



Nonprofits focus on long-term investments

By Hugh J. Ralston
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- Tangible reminders of the volatility in the investment markets are the statements that arrive regularly in our mailboxes. Across the country, trillions in wealth have been wiped out, and sails are being trimmed for less-forgiving times — in business, government and at our own kitchen tables.

Nonprofits are far from immune, and many of their budgets — including ours at the Ventura County Community Foundation — are being cut, and cut deeply.

At the Community Foundation, where our mission is to protect and grow charitable endowments for generations to come, this financial rough patch is another step in a long journey of balancing risks appropriately while keeping focused on our first priority: preserving endowments to ensure the needs designated by donors can be served.

Since we manage tens of millions in endowments for local nonprofits, our strategies have an impact on these charities and the service they can afford to provide. Endowments established at VCCF meet every imaginable community need. They fund scholarships, support food banks, pay for programs to prevent elder abuse and domestic violence and to mentor at-risk youngsters. They sustain museums, fund mental health and AIDS programs, and even support a pier or monument.

So, with so much good work at stake, what is our strategy in such unsettled markets? We take our cue from our slogan: For good, for ever.

Since VCCF was formed in 1987, we have weathered three major recessions. The lesson from each is to invest for the long-term.

We have been at this long enough to know that market timing doesn't work well, and we must remain focused on the best way to grow our endowments through market cycles. That means never jumping in and out when we think we have reached the trough.

Selling at the most recent "bottom" would have locked in losses below today's value, although admittedly there is no assurance today's values will remain stable for long. That is why our long-term approach is consistent with our mission, and why it differs from the

levels of risk each of us may be willing to assume for our families, our businesses or our retirement portfolios.

For the long term

Diversified portfolios work best when they benefit from the hard experience that markets do not move in tandem all the time. Hence, we diversify.

Three years ago, when the U.S. equity markets had only just recovered from the dot.com collapse in 2001-02, we took a hard look at our strategies and came away even more convinced a diversified portfolio is the best solution to managing in volatile times. We diversified further, expanding from nine to more than 25 managers today, with a broad array of investments in private capital, telecommunications, energy, finance consolidations, international companies — as well as the normal diversification mix of large-, medium- and small-cap U.S. equities, international equities as well as fixed income.

Our results reflect the benefits of this diversification. We track our absolute performance relative to a policy index, and our recent losses have been less severe than the index, retaining that additional value for the portfolio. And that relative performance has held up for our long-term results as well, giving us further confidence that our approach builds value over time. But the recent results are still negative, and losses over time have a real impact.

One way we manage charitable endowments over the long haul is to permit annual distributions to the nonprofits at a rate that stabilizes the short-term market volatility.

This approach smoothes the steep market drops and constrains the euphoria from sharp market rises. We calculate the annual amount based on a 12-quarter rolling average, which stabilizes the annual cash flow to local nonprofits.

As an endowment manager, our policy has been to permit annual distributions at a rate that sustains the core principal. Over the past 15 years, we have kept that promise and will continue to do so, with next year's distributions calculated on the June 30, 2009, balances. We will ensure these calculations are consistent with the new UPMIFA rules, which update the Uniform Management of Institutional Funds Act rules governing charities and how they manage endowments, which became effective in January.

Endowments vital

While recent market declines have been steep, sudden and historic, they also remind us of the vital role long-term endowments play in the important work of nonprofits. They are not immune from the market volatilities, or economic conditions, but they remain a fundamental building block supporting healthy nonprofits. Without them, charity work would be totally dependant on the ability to raise funds year to year. Think of an endowment as a charity's long-term partner that cushions the shocks.

Donors understand the importance of this ballast to the daily work of local nonprofits, and VCCF is committed to ensuring these endowments remain vital to the building of community for years ahead — in good times and in not-so-good times.

Next commentary: Tough decisions ahead?

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