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**VCCF REDUCES ANNUAL PAYOUTS TO SAFEGUARD NONPROFIT
ENDOWMENTS IN RESPONSE TO UNCERTAIN FINANCIAL MARKETS**

*As its portfolio shows signs of recovery, the Foundation will distribute
more than \$2 million to charities to meet community needs in Fiscal Year 2010*

CAMARILLO, Calif. (Aug. 12, 2009) – The Ventura County Community Foundation announced today it will change the formula for calculating distributions from its endowments to local nonprofits, despite strong investment performance in its portfolio in the most recent quarter.

For the first time in VCCF's 22-year history, the Board of Directors voted to reduce its traditional 5 percent payout to funds dipping below original principal value because current uncertainty in the investment markets no longer supports that level of annual distributions. Fund currently exceeding 100% of their principal value will retain the 5 percent payout rate, although VCCF is recommending a reduction to 4%.

Less than ten funds (out of 300 donor funds) assisting local nonprofits will have no distributions next year, as the donors have specifically prohibited invasion of principal, a prohibition that VCCF will continue to honor.

Despite this change, VCCF will distribute more than \$2 million from endowment funds it manages to local charities to meet community needs, such as scholarships and programs that benefit youth and senior citizens. Other grants from pass-through funds, the Martin V. & Martha K. Smith Foundation and initiatives supported by foundation grants will increase the total of grants projected for next year.

For 60 percent of the 300 funds in the VCCF endowment pool, the changes may

mean a modest payout reduction of 1 percent to 4 percent; of those, 30 percent retain the right to use a 5% distribution. The greatest impact will be limited to about 40 percent of the funds, many opened shortly before the historic market reversals of October 2007. The payout formula is assessed against a 12-quarter rolling average of endowment fund balances, calculated every year as of June 30.

“Our annual payout is linked to the expectations of growth for the portfolio,” said VCCF Investment Committee Chair and VCCF board member Robert Katch, an investment counselor and former assistant treasurer at Pepperdine University. “Our policy has always been to generate enough growth in the endowment over market cycles to provide annual distributions *after* inflation and fees and still permit the portfolio to grow its core value. With the current investment horizon, we don’t think it wise for 5 percent to be distributed in the coming year. As for the year following, we are watching carefully and will revisit the policy next summer.”

Because of the market declines over the past 12 months, the VCCF endowment pool was down year/year on June 30 about 15 percent after including the 5 percent annual distributions. This decline is in addition to losses in the portfolio the prior fiscal year, bringing some funds to 80 percent of their “principal” value, which prompted VCCF’s action, according to Hugh Ralston, VCCF president & CEO.

“Continuing the 5 percent payout rate for funds that have declined 20 percent runs the risk of permanent loss, since no reasonable investment strategy will produce the type of returns to right the balance to more historic levels,” Ralston said.

Donors expect endowments to remain intact, particularly through difficult times like we are going through, Ralston added. “When Simi Valley attorney Jim Basile left us his estate to provide scholarships for local students to attend California’s public universities, he meant for those awards to be there 50 years from now. The same is true of Russell Fischer who willed money to VCCF to support the Care-A-Van program to transport eligible Camarillo residents to medical appointments. This also goes for any of our donors who set up endowments to support local nonprofits. It is precisely to safeguard these endowments for the long term that VCCF is taking the prudent steps to preserve both core endowments values and annual distributions – dual obligations our donors trust us to deliver on year in and year out.”

New formula for FY2010,

Beginning Oct. 1, the formula will be applied as follows:

- Funds at 100 percent of their original principal value – just under 30% of total VCCF funds - may still distribute 5 percent of the eligible amount, although they are being encouraged to use a 4 percent distribution to help preserve long term capital.
- Funds at between 90 and 100 percent of their original principal value – roughly 30 percent of the Foundation’s donor-related funds – are being limited to the 4 percent payout, a 1 percent decline from last year;
- Funds at 80 to 90 percent (24% of total donor funds) will be permitted a 3 percent distribution;
- Those below 80 percent (16% of total donor funds) will be restricted to 2 percent.

Under the old 5 percent policy, a \$1 million fund would have received \$50,000 in distributions this year. Under the new policy, a fund at or below 80 percent of value will receive 2 percent of the \$800,000 value, or \$16,000. A fund at or above its core principal value (\$1 million) would receive \$50,000 (5 percent), or the recommended \$40,000.

The new policy will ensure almost all “underwater” funds will receive some annual distribution, Ralston said. “Unlike some community foundations, which have stopped distributions from underwater funds, we chose to provide for at least some distributions to support the charity during these tougher times,” he said. Less than ten funds have a restriction on distributions of principal, and VCCF will honor those donor imposed restrictions and permit no distributions if the fund value has dipped below the original principal value.

“We know donors established these funds to support the important work of these local nonprofits, work that is even more needed in these difficult economic times,” added Ralston, acknowledging some nonprofits which are already struggling with fund raising may not be able to offset the decline in endowment contributions and will face difficult choices about staffing or services.

VCCF’s own endowments will be subject to the same 4 percent restriction, Ralston noted, further impacting a budget that already has seen a \$140,000 decline in fund fees this year due to the lower endowment balances. VCCF’s operating budget took a 15 percent cut earlier this year, which among other things left four open positions

vacant.

Investment picture brightening

Ralston sees encouraging signs on the financial front that may mean this measure will be necessary only for FY2010. Since mid-March, VCCF's endowment portfolio turned in a positive performance, up 10.8 percent in actual results for the April-June quarter. This narrows the loss suffered earlier in VCCF's fiscal year, which was down 15.5 percent from October 2008 through March 2009 to 6.5%, the results for the current fiscal year since October. The results for the three quarters are also 2.9 percent ahead of the policy index, demonstrating that VCCF's prudent and long term diversification strategies continue to provide additional value for its portfolio.

"In relative terms, our diversified strategies continue to lower the risk of the portfolio and outperform our benchmarks. We remain in the top third of our peer network for the last three years, and over the past 10 years we have placed in the top fifth of our peer group.

"July was a strong month, narrowing the fiscal year loss even more, but there are still bumps in the road ahead," Ralston observed.

VCCF to stick with disciplined investment philosophy

Many funds continue to benefit from VCCF's policies which focus on the long term, while providing annual support to the nonprofits donors had designated as beneficiaries. "For some funds that have been with VCCF for 15 years," noted Ralston, "they have had the advantage of earnings and distributions over time and yet still retain values about the original contributions.

He cited these examples:

- A \$2 million agency-endowment fund, started at VCCF in 1993, has returned over \$1 million to the agency and, even after the historic market meltdown last year, still has over \$2 million in its fund balance;
- A \$6.2 million bequest from James C. Basile to fund scholarships to public universities in California, received in 2003, has given out \$1.7 million in scholarships and retains a balance of \$6.3 million, even after the recent market losses;
- A scholarship fund established in 1987 to support students with interests

in agriculture was opened with an initial gift of \$52,000; it has awarded \$65,000 in scholarships and still has a balance of \$77,000.

- The Russell Fischer \$2.76 million bequest of 2006, to support the Camarillo Health Care Care-A-Van program, has already given out \$268,600 and has, as of June 30, a balance of \$2.179 million.

“That is the power of endowment,” said Ralston, “providing over the long term more in distributions than the original contribution, a power that many donors understand when they establish these funds under the protection of the Community Foundation.”

Policy complies with new state law

The new policy complies with UPMIFA (Uniform Prudent Management of Investment Funds Act), the law governing the management of endowments in California, which became effective in January of this year. VCCF’s old distribution levels were also in compliance with UPMIFA, which set for the first time a 7 percent ceiling for distributions (excluding investment costs) as a reflection of prudent investment policies.

For more information on the Foundation’s investment strategies and to view past investment committee presentations, go to www.vccf.org.

VCCF is a family of charitable funds whose combined assets are \$87 million. Its mission is promote and enable philanthropy to improve our community for good for ever, which is does through grantmaking, scholarships and leadership training programs through the Center for Nonprofit Leadership. VCCF has been certified in compliance with national standards by the Council on Foundation, the highest form of peer review in the United States. For more information, please visit www.vccf.org. or contact VCCF at (805) 988-0196.

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