



Spending Policy

The Solano Community Foundation (SCF) is a permanent institution and therefore has adopted stable long-term policies that increase the likelihood of achieving the investment objectives stated in the Investment Policy Statement (IPS). The spending policy is an important part of the planning process for SCF, the donors and the grant recipients. The intent is to enable the Solano Community Foundation to plan to achieve a level of funds for grantmaking. Therefore SCF has adopted a total return spending policy.

The Board of Directors annually reviews and determines the spending policy. The current spending policy for endowment funds is 4% of the average market value over the past 12 trailing quarters.

Investment Philosophy

The Solano Community Foundation's investment pools are constructed in such a way as to achieve their return objectives while minimizing volatility to the degree possible. This is best accomplished through the use of a well-diversified asset allocation strategy. There is significant evidence that long-term investors do not benefit from attempting to earn returns through short-term asset class forecasts or market timing. As a result, SCF has adopted a strategic long-term asset allocation for each pool. Over time, each pool will remain invested in percentages that are targeted to those called for in the strategic allocation. The current strategic asset allocation including targets and acceptable ranges for the investment pools are outlined in the respective Investment Policy Statements.

Within each asset class, the Solano Community Foundation seeks to earn the most efficient rate of return possible (after investment expenses). Investments will be well diversified by investment style and strategy. Style/strategy diversification will increase the probability that the Solano Community Foundation will achieve its investment goals and reduce volatility over three- to five-year time periods. The Solano Community Foundation has adopted specific requirements and restrictions for each asset class.

Performance Objectives

To achieve the objectives stated in the introduction to this policy, the Solano Community Foundation's endowment funds seek to earn a rate of return that is at least equivalent to the rate of inflation plus the spending rate. Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over ten to twenty years.

To evaluate the performance of the non-endowment pools and the investment managers over shorter time periods, the Solano Community Foundation has also adopted a market benchmark for each pool and each manager.

The Solano Community Foundation's goal, over each five-year time period, is to earn a rate of return for each pool that exceeds the benchmark return after investment management fees have been deducted.

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We have consulted with our colleagues and present here some results from other foundations gathered in a report from the Council on Foundations. In summary, all have also suffered and most are sticking with their IPS and not flailing around in a vain attempt to do something just to look busy.

Investment Strategy

Overall, about three-quarters of respondents (73.2 percent, or 93 of the 127 foundations responding) specified that their investment strategy is relatively unchanged since summer 2008. Nearly all those who did change said that they were adopting a more conservative strategy (29 of the 34 foundations noting that they were changing their strategy). Slight variations by size were evident. The largest foundations were less likely to be changing their strategy, while the smallest foundations (those with less than \$25 million in assets) were slightly more likely to report that they were changing their strategy—23 percent said they have adopted a more conservative approach, while 10 percent said that they are more aggressive with their investments.

Diversification

About 80 percent (78.6 percent) of respondents said that the amount of diversification in their portfolio currently is about the same as it was on June 30, 2008. Family foundations were more likely to report having a change in their diversification—22 percent said that their diversification had increased and 7 percent reported that it had decreased. About 83 percent of independent foundations said that their diversification was about the same; 15 percent said that it had increased. Eight percent of public foundations had increased their diversification since June 30, 2008, with 92 percent leaving it relatively unchanged.

Overall, the Council on Foundations found that its family, independent, and public foundation survey respondents experienced a 28 percent decline in the value of their assets over the course of 2008. This is not the same as a rate of return because it does not take into account the effects of grantmaking or infusions of additional assets into foundation portfolios. However, it does indicate the very different position that foundations find themselves in as they start 2009. The survey found that many foundations have not made major changes to their investment strategies, but that a substantial proportion are making changes in their investment managers, their diversification, or the aggressiveness of their investment strategies.