APPENDIX A
EAST TENNESSEE FOUNDATION
INVESTMENT POLICIES
TOTAL RETURN CONCEPT AND SPENDING RATE

Overview: East Tennessee Foundation is entrusted with the investment management of its funds and with carrying out the grantmaking wishes of its donors in the best interests of East Tennessee communities. East Tennessee Foundation seeks through its investment policy to maintain or increase the real value of the endowment principal and its distributions over the long-term while funding current needs at an appropriate level.

Total Return Concept: East Tennessee Foundation believes the Total Return Concept (TRC) is the most effective way to invest permanent funds - that there is more to successful investing than merely maximizing current income and that capital appreciation over time can be significant. Under the TRC, the income plus the appreciation (total market value) of the Foundation’s assets, averaged over time, are taken into consideration in determining available grant dollars for each year’s distribution. The TRC allows East Tennessee Foundation to set a spending level that is independent of the income earned by the Foundation’s funds and which may be more or less than the actual income earned by interest and dividends in any one year.

Averaging each fund’s total market value over time smoothes out market volatility and the effects of new donations. Spending rates calculated in this manner do not produce inordinately high levels of distributions because of high market rates nor do they produce detrimental low levels because of market declines. New funds and unusually large donations will be taken under advisement for possible adjustments to the average market value on which distributions are calculated.

Primary Benefits of the Total Return Concept:

Donors can be assured that their funds are being managed in an effective manner that balances current demands and future needs.

The Investment Committee and Investment Managers will be encouraged to design long-term strategies aimed at providing a proper balance between income and long-term growth and not subject to sudden shifts in interest rates or market value. Investment managers will not be forced to focus their investment strategy on required distributions from income alone.

The Community and Grant Recipients will have a predictable flow of funds to respond to East Tennessee’s charitable needs and interests. Because distributions are based on a rolling average of the market value of the Foundation’s assets, the amount available for distribution should slowly increase over time due to contributions and a responsible spending rate.

In summary, the TRC allows the Foundation to be consistently responsive to near–term needs while positioning its funds to maintain purchasing power and grantmaking capability over the longer term.
**Determination of the Spending Level and the Current Rate:**

From time-to-time the Board of Directors reviews the financial status of the Foundation and its funds and sets a spending level based on a recommendation of the Investment Committee. This level is set to balance current needs with growth for the future. The Board adopted the current 4½% annual spending level for grant distributions (not including administrative fees) to be calculated on a rolling average of twelve quarters of ending market values. This rate is directly related to the Foundation’s asset allocation and is generally based on an analysis of historical asset class returns. The spending rate will be reviewed annually by the Investment Committee.

Two separate analyses are conducted in determining and monitoring the current spending rate. A thorough review is periodically made of spending policies and rates of other community foundations across the country as well as other endowed institutions. The majority of community foundations with assets over $5 million spend a fixed percentage each year, and 68% of public and private institutions of higher learning spend a pre-specified percentage of a moving average of market values. Most institutions have set that level at 4 – 5½% of asset value. Also, more specifically for East Tennessee Foundation, analyses are performed of the Foundation’s purchasing power and payout rate using a hypothetical model that applies various spending rates to historical returns and administrative fees. Nominal and real (after inflation) ending values are calculated.