

October 1, 2013

Crafting an All-Weather Spending Policy

Endowments, Public Foundations and Other Non-Profit Organizations

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Vice President

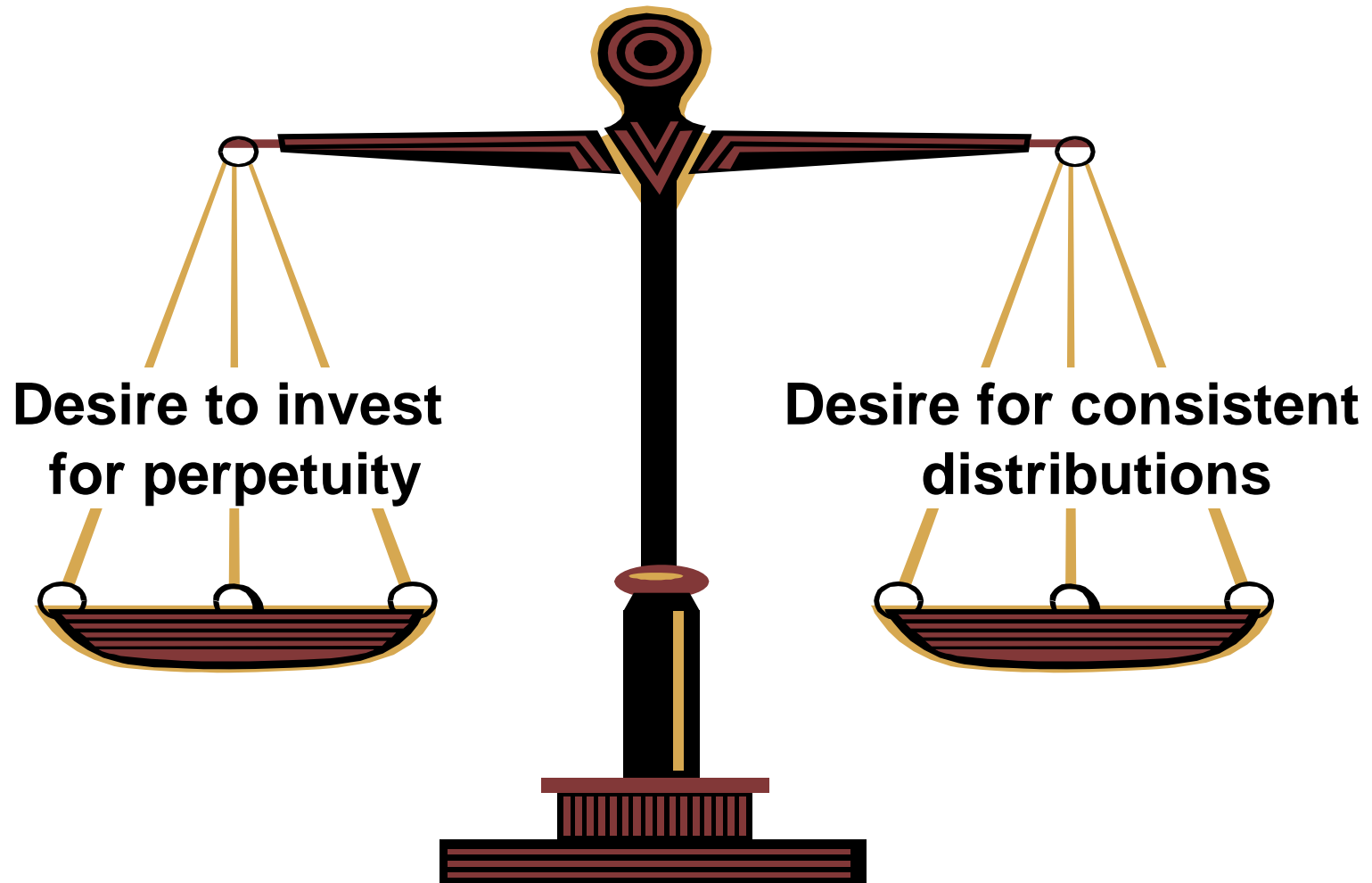
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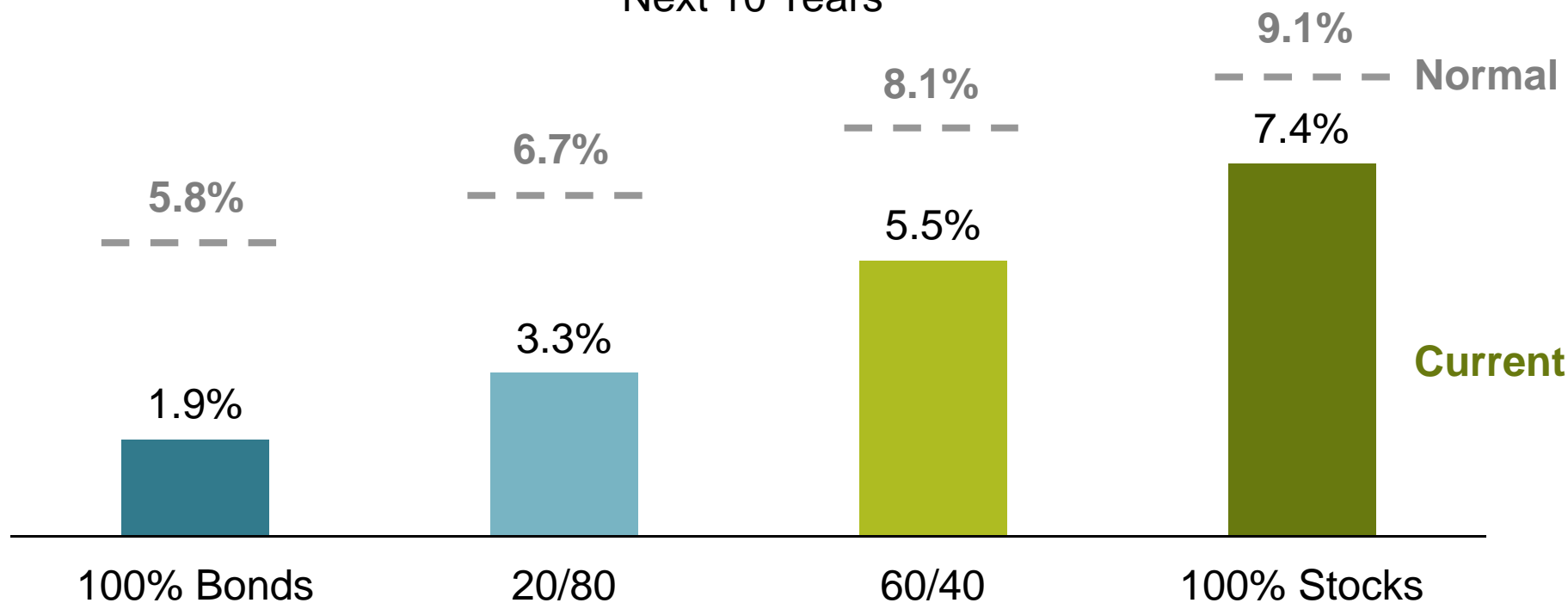
Foundational Dilemma: The Need to Balance Conflicting Priorities



Source: AllianceBernstein

We Expect Low Returns for Bond-Heavy Portfolios

Median Forward Return Projections* Next 10 Years



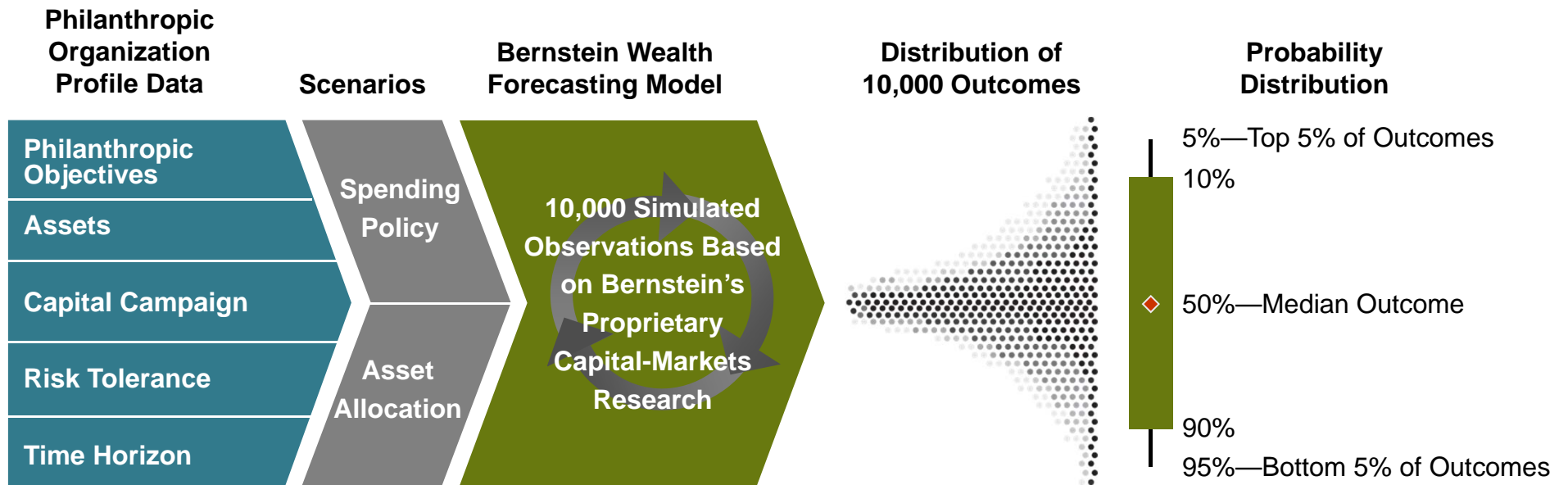
As of December 31, 2012

*Projected pre-tax 10-year compound annual growth rate. Stocks modeled as 21% US diversified, 21% US value, 21% US growth, 7% US small/mid-cap, 22.5% developed international and 7.5% emerging markets. Bonds modeled as intermediate-term global taxables.

Based on Bernstein's estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Notes on Wealth Forecasting System for further details.

Source: AllianceBernstein

Bernstein's Wealth Forecasting System Illuminates Potential Outcomes of Different Spending Policies



- Based upon the current state of the capital markets
- Prospective returns
- Forecasts returns for 30+ asset classes and 16 different planning vehicles

The Wealth Forecasting System, one of the biggest R&D projects ever undertaken at our firm, is based upon our proprietary analysis of historical capital markets data over many decades. We looked at variables such as past returns, volatility, valuation ratios, and the correlations among them to address the planning questions our clients ask. The model's output is a vast range of possible outcomes—relating to market asset classes, not AllianceBernstein portfolios—that serve as grist for a client's decision-making mill. Of course, there is no assurance that any specific outcome suggested by the model will actually come to pass. But by quantifying the possibilities of achieving financial goals under changing, and sometimes extreme, capital markets conditions, the tool should help our clients make better choices.

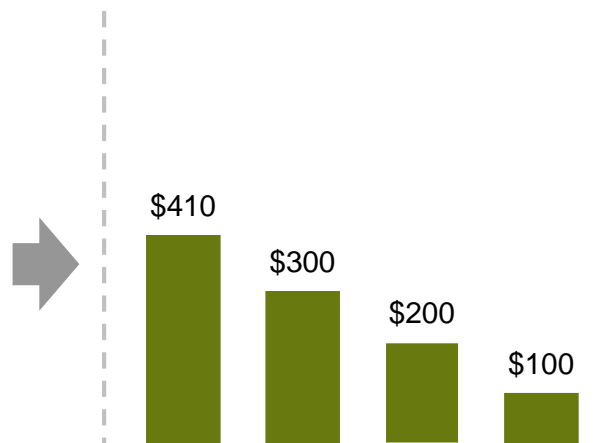
More Fund-Raising Can Be the Critical Solution

How much annual fund-raising does a \$10 Million foundation need to keep pace with inflation?

At the 50th Percentile of Confidence

Stocks/Bonds (%)	20/80	40/60	60/40	80/20
10-Year Compound Real Return (No Spending)	0.9%	2.0%	3.0%	4.0%

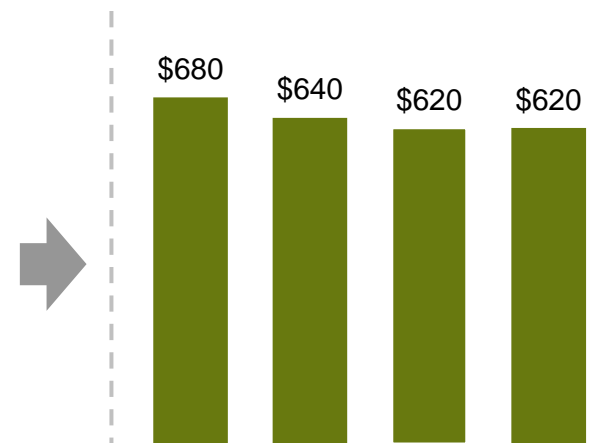
Additional Funds/Year (\$000) Required to "Break Even" Assuming a 5% Spending Rate*



At the 90th Percentile of Confidence

Stocks/Bonds (%)	20/80	40/60	60/40	80/20
10-Year Compound Real Return (No Spending)	(1.8)%	(1.4)%	(1.2)%	(1.2)%

Additional Funds/Year (\$000) Required to "Break Even" Assuming a 5% Spending Rate*



As of December 31, 2012

Using projected pre-tax 10-year compound annual growth rates. Stocks are modeled as 21% US value, 21% US growth, 21% US diversified, 7% US small/mid-cap, 22.5% developed international, and 7.5% emerging markets; bonds are modeled as intermediate-term global taxables. Fund-raising amounts are calculated as percentages of the initial portfolio value and then increased each year by the rate of inflation.

Based on Bernstein's estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results. See Notes on Wealth Forecasting System at the end of this presentation for additional information.

**"Breaking even" is defined as earning a 0% return after inflation and spending. The amounts of funds raised shown here are for Year 1, and increase annually with the inflation rate.

Source: AllianceBernstein

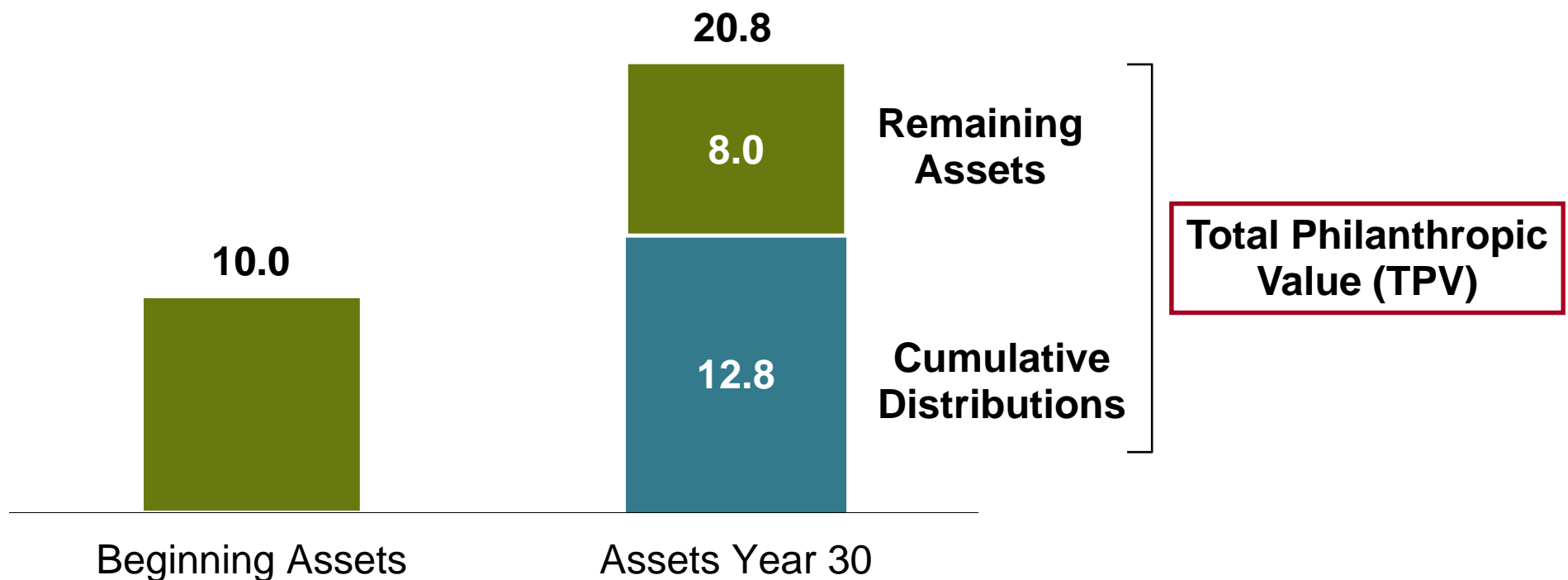
Two Fundamental Approaches

- Investment policy
 - Asset allocation
- Spending policy
 - Adopt a smoothing formula
 - Employ a spending ceiling

Next Step: Consider “Total Philanthropic Value” (TPV)

Total Philanthropic Value (TPV) Defined

70% Stocks/30% Bonds, Distributing 5% Annually
Median Forecast Results, Adjusted for Inflation (US\$ Millions)



Initial assets of \$10 million

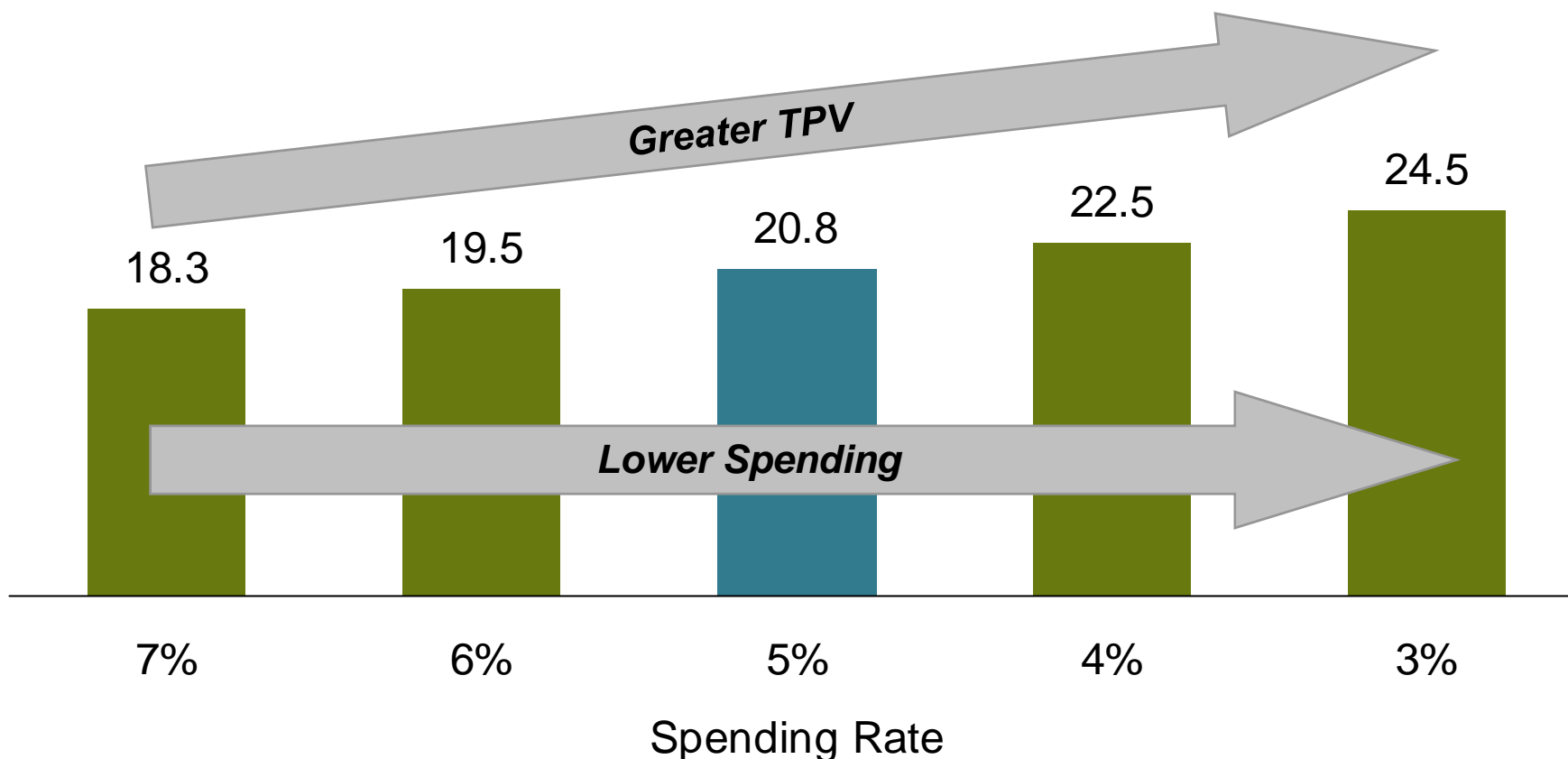
Asset allocation is 60% Global Stocks/30% Intermediate Taxable Fixed Income/10% REITs. Global Stocks are 21% US Value, 21% US Growth, 21% US Diversified, 7% Small-Mid Cap, 22.5% Developed International, and 7.5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.

TPV Paradox: Lower Spending Means More Charitable Impact...

TPV vs. Spending Rate

70% Stocks/30% Bonds

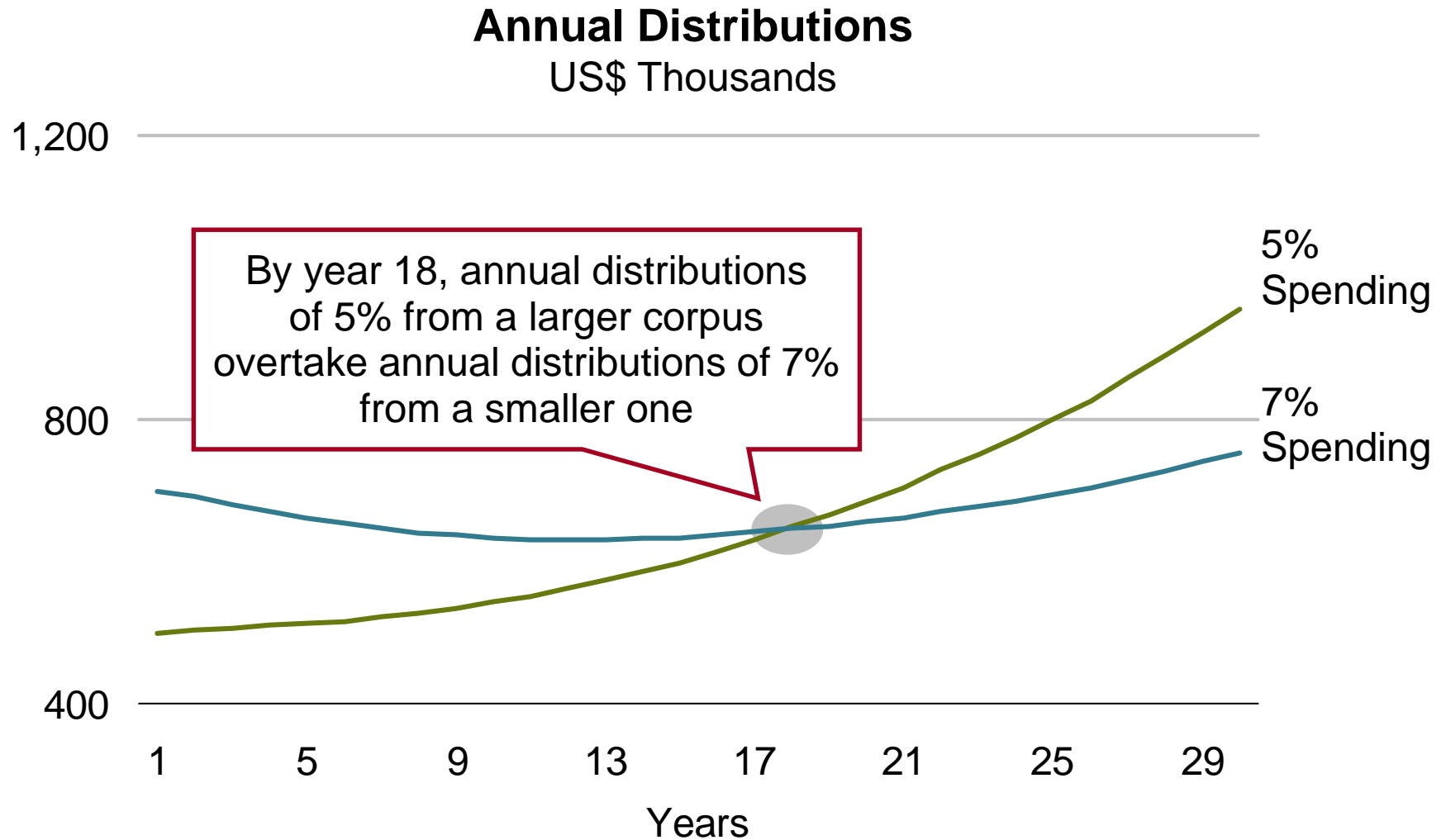
Year 30 (US\$ Millions)



Initial assets of \$10 million

Asset allocation is 60% Global Stocks/30% Intermediate Taxable Fixed Income/10% REITs. Global Stocks are 21% US Value, 21% US Growth, 21% US Diversified, 7% Small-Mid Cap, 22.5% Developed International, and 7.5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.

...And, in Time, Greater *Annual* Spending



Initial assets of \$10 million

Asset allocation is 60% Global Stocks/30% Intermediate Taxable Fixed Income/10% REITs. Global Stocks are 21% US Value, 21% US Growth, 21% US Diversified, 7% Small-Mid Cap, 22.5% Developed International, and 7.5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.

But Market Volatility Can Impact Distributions

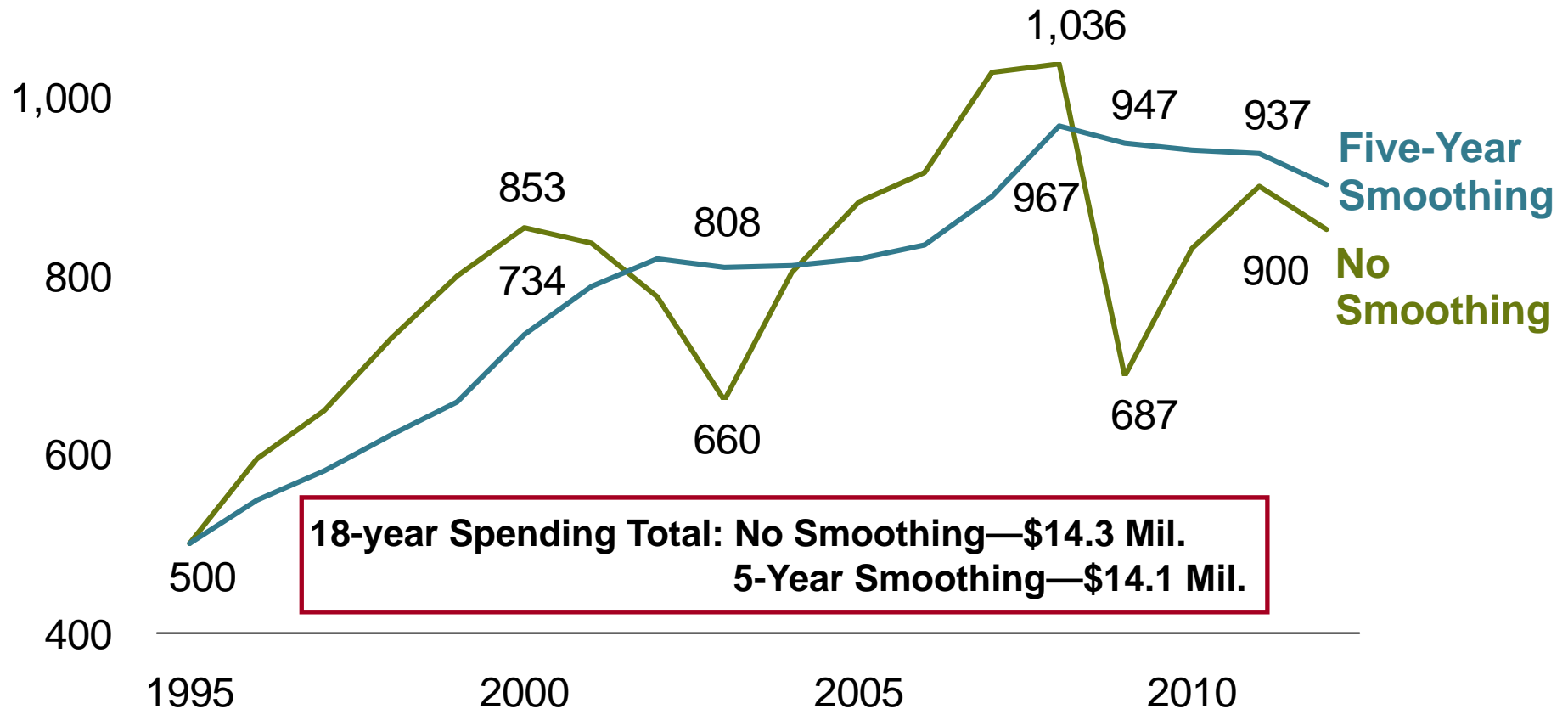
5% Spending, \$10 Million Endowment
70% Stocks/30% Bonds (US\$ Thousands)



Past performance does not guarantee future results.
See Note on Asset Allocation in Historical Studies in Appendix.

Smoothing Reduces Annual Declines in Distributions

5% Spending, \$10 Million Endowment
70% Stocks/30% Bonds (US\$ Thousands)

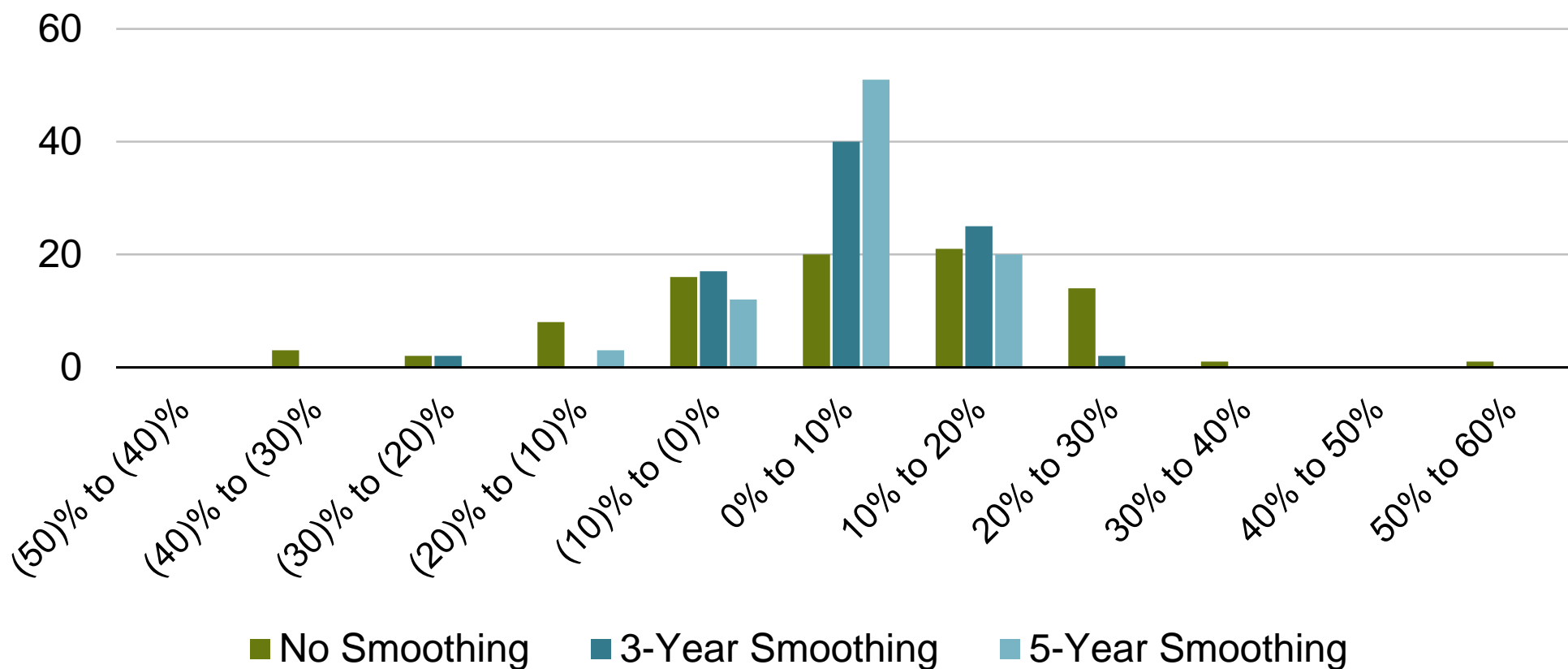


Past performance does not guarantee future results.
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Frequency of Year-Over-Year Percentage Change in Nominal Spending

5% Spending*

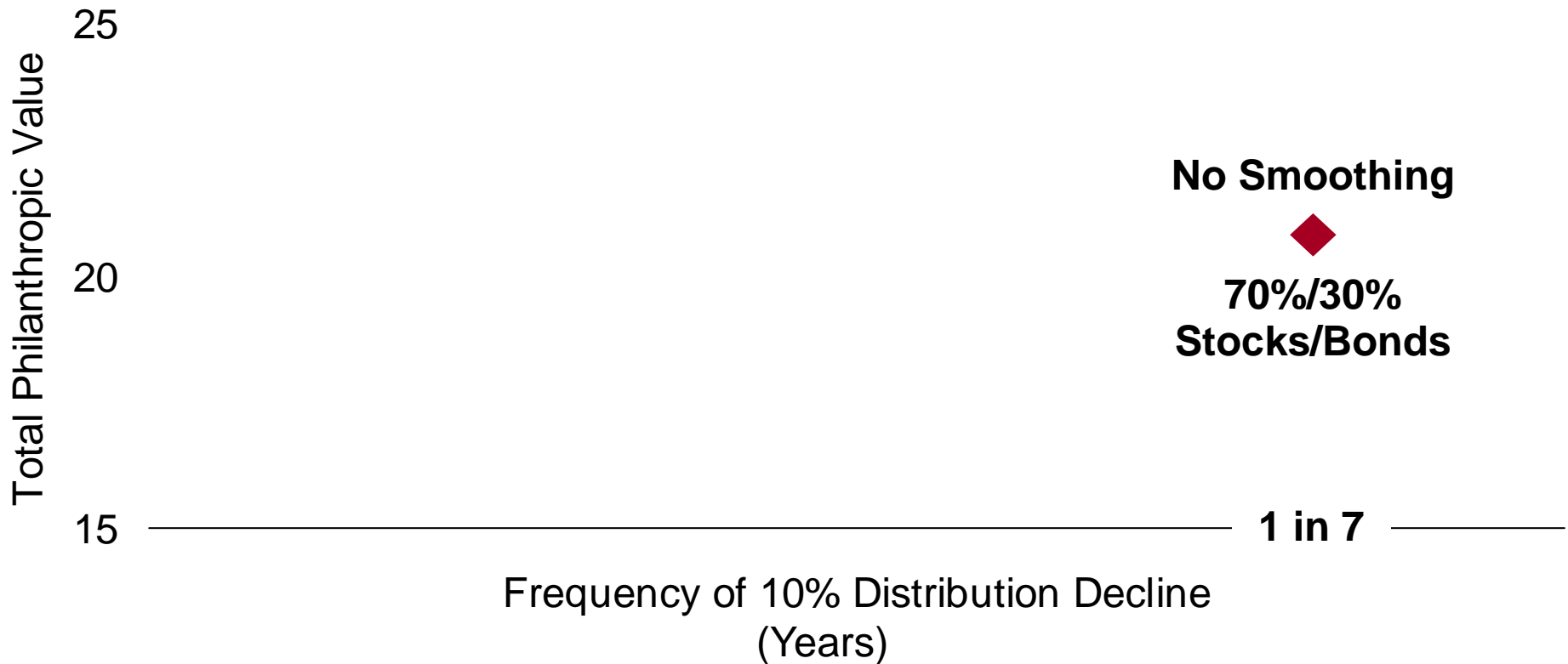
70% Stocks/30% Bonds, 1926–2012



Past performance does not guarantee future results.
 *See Note on Asset Allocation in Historical Studies in Appendix.

Can Smoothing Inform the Asset Allocation Decision?

Longevity vs. Consistency 5% Spending After 30 Years (US\$ Millions)

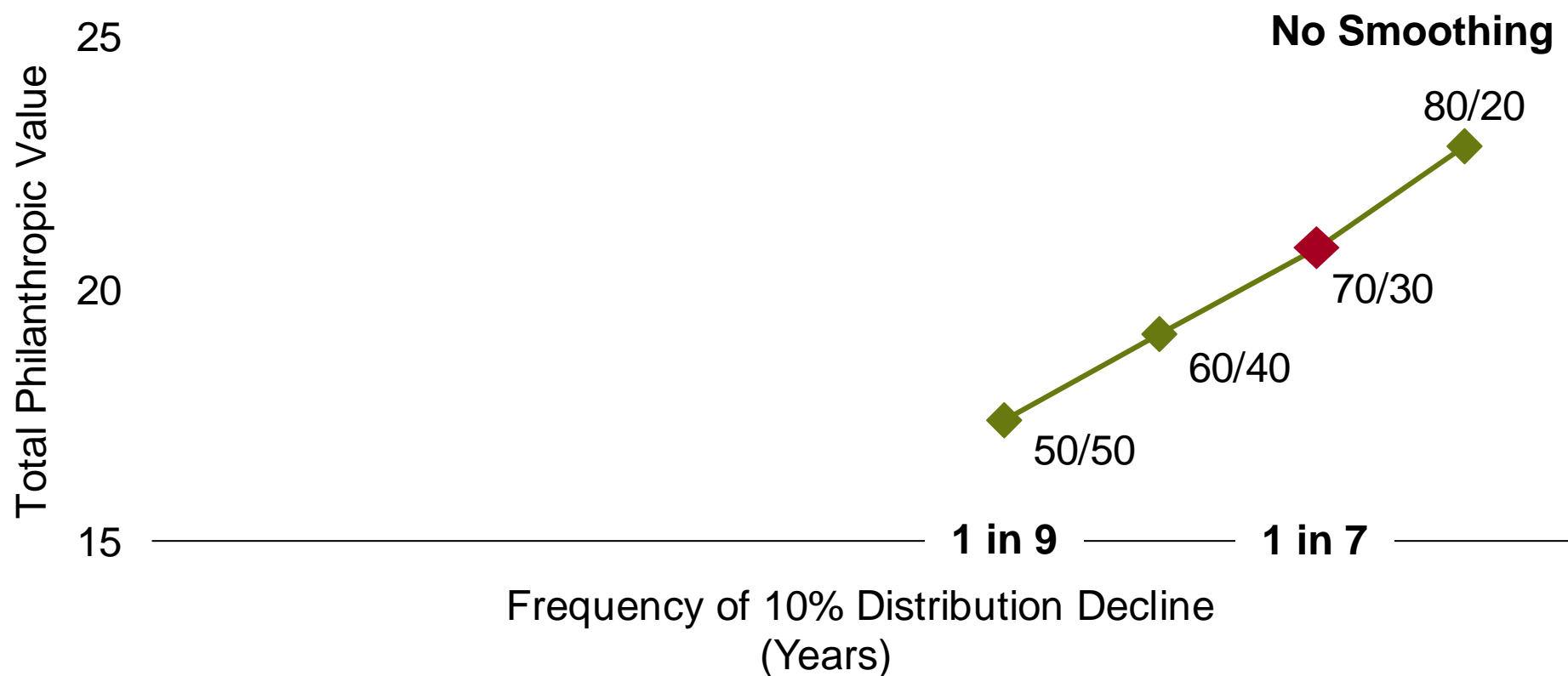


Initial assets of \$10 million.

Total Philanthropic Value is measured by real cumulative distributions plus real portfolio remainder. Consistency is measured by probability of 10% or greater decline in distribution. Asset allocations are: 50/50 is 43% Global Stocks/50% Intermediate Taxable Fixed Income/7% REITs; 60/40 is 52% Global Stocks/40% Intermediate Taxable Fixed Income/8% REITs; 70/30 is 60% Global Stocks/30% Intermediate Taxable Fixed Income/10% REITs; 80/20 is 68% Global Stocks/20% Intermediate Taxable Fixed Income/12% REITs. Global Stocks are 21% US Value, 21% US Growth, 21% US Diversified, 7% Small-Mid Cap, 22.5% Developed International, and 7.5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.

Improving Consistency of Distributions Can Hurt TPV

Longevity vs. Consistency 5% Spending After 30 Years (US\$ Millions)

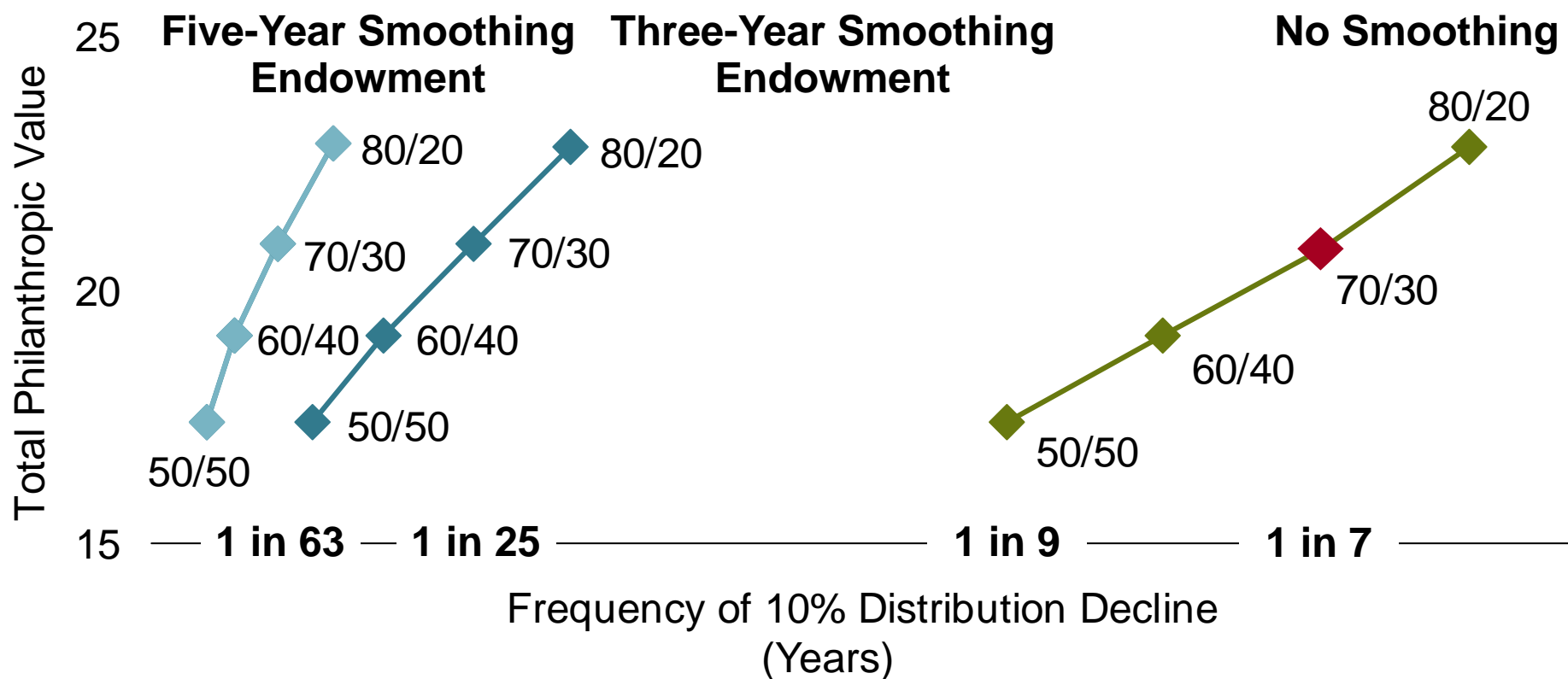


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Smoothing Allows Higher Equities Allocation with Less Volatility

Longevity vs. Consistency 5% Spending After 30 Years (US\$ Millions)



Initial assets of \$10 million.

Total Philanthropic Value is measured by real cumulative distributions plus real portfolio remainder. Consistency is measured by probability of 10% or greater decline in distribution. Asset allocations are: 50/50 is 43% Global Stocks/50% Intermediate Taxable Fixed Income/7% REITs; 60/40 is 52% Global Stocks/40% Intermediate Taxable Fixed Income/8% REITs; 70/30 is 60% Global Stocks/30% Intermediate Taxable Fixed Income/10% REITs; 80/20 is 68% Global Stocks/20% Intermediate Taxable Fixed Income/12% REITs. Global Stocks are 21% US Value, 21% US Growth, 21% US Diversified, 7% Small-Mid Cap, 22.5% Developed International, and 7.5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.


Bernstein's Roadmap for Successful Investment Planning

- Identify your goals
- Use a robust set of planning tools
- Account for what you can and cannot control
- Help with your investment policy statement
- Assist you in unlocking donor potential
- Work with an informed advisor
- Bring breadth of entire firm to bear

Summary: The Right Spending Policy Is Essential to Success

- Spending policy and asset allocation should be aligned with short-term and long-term objectives
- Smoothing formulas improve consistency of distributions without sacrificing longevity
- Custom analysis is important to match spending policy to unique goals and circumstances
- Reflecting critical decisions in your Investment Policy Statement will commemorate your financial mission for future board members
- Bernstein has a proprietary tool set with unique capability to help


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A customized analysis of spending and investment policy can help you determine the best solutions for your organization.

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- > Can you afford to increase spending to help those in need?
- > Should you cut spending to preserve assets?
- > Is it necessary to change spending policy?

Watch these brief videos to gain perspective:

- PART 1**
Measuring spending policy
- PART 2**
How smoothing formulas can help
- PART 3**
Spending through this slump
- PART 4**
Is the endowment hybrid model best?

Meet the Challenge

Financial market volatility has disrupted the endowment and foundation community. Investment portfolios have lost value. New contributions are down. Yet the people who depend on non-profit giving are more in need than ever.

Our research and analytical tools can help provide solutions to this challenge. For an overview of our approach, please watch the brief videos above. Then contact us for a custom spending and investment policy analysis.

AllianceBernstein does not provide tax, legal or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

Webcast

- A Close Look at ASF's 2011 Foundation Operations & Management Report**
Recorded November 9, 2011
- Crafting an All-Weather Spending Policy**
Recorded May 17, 2011

Related Research

- A Formula for Sustainable Spending**
How Foundations Can Find the Right Balance Between Spending and Investing in a Difficult Economic Environment
PDF 284k | December 1, 2011
- Smarter Giving for Private Foundations**
A New Approach to Align Spending Policy with Mission
PDF 286k | September 20, 2010
- Sustainable Spending for Endowments and Public Foundations**
Achieving Better Long-Term Results
PDF 286k | January 26, 2011

In the News

- Family Wealth Report**
Smarter Spending for Private Foundations

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