is retained but a portion of both income and growth can be spent.

This person also urged the church to recognize there will always be urgent current needs, but a bequest is a legacy gift and should — unless the donor specifies otherwise — go to endowment. Current congregants should give enough through regular and special gifts to cover operating costs.

Putting unrestricted bequests into endowment and using the proceeds to enable mission expansion, my friend says, encourages legacy gifts as nothing else can.

The church changed to a total return policy and now puts all unrestricted bequests into endowments. Today it has endowments of more than $5 million and realizes a proportional increase in endowment income each year.

Honoring Legacy Donors

Organizations can adapt ways to honor legacy donors that fit their cultures and missions. Some possibilities are:

- Create a recognition society to honor those who name the organization in their estate plans in any way. Mount a plaque with member names, have an annual event that honors them, and list them in the annual report (also list all deceased donors annually, so leaving a legacy gift bestows a bit of immortality here on earth).
- Honor donors of received estate gifts in perpetuity with a large book listing every donor and containing a short biography of each one (and perhaps a clipping of the obituary notice).
- Encourage separate named endowment funds for funds of a suitable size (at least $25,000), where donors can indicate their preferences for use.
- Use the organization's newsletters to promote legacy gifts. The church that changed its endowment policies now shares with the congregation, through the biweekly newsletter, stories about donors, their involvement with the church, and how their gifts will be used as part of the endowment.

Conclusion

Remember that endowment is for the long haul. If an organization can't meet its current budget without bequests, maybe the budget is too ambitious or the annual fundraising efforts need an overhaul. On the other hand, if all actions show that endowment is important and that legacy gifts will create a lasting legacy, the endowment will swell. ◆

By 2000, it had more than $15 million in endowments.

Jean McCord, CFRE, is president of McCord and Associates, a planned giving consulting firm in Tacoma, Washington. She has more than 35 years of fundraising experience, including director of planned giving at the University of Puget Sound and The Greater Tacoma Community Foundation. Jean is a member of *Planned Giving Mentor's* National Board of Gift-Planning Consultants. jean@mccordassociates.com

Endowment Investing

September 19, 2014

Bill Berg, OCF Investment Committee

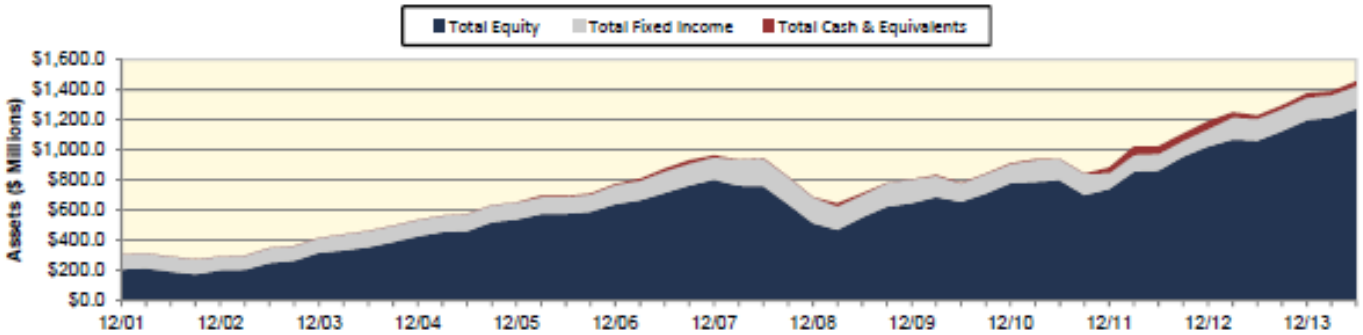
Overall View – The OCF Foundation Portfolio

The Oregon Community Foundation

Portfolio Review (net of fees) as of June 30, 2014

Portfolio Growth

	09/30/13	12/31/13	03/31/14	06/30/14
Total Equity	1,125,302,776	1,199,290,754	1,214,598,196	1,272,825,122
Total Fixed Income	144,528,524	145,280,858	147,363,073	149,543,511
Total Cash & Equivalents	24,006,110	31,959,719	25,693,169	32,693,183
Total Assets	**$1,293,837,410**	**$1,376,531,331**	**$1,387,654,439**	**$1,455,061,816**



Source: Cambridge Associates LLC
Past performance is not a guarantee of future results.

Asset Allocation Update

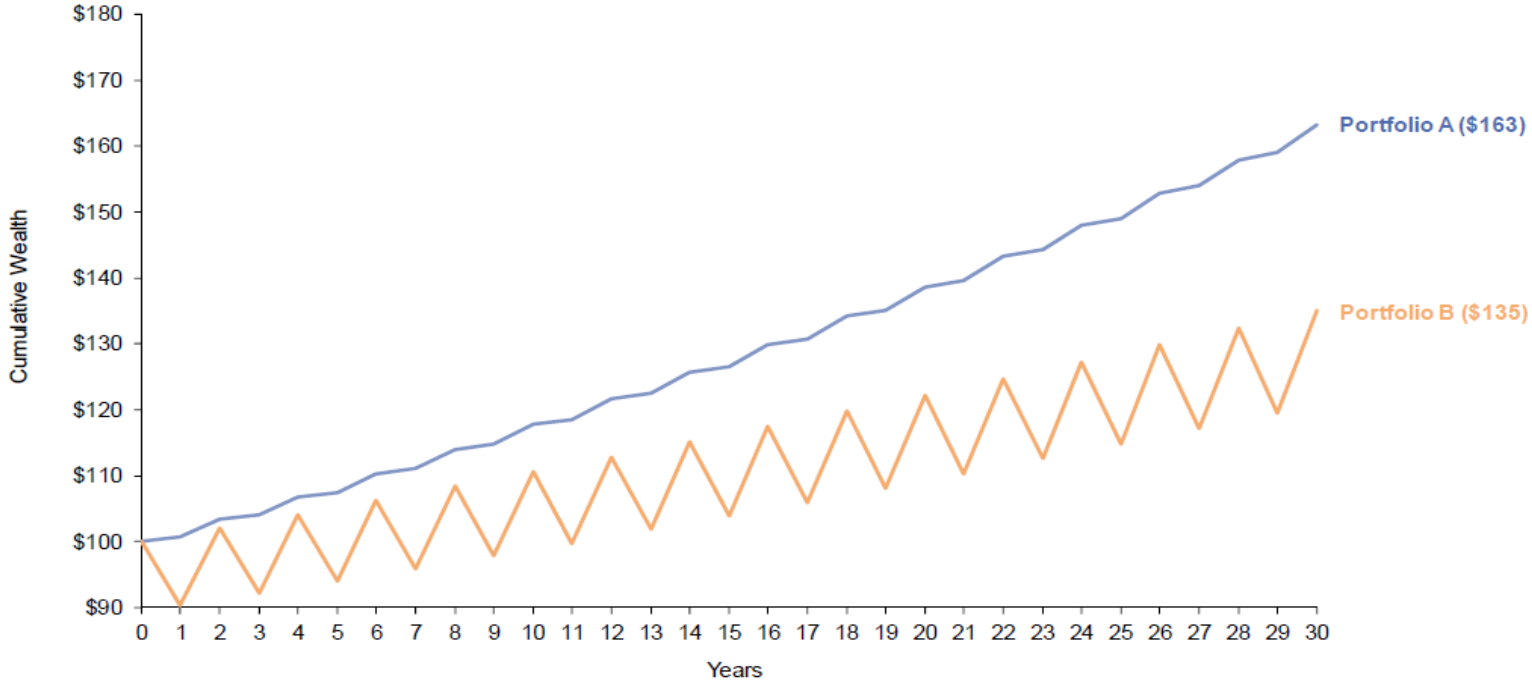
The Oregon Community Foundation

Asset Allocation Policy as of June 30, 2014

	Allowable Range	Manager Allocation	Target Allocation	Policy Variance ($000)	%
Global Equities	25%-60%	43.2%	40.0%	$47,117	3.2%
Americas		*40.9%*	*40.0%*	*$5,946*	*0.9%*
Europe		*34.7%*	*30.0%*	*$29,727*	*4.7%*
Asia		*24.3%*	*30.0%*	*-$35,673*	*-5.7%*
Absolute Return	10%-30%	20.1%	20.0%	$1,298	0.1%
Venture Capital / Private Equity	5%-15%	6.2%	10.0%	-$55,373	-3.8%
Opportunistic	0%-10%	3.6%	0.0%	$52,014	3.6%
Real Assets	5%-25%	14.4%	15.0%	-$9,034	-0.6%
Total Equity	**70%-85%**	**87.5%**	**85.0%**	**$36,023**	**2.5%**
Fixed Income	10%-30%	10.3%	15.0%	-$68,716	-4.7%
Cash and Equivalents	0%-5%	2.2%	0.0%	$32,693	2.2%

Source: Cambridge Associates LLC

Why Are We So Diversified?
Because Volatility Matters



Both Portfolios Have Average Annual Return of 7% and 5% Spending

Portfolio A's return alternates between 6% and 8%
Portfolio B's return alternates between -5% and 19%

Source: Cambridge Associates LLC

Market Leadership is Volatile and Unpredictable; Slow and Steady Wins the Race

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Q3 2013
Best	C	FI	C	EM	PE	EM	PE	EM	FI	EM	PE	FI	EM	US
	VC	AR	FI	GE	EM	PE	EM	C	RE	GE	EM	RE	GE	GE
	FI	RE	RE	US	GE	C	GE	PE	AR	US	US	VC	US	VC
	RE	HF	AR	OCF	C	RE	VC	RE	VC	HF	VC	PE	PE	PE
	AR	EM	PE	PE	RE	GE	RE	VC	HF	OCF	RE	US	OCF	HF
	HF	OCF	HF	C	VC	HF	US	OCF	PE	PE	OCF	C	FI	RE
	PE	PE	EM	HF	OCF	OCF	OCF	GE	OCF	C	FI	OCF	RE	OCF
	OCF	US	OCF	AR	US	VC	HF	HF	US	VC	HF	AR	HF	AR
	US	GE	GE	RE	FI	FI	AR	AR	GE	FI	C	HF	VC	C
	GE	C	US	FI	HF	US	FI	US	C	AR	GE	GE	AR	EM
	EM	VC	VC	VC	AR	AR	C	FI	EM	RE	AR	EM	C	FI

OCF = OCF Foundation
AR = Absolute Return
C = Commodities
EM = Emerging Markets Equity
HF = Equity Hedge Funds
GE = Global ex US Equity

PE = Private Equity
RE = Real Estate
US = US Equity
FI = US Fixed Income
VC = Venture Capital

Source: Cambridge Associates LLC
Past performance is not a guarantee of future results.

OCF Investment Performance History

	Annual Total Returns (%)													
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
OCF Total Assets	1.1	-4.7	-13.4	25.2	12.8	10.5	14.7	13.4	-28.4	23.7	12.7	-2.9	11.0	13.4
Custom Benchmark	-1.4	-4.8	-8.9	21.4	11.3	9.1	13.0	9.7	-29.5	24.2	11.7	-4.1	11.9	13.3
US Index Benchmark	-4.4	-4.6	-11.8	23.1	10.1	5.2	12.3	6.1	-25.8	21.7	14.4	3.6	12.6	21.7

	Average Annual Compound Returns (%) Through 12/31/13													
	14 YR	13 YR	12 YR	11 YR	10 YR	9 YR	8 YR	7 YR	6 YR	5 YR	4 YR	3 YR	2 YR	1 YR
OCF Total Assets	5.3	5.7	6.6	8.6	7.1	6.4	6.0	4.7	3.4	11.3	8.3	6.9	12.2	13.4
Custom Benchmark	4.5	5.0	5.8	7.3	6.0	5.4	5.0	3.9	2.9	11.0	7.9	6.7	12.6	13.3
US Index Benchmark	5.1	5.9	6.8	8.7	7.3	7.0	7.2	6.5	6.6	14.6	12.9	12.4	17.1	21.7

Performance is net of fees; performance data is for OCF Total Assets. "Custom Benchmark" since 9/1/09 is 47% MSCI ACWI, 20% HFR Fund of Funds Index, 15% Real Assets Benchmark, 3% Russell 3000 + 3% and 15% Fixed Income Benchmark . "US Index Benchmark" is 70% Wilshire 5000, 30% Barclays Aggregate Bond. Complete benchmark information available in Investment Performance Report for OCF. Source: Cambridge Associates LLC . Past performance is not a guarantee of future results.

Endowment Investment "Rules"

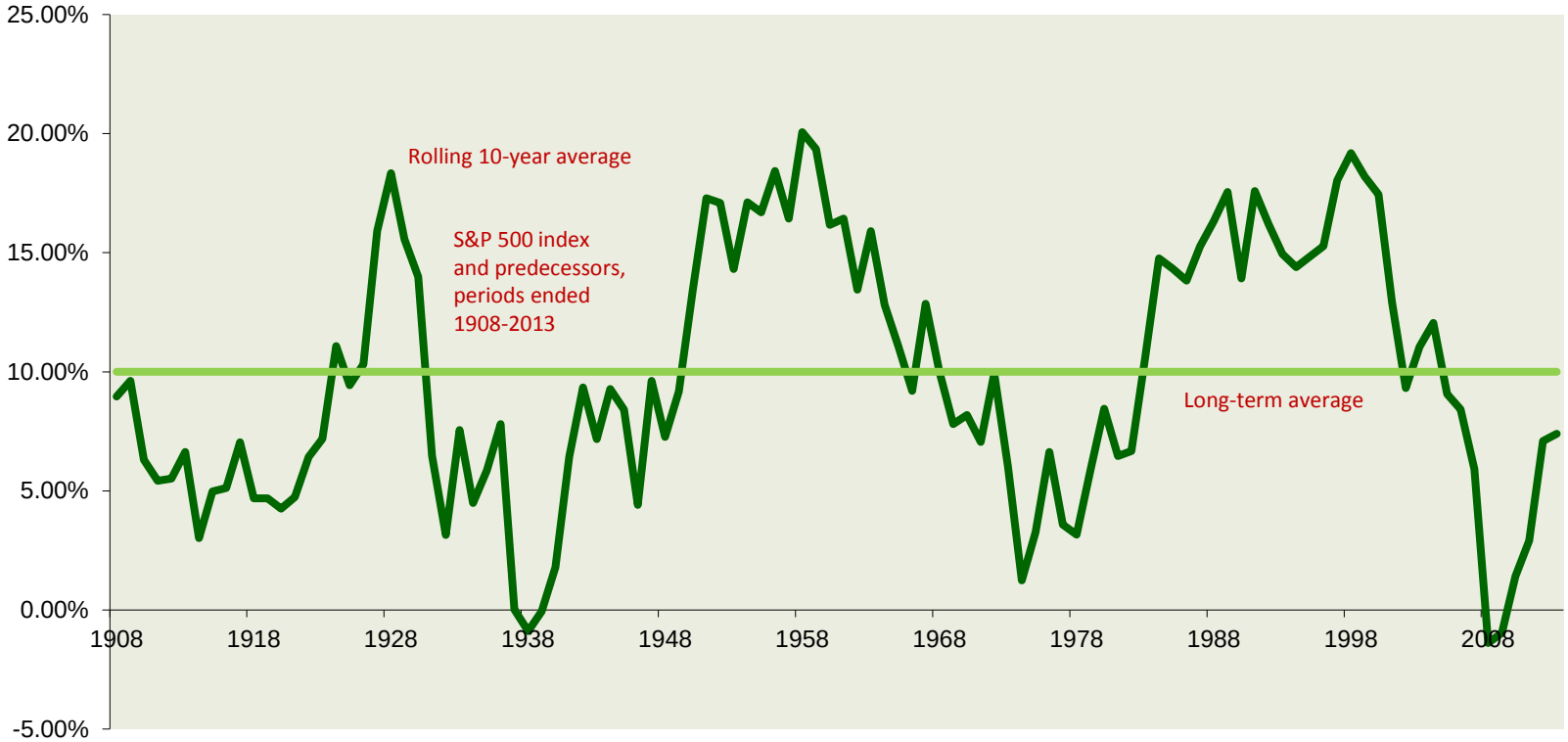
- *Have A Long Time Horizon* – OCF started with timber money. Risk and return are better behaved and easier to understand over long periods.

- *Valuation Matters* – With a long time horizon, the most important thing is the price you pay. Valuation determines most investment outcomes.

- *Risk Isn't a Number* – Nobody worries about upside volatility, but the players *are* worried about career risk, embarrassment risk and the like. John Maynard Keynes: "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."

"Rules" source: GMO, James Montier
Keynes quote from The General Theory of Employment, Interest and Money (1935) Book 4, Chapter 12, Section 5

Human Nature Drives Long-Run Returns



Sources: Global Financial Data; Morningstar.
Past performance is not a guarantee of future results.

A 10-Word Strategic Investment Plan

- *This, Too, Shall Pass Away*
- *Not Sure When*
- *Position Accordingly*

Source: GMO, Sam Wilderman

OCF Investment Program

THE OREGON COMMUNITY FOUNDATION

Here for Oregon. Here for Good.

THE OREGON COMMUNITY FOUNDATION

Here for Oregon. Here for Good.

TOTAL ANNUALIZED RATES OF RETURN*
FOR PERIODS ENDED JUNE 30, 2014

	Quarter	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Trailing 10 Years
THE OREGON COMMUNITY FOUNDATION	3.9%	16.1%	7.4%	10.8%	7.3%
OCF CUSTOM BENCHMARK	3.7%	15.3%	7.2%	10.6%	6.2%

*Returns are net of investment management costs.

Asset Allocation at June 30, 2014

	Actual	Target	Range
Global Equities	43.2%	40.0%	25% - 60%
Marketable Alternative Assets	20.1%	20.0%	10% - 30%
Inflation Hedging Assets (Energy, Commodities, Real Estate)	14.4%	15.0%	5% - 25%
Private Equity/Venture Capital	6.2%	10.0%	5% - 15%
Global Fixed Income	10.3%	15.0%	10% - 30%
Cash and Cash Equivalents	2.2%	0.0%	0% - 5%
Opportunistic Investments	3.6%	0.0%	0% - 10%
Total Portfolio	100.0%	100.0%	

For more information regarding OCF's Investment Program, please visit http://www.oregoncf.org/explore-ocf/financial-information.

INVESTMENT POLICY

The goal of the Investment Program is to achieve a total rate of return that will allow the Foundation to respond to today's needs and the long-term growth necessary to respond to future needs. Achieving this goal involves the careful management of permanent and nonpermanent funds to sustain an effective grantmaking program. The investment strategies for permanent and nonpermanent funds are distinct because the Foundation and its donors seek to achieve different distribution goals with each class of funds.

Permanent Funds

Permanent funds exist to provide a perpetual resource for charitable purposes and should be invested accordingly. The investment objective of permanent funds is to retain (at a minimum) and when possible increase the purchasing power of the funds, while at the same time producing a reasonable return for distribution to meet current community needs. Each person who has responsibility for managing and investing Foundation funds shall manage and invest the funds in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

To meet this investment objective for permanent funds, the Foundation follows a total-return strategy; that is to say, investment decisions are made with the intent of maximizing the long-term total return of the portfolio, combining market-value changes (realized and unrealized) and current yield (interest and dividends). Foundation assets are invested in a mixture of equities, fixed-income instruments, alternative investment classes such as hedge funds, distressed debt, and private investments, and cash.

The Foundation obtains the services of investment managers with proven records of performance, both in domestic and international markets, in equity management, fixed-income management, and/or mixed-asset management. Managers with responsibility for equity management will have demonstrated skill managing assets within, but not necessarily including all of, the following styles: core (including index funds), growth, value, small capitalization, and non-U.S. equities. Investments in alternative investment classes will be made through direct investment programs and funds of funds.

Each year the board sets an annual payout rate for the coming year based on the Investment Committee's 10-year projection of investment return. Currently, if the projected 10-year return is 9% or above, the payout will be 5%; if the projected 10-year return is below 9%, the payout will be 4½%. Payout will be calculated using a 13-quarter trailing average of fund market value. New permanent funds added to the Foundation shall be invested for a minimum of six months before being included in the valuation for distribution.

Nonpermanent Funds

The investment objective of nonpermanent funds, that is funds that are wholly expendable over a specified period, is to preserve capital and, if possible, purchasing power over the life of the fund.

The policy to meet this objective for nonpermanent funds is to invest the assets of individual funds in a mixture of cash, bonds, and stocks that will produce a reasonable return over a reasonable period, consistent with the payout schedule and program objective of the fund.

Investment Committee

The Investment Committee is responsible for oversight of the Foundation's investments and investment managers. The Committee will have access to one or more investment consultants in executing this oversight. The Committee makes quarterly recommendations and reports to the Board of Directors on investment matters, including the acquisition, disposition, administration, and management of Foundation investments, and the performance of the investment managers. The committee is composed of at least four independent financial advisors, the Chair, and the Treasurer, and may include one or more other directors of the Foundation.

THE OREGON COMMUNITY FOUNDATION

Here for Oregon. Here for Good.

FEE SCHEDULE
2014

Fund Type	OCF Administrative Fee***
Permanent Funds (Community, Advised, Designated) *	
1st $2 million	0.95
Next $4 million	0.85
Next $14 million	0.55
Amounts> $20 million	0.35
Scholarship Fund	
1st $2 million	0.95
Next $4 million	0.85
Next $14 million	0.55
Amounts > $20 million	0.35
** Plus an additional 10% of the amount of scholarships awarded	
Endowment Partner Fund	
1st $1 million	0.50
Next $4 million	0.20
Amounts > $5 million	0.10

* Community funds and advised funds that award scholarships are assessed an additional fee for scholarship administration.

Minimum annual administrative fee for an advised fund is $475.00.

Funds with special grant programs are assessed an additional fee of 0.25% (maximum of $25,000 additional fees).

For information on fees associated with short-term funds, please contact Johanna Thoeresz, Chief Development Officer, at 503.227.6846 or jthoeresz@oregoncf.org.

*** Rates shown do not include investment management costs.

THE OREGON COMMUNITY FOUNDATION

Here for Oregon. Here for Good.

Investment Committee

William Berg (Chair)

Lyn Hennion	Ron Parker
Tim Mabry	Eric Parsons
Duane McDougall	William Rutherford
William Moffat	Benjamin Whiteley
Garth Nisbet	Robert F. Wulf

Investment Consultant
Cambridge Associates LLC

Independent Auditor
Deloitte & Touche LLP

MAIN INVESTMENT POOL MANAGERS

Global Equity

Acadian Emerging Markets Equity
Adage Capital Partners
Delaware Investments
Eagle Capital Management
Gardner Russo & Gardner
Steinberg Asset Management
Oldfield Emerging Markets
Dodge & Cox – International Stock Fund
First State --- Asia Pacific Leaders Fund
Grantham, Mayo, VanOtterloo
Marathon-London International Investment Trust
Vanguard Institutional Index Fund
Vanguard Pacific Stock Index Fund
Vulcan Value Partners Large Cap
Westwood Emerging Markets

Marketable Alternative Assets

Arlington Fund – OCF Series
(36 Limited Partnership Investments)

Private Equity/Venture Capital

72 Limited Partnership Investments

Inflation Hedging Assets

Vanguard Energy Fund
Wellington Diversified Inflation Hedges Portfolio
EII International Property Fund
Standard Life Global Absolute Return Strategies
PIMCO All Asset All Authority Fund
Tortoise Midstream MLP

Global Fixed Income

Brandywine Global
Income Research and Management
PIMCO Emerging Market Currency Fund
PIMCO Low Duration Fund
PIMCO Short-Term Fund
Post Limited Term High Yield Fund

SOCIAL INVESTMENT POOL MANAGERS

Boston Common Asset Management
Generation IM Global Equity Fund
PIMCO Total Return Fund III

THE OREGON COMMUNITY FOUNDATION

Here for Oregon. Here for Good.

OCF Investment Committee Member Background

William Berg, Chair
Bill is the President of Sigma Investment Management Company, the firm he founded in Portland in 1992. He has served as research director for Paulson Investment Company, Inc., and has practiced corporate and securities law in Portland with Stoel Rives. He has Bachelor's and Master's degrees in economics from Stanford University and a law degree from Harvard Law School.

Robert F. Wulf
Bob has a BA in economics from Stanford University and an MBA from Columbia University Graduate School of Business in New York City. Early in his career he worked for Smith Barney and later for Potlatch Corporation in San Francisco. Since 1984, he has been a private consultant in finance. Bob has served OCF as a volunteer for 18 years. He is past Chair of the University of Oregon Foundation Investment Committee and of the National Presbyterian Church Foundation Endowment Investment Committee.

Lyn Hennion
Lyn is a former OCF board member. She is a Senior Vice President with Umpqua Investments (formerly Strand, Atkinson, Williams & York) in Medford, Oregon, and holds the Certified Financial Planner designation. She is a graduate of Stanford University and the Securities Industry Institute at the Wharton School of the University of Pennsylvania. She has board affiliations with several civic and charitable organizations.

Tim Mabry
Tim is a graduate of University of Oregon and is a licensed insurance agent and real estate broker. He is the owner of Purchased Credits, Inc.; is on the finance committee of Our Lady of Angels Catholic Church; is a Port of Umatilla commissioner; and is on the Board of Directors of Pendleton Academies. Tim is also a member of the OCF board.

Benjamin R. Whiteley
Ben is a former Chair of the OCF Board of Directors. He is the retired CEO and Chair of Standard Insurance and is the current Chair of The Greenbrier Cos. Board of Directors. Ben has served on and chaired numerous civic and charitable boards.

Duane McDougall
Duane is a graduate of Oregon State University and is a former Vice President-Controller, President and CEO of Willamette Industries. He currently serves as audit committee chair on the boards of Cascade Corp. and Greenbrier Companies and is on the board of Stancorp Financial as well as the chair of the board of Boise Cascade Corporation.

William R. Moffat
Bill is a board member of the Carpenter Foundation, a private family charitable foundation based in Medford. Bill is past President of the Endowment Fund Trustees of the Oregon Shakespeare Festival. He was a professor of economics at Stanford University for many years.

Ronald C. Parker
Ron has been a finance executive for Roseburg Forest Products Company and President and CEO of Hampton Affiliates. He currently is the Chair of the Board of the Ford Family Foundation, a director at Pimco Funds, and is also an adjunct professor of finance at Linfield College.

Eric Parsons
Eric is the Chair of the Board of StanCorp Financial Group, Inc., and Standard Insurance Company and is the former CEO of Standard. He graduated from Lewis & Clark College and Northwestern University's School of Mortgage Banking and was a Fellow in the Life Management Institute.

William Rutherford
Bill is the president of his own investment management company, Rutherford Investment Management LLC, located in Portland, Oregon. He is a graduate of Harvard Law School and has been on the board of numerous U.S. and international corporations and the CEO or president of two international investment companies. He is a past Treasurer of the State of Oregon and a past Chair of the Oregon Investment Council.

Garth Nisbet
Garth is a senior portfolio manager on the Benson Value team at Wells Capital Management. Before joining Wells Capital Management in 2011, he served as senior vice president and senior portfolio manager at Quest Investment Management Inc. for six years. Earlier in his career, Garth served as senior vice president and senior portfolio manager at Columbia Management. In addition, he served as Crabbe Huson Group's chief investment officer for four years. He began his investment career in 1985 with the State of Wisconsin Investment Board. Garth earned a bachelor's degree in economics and communications from the University of Washington and a master's degree in business administration with an emphasis in finance from the University of Wisconsin. He has earned the right to use the CFA designation and is member of the CFA Institute and CFA Society of Portland, where he previously served as president.

SOCIAL INVESTMENT POOL

Investment Returns
For Periods Ended June 30, 2014

	Quarter	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years
THE OREGON COMMUNITY FOUNDATION	3.6%	15.8%	8.7%	10.8%
OCF CUSTOM BENCHMARK	5.8%	17.6%	8.9%	12.1%

*Benchmark is 70% global equities and 30% fixed income.

Asset Allocation
June 30, 2014

Global Equity	69.8%
Fixed Income	30.2%
Total Portfolio	100.0%

Investment Managers

Boston Common Asset Management
Generation IM Global Equity Fund
PIMCO Total Return Fund III

SOCIALLY RESPONSIVE INVESTMENT POOL
POLICY STATEMENT

The goal of the Investment Program is to achieve a total rate of return that will allow the Foundation to respond to today's needs and provide the long-term growth necessary to respond to future needs. These investment objectives are to retain (at a minimum) and when possible increase the purchasing power of funds while at the same time producing a reasonable return for distribution to meet current community needs.

The Social Investment Pool seeks to invest in companies that have strong records in the areas of corporate governance, community relations, diversity and employee relations, energy and the environment, product quality and safety and non-US operations. The basic criteria companies must meet to be included in the Social Investment Pool are stated below. Investments may be made either directly or through mutual funds that apply social screens substantially the same as those stated below.

Corporate Governance

The Pool will invest in companies that demonstrate "best practices" related to board independence and elections, auditor independence, executive compensation, voting rights, transparency and other important governance issues.

Community Relations

The Pool will favor companies that seek to enhance the lives of the communities of which they are a part – locally and globally – through programs such as innovative charitable giving, community outreach and promoting volunteerism.

Diversity and Employee Relations

The Pool will invest in companies that have superior records in areas such as innovative benefits (child care, profit sharing, parental leave, etc.) and health and safety measures and that demonstrate a commitment to diversity as evidenced by hiring practices, training programs and representation of minorities and women on the board and at all staff levels.

Energy and the Environment

The Pool will favor companies whose policies and actions demonstrate corporate responsibility in areas such as promotion of energy conservation and efficiency, pollution control, sustainability of resources and a commitment to research and development to minimize the environmental impact of manufacturing processes. A company's principal sources of energy must be from non-nuclear sources.

Product Quality and Safety

The Pool will invest in companies that produce safe, useful, and high-quality products and services and that market their products responsibly. The Pool will favor companies whose primary business is not in military weapons and will not invest in manufacturers of nuclear weapons systems or chemical or biological warfare products.

Non-US Operations

For companies with non-US operations, the Pool will invest in companies that meet the criteria described previously and that are not involved in industries that are considered strategically important to keeping repressive regimes in place.

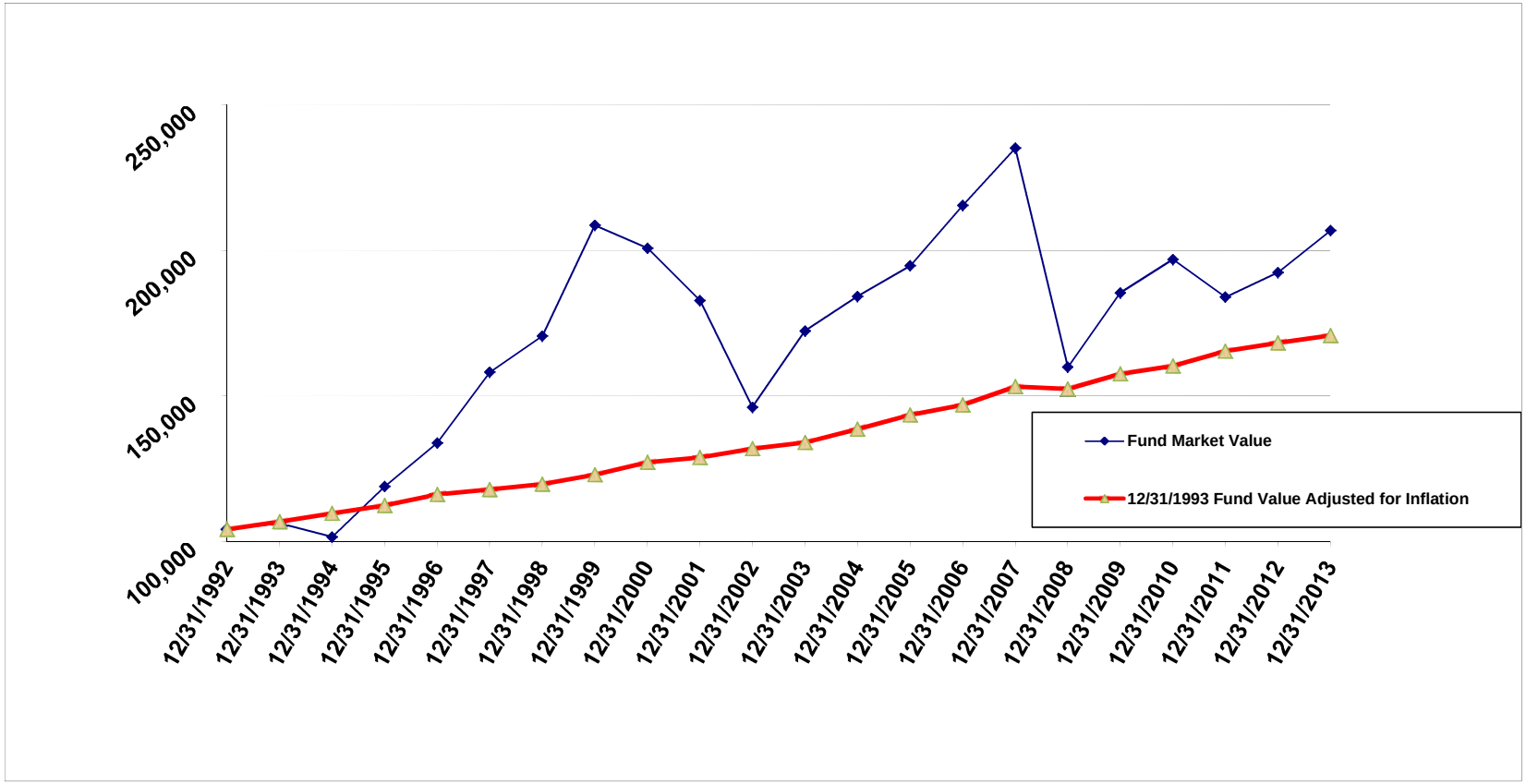
Community Development

The Pool will seek out opportunities to invest in local businesses and organizations that improve the quality of life for low- and moderate-income Oregonians through such activities as job and housing development. These investments must be prudent and consistent with the Pool's other investment criteria.

Voting Proxies

The Pool shall vote shareholder resolutions in accordance with the preceding criteria and, in general, will support resolutions that are aimed at strengthening good corporate governance, board diversity, environmental responsibility and progress in achieving equal opportunity in employment and codes of conduct for non-US operations.

THE OREGON COMMUNITY FOUNDATION
TWENTY-ONE-YEAR GROWTH OF ENDOWMENT PARTNER FUND
1993-2013



Fund Established, May 1992	**$**	**100,000**
12/31/1992 Fund Value	**$**	**104,204**
December 31, 2013:		
Fund Value	**$**	**206,866**
12/31/1993Fund Value Adjusted For Inflation	**$**	**170,778**
1993-2013 Distributions to Endowment Partner	**$**	**156,797**
21 Year Annualized Investment Return		**8.9%**
21 Year Annualized Inflation Rate		**2.4%**

Planned Giving Basics

September 19, 2014

Arlene Siegel Cogen, CFP®
Director of Gift Planning
The Oregon Community Foundation

Wendy Chou
Philanthropic Advisor
The Oregon Community Foundation

Here for Oregon. Here for Good.

What is a planned gift?

A planned gift is a gift of any kind, for any amount, given for any purpose—whether given currently or deferred, if the assistance of a professional staff person, qualified volunteer, or the donor's advisor is required to complete the gift. In addition, it includes any gift which is carefully considered by a donor in light of estate and financial plans.

– Robert Sharp, Jr.

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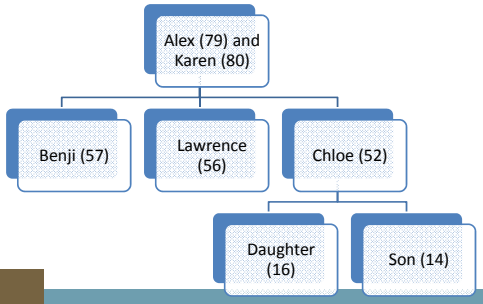
Agenda

- Bequests
- How a Life Income Gift Works
- Charitable Gift Annuity
- Charitable Remainder Annuity Trusts
- Charitable Remainder Unitrusts
- Partnering with OCF

3

The Club Family



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Bequests and Beneficiary Designations

Alex & Karen strolling their property

5

Bequests and Beneficiary Designations

Key Concept:

- Donor leaves money to charity at death

Benefits:

- Donor has complete use of assets during lifetime
- Bequests are testamentary gifts left through a donor's will/ living trust
- Estate will receive a charitable deduction for the full donation

Remind your donors to:

- Include specific language naming your organization as the recipient of a gift
- Include your organization's Tax ID number

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Example 1: Specific Bequest

Chloe:

- Gives $1,000 annually to one specific organization
- She will "endow" her gift by leaving a bequest gift of $20,000

7

Example 2: Percentage Bequest

Lawrence:

- Lawrence leaves 50% of his estate to his favorite charity to continue work that is important to him

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Example 3: Beneficiary Designation

Alex and Karen:

- They have a huge IRA and a life insurance policy and understand these are great assets to give to charity at death
- They name Alex's favorite charity the beneficiary of the IRA and Karen's favorite charity the beneficiary of the life insurance policy
- Loved ones who are named IRA beneficiaries may have a large tax liability when they receive the funds

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Example 4: Residual Bequests

Alex and Karen:

- Would like to create a scholarship at their alma mater for students with financial need
- They have already made a number of specific gifts and feel their children already have enough

Solution:

- Alex and Karen would benefit the most by creating the Best in Show scholarship fund by directing their residual estate to fund a scholarship fund at K-9 University

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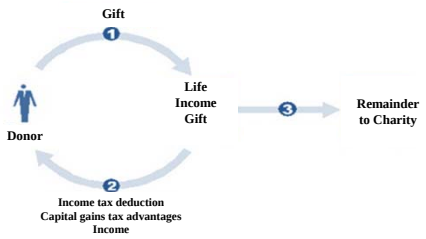
How a Life Income Gift Works



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How is the Beneficiary's Income Determined?

- Fixed Income
  - Charitable Gift Annuity
  - Charitable Remainder Annuity Trust
- Variable Income
  - Charitable Remainder Unitrust

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Fixed vs. Variable Payment

Single Age:	60	65	70	75	80	85
Two Ages:	66.7	71.7	76.7	80.8	85.9	91.9
Horizon (yrs):	24.2	20.0	16.0	12.5	9.5	6.9

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Charitable Gift Annuities

Benji – the son who hasn't quite grown up yet

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Charitable Gift Annuities

Key Concepts:

- Contract between donor and charity for an irrevocable gift
- Immediate tax deduction for the present value of what charity is expected to receive
- Funded with cash or appreciated securities
- Split interest gift
- Annuitant gets income stream based on age
- Remainder to charity

15

Charitable Gift Annuities

Benefits to donor:

- Charity pays fixed amount for life to annuitant
- Straightforward contract
- Sometimes used as "starter gift"
- Removes asset from donor's estate

Challenges:

- Based on financial strength of the NPO
- Age requirements
- Fixed income for life

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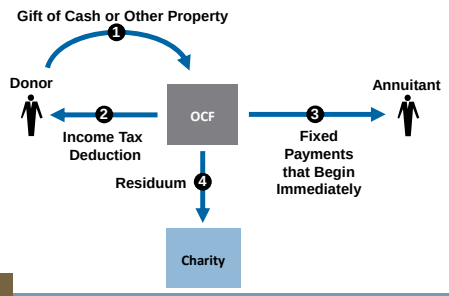
Charitable Gift Annuity



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Gift Annuity Rates

One Life		Two Life		
65	4.7%	65	65	4.2%
70	5.1%	70	70	4.6%
75	5.8%	75	75	5.0%
80	6.8%	80	80	5.7%
85	7.8%	85	85	6.7%

American Council on Gift Annuities (ACGA) September 2014

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Example 1: Current Gift Annuity

Karen Club	***Age 80***
Appreciated stock donated	$100,000.00
Basis	$50,000.00
Annuity Rate	6.8%
Benefits:	
Charitable Deduction	$50,205.00
Annuity	$6,800.00

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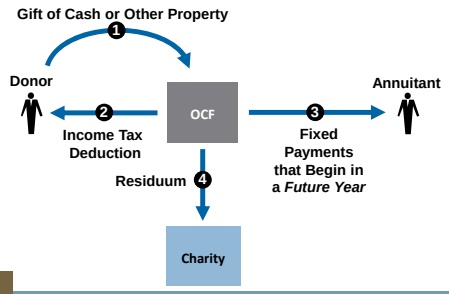
Deferred Charitable Gift Annuity



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Example 2: Deferred Gift Annuity

Alex and Karen want to take care of Benji	***Age 57***
Cash donated	$500,000.00
Annuity Rate when Benji reaches 60	4.8%
Benefits:	
Charitable Deduction	$149,180.00
Annuity to Benji	$24,000.00

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Example 3: Flexible Gift Annuity

Lawrence wants to use this for retirement	***Age 56***
Cash donated	$100,000.00
Annuity Rate at 65	6.3%
Annuity rate at 70	8.0%
Benefits:	
Charitable Deduction	$36,030.00
Annuity payment begins at 65	$6,300.00
Annuity payment begins at 70	$8,000.00

22

Who is best suited for a CGA?

- Income beneficiaries 60 or older
- Younger beneficiaries using a deferred/flexible deferred CGA to supplement retirement income in the future
- Donors with smaller capacities
- Donors looking for secure payments
- Donors looking for simplicity

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Charitable Remainder Trust

Lawrence and his partner at a party

24

Charitable Remainder Trust

Key Concepts:

- Separate entity and TIN
- Irrevocable gift
- Immediate tax deduction for a percentage of the gift
- Split interest gift
  - Beneficiary gets an income stream
  - Remainder goes to charity

25

Charitable Remainder Trust

Benefits:

- May be funded with a wide range of assets
- Assets are invested in a diversified portfolio
- May have multiple beneficiaries
- May receive additional gifts
- Removes asset from estate
- Donor may fund with appreciated asset to reduce capital gains

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Charitable Remainder Trust

Challenges:

- Payout negotiated between donor and trustee
- Four-tier distribution of income
  - Ordinary Income
  - Capital gains income, short term first, then long term
  - Tax-exempt income or other
  - Distribution of principal tax-exempt

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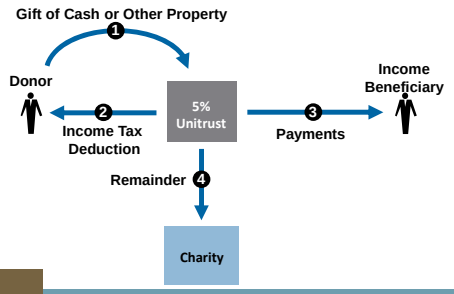
Charitable Remainder Trust



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How does a CRAT work?

Key concepts

- Trust is set up to pay beneficiary or beneficiaries fixed dollar amount annually
  - More than two beneficiaries permitted
  - Income tax deduction is available
- Payout rate is negotiated between donor and charity
  - Minimum payout rate is 5%
- Trust pays fixed annual amount for life or a term of years (up to 20 years)
- Requires a trust agreement

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Example: CRAT

Lawrence:

- Lawrence's partner is 20 years older than he is and does not make a lot of money or own many assets
- Lawrence's current net worth is $1,000,000
- Lawrence wants to ensure that if he dies first, his partner will not have to worry about money

Solution:

- Create a testamentary CRT with a 5% payout to support partner. This will provide the estate with a charitable deduction and provide a $50,000 income stream to his partner.

Remainder funds the Biscuit Foundation

30

Who is best suited for a CRAT?

- Donors who want to include multiple income beneficiaries
- Donors looking to support more than one charity
- Very large gifts, where charity is uncomfortable assuming the payment liability

31

Who is not suited for a CRAT

- Donors using unmarketable assets to fund CRAT
- Beneficiaries with long horizons
- Smaller funding amounts

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How does a CRUT work?

Key concepts

- Trust is set up to pay beneficiary at least 5% of the FMV of the trust annually
- More than two beneficiaries permitted
- Income tax deduction is available
- Payout rate is negotiated between donor and charity
- Trust pays beneficiary for life or a term of years (up to 20 years)
- Requires a trust agreement

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Example: CRUT

Alex and Karen:

- Alex and Karen own a rental property worth $500,000 that requires a lot of management. Original investment was $150,000.
- They are tired of being landlords.

Solution:

- Alex and Karen would benefit from a CRT, with a 5% payout which increases their income and diversifies their portfolio. Immediate tax deduction of $284,000. Annual income stream of $25,000. Reinvest $350,000 of long term gain, free of tax.

Remainder funds the Wayward Puppy Center to provide housetraining for puppies that have lost their way

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Who is best suited for a CRUT?

- Beneficiaries that want payments to adjust for inflation
- Donors who wish to set up a testamentary CRT
- Donors who want to include multiple income beneficiaries and support multiple charities
- Donors who are using complex or illiquid assets, such as real estate, to fund the CRUT (Flip CRUT)

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Who is not suited for a CRUT?

- Donors seeking predictable payments
- Donors using smaller funding amounts
- Donors with securities that have taken a loss
- Donors seeking to fund the CRUT with mortgaged real estate

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Partnering with OCF

- Nonprofits can establish endowment partner funds at OCF with a minimum of $25,000
  - Permanent fund at OCF that pays approximately 4.5% of fund to endowment partner annually
- Access investment options available to larger portfolio
- Education opportunities
- Support for administering complex and life income gifts

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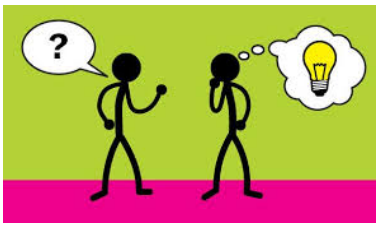
Questions?



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Thank You!

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