



## 2024 SPENDABLE FAQs

The Alaska Community Foundation is committed to stewarding the funds entrusted to us and is a central advocate for building endowed funds through sound investment strategies and responsible distributions. Our investment strategy has three major objectives:

- 1) Capital Preservation
- 2) Inflation Protection
- 3) Sustainable grantmaking to support charitable causes throughout our communities today and long into the future

### **How are endowed funds invested?**

The majority of ACF's charitable assets are pooled with other funds and invested by both active managers and passive index funds to add value, while keeping the costs low due to ACF's economies of scale. See ACF's [Investment Policy Statement](#) for more information.

### **What is the role of the ACF Investment Committee?**

The Investment Committee is charged by ACF's Board of Directors to oversee the investment management of contributions. The Committee is made up of local community leaders with strong investment expertise who volunteer their time and knowledge. The Committee is responsible for approving the investment strategy (Investment Policy Statement or IPS), asset allocation between equities, fixed income, and other investments, selecting investment advisors and managers, and monitoring investment performance. Together with our independent investment consultant, the Committee meets quarterly to review the results and evaluate the investment managers to ensure that they are adhering to ACF's IPS.

### **How is the spendable rate calculated?**

The prudent spending policy of ACF is designed to allow funds access to distributions that capitalize on good investment years while protecting the value of the contributions to the endowment in low or negative return markets. The ACF Board of Directors sets the distribution rate annually, considering several factors including ACF portfolio returns, inflation, administrative expenses, economic conditions, and the nonprofit environment in Alaska. That distribution rate (or spendable percentage) is then applied to an average of sixteen (16) quarters of fund balances to smooth out fluctuations in the market, contributions, and distributions to the extent possible. See [How is My Spendable Calculated](#) for more information.

### **What is happening in 2023/2024?**

2022 was the "perfect storm" of investment portfolio losses induced by geopolitical forces globally, the COVID pandemic recovery, and inflationary pressures all at once. The markets in 2023 have also had

difficult volatility to overcome. Rising interest rates and inflationary pressures have contributed to a continued “perfect storm,” creating lowered expectations and/or losses in both stocks and bonds. This created a “nowhere to hide” situation in portfolios, which you may have also experienced within your own investments and retirement accounts.

### How is ACF managing through this?

*Investments:* While the ACF Investment Policy Statement (IPS) and asset allocation model mitigated losses, ACF’s portfolio still experienced the global market declines in 2022. In 2023, the markets were a bit kinder, though there are still challenges with higher interest rates. ACF’s asset allocation includes investments that are diversified across multiple markets and not similarly affected by economic, political, or social developments. Our Investment Committee believes:

- 1) Investment returns will improve over time.
- 2) ACF’s IPS and asset allocation is a solid long-term strategy.
- 3) Maintaining the strategy is important to produce long-term (20+ years) stable returns for endowments.
- 4) Endowment funds are designed to benefit fundholders, charitable causes, and organizations in perpetuity.

ACF’s portfolio returned the following, compared to two benchmarks:

	YTD 9/30/23	1 year	3 years	5 years	10 years
ACF Portfolio	5.88%	10.14%	4.64%	5.00%	5.46%
Balanced Index	5.45%	12.36%	2.22%	4.08%	5.00%
Investment Objectives	5.12%	11.28%	2.41%	3.92%	4.47%

*Endowment Spending:* ACF’s Investment Committee and Board of Directors are charged with allowing responsible spending from endowments while ensuring the long-term viability and sustainability of endowment funds held here at ACF. ACF analyzes historical portfolio returns, inflation, administrative expenses, general economic conditions, and other factors each year in determining the spending percentage for endowments. After extensive analysis of the above factors, ACF set the 2024 spendable rate at 3.5%.

To ensure the long-term viability and sustainability of an endowment fund, each fund is analyzed to determine if spending can occur at the spendable rate set by ACF’s Board (3.5% for the 2024 year). ACF’s responsibility is to ensure that a fund’s principal (lifetime contributions to the fund) is protected in perpetuity, along with inflation proofing that principal to ensure tomorrow’s dollars are similar in nature to today’s dollars. Each fund is tested to ensure that there is sufficient “headroom” (historical unspent earnings) to allow for the spendable rate calculation each year. If a fund doesn’t have sufficient “headroom,” then the spendable amount may be reduced or zeroed out for a particular year.

### Why is my spendable amount less than 3.5%?

As described above, some funds have insufficient “headroom” (historical unspent earnings) to allow for a full spendable. If the “headroom” available for your fund is less than the calculated spendable amount your fund cannot sustain a 3.5% spendable amount this year without affecting the principal amount. In this instance, ACF has carefully reviewed your fund and determined that your fund could sustain a reduced spendable amount for 2024. The amount your fund can sustain without affecting the principal has been allocated to your fund for this year.

## Why do I have a zero spendable amount?

As described above, some funds have insufficient “headroom” (historical unspent earnings) to allow for any amount of spendable this year. If the “headroom” available for your fund is zero (or negative) then your fund cannot sustain any spendable amount this year without affecting the principal. If this is the case for your fund, your spendable amount will be zero for 2024. This is often the case for newer funds that haven’t had the time to produce sufficient “headroom” and also potentially for some mature funds that have granted out full spendable amounts in years past.

## What can I do to ensure the sustainability of my fund?

Fundholders should consider the long-term when managing their endowment. In the early years of an endowment, it is particularly important to allow *time and investment returns* to build the fund balance and “headroom” to weather downturns in the market. Fundholders should balance the need for distributions from their fund with preserving and building a portion of the return to increase their endowment for the future.

## Am I required to grant (spend) the total spendable?

No, unlike private foundations, community foundations do not have a minimum required distribution rate. In fact, given the current financial outlook, ACF recommends that fundholders consider not spending their total spendable amount for 2024 to ensure the permanence of their endowment. This precaution is especially true for funds less than ten years old.

## What happens to unspent spendable amounts?

Unspent spendable amounts are kept in your fund and are considered available to spend at any time. Should you underspend any particular year’s allotment, these unspent amounts are accumulated in a spendable “bucket.” This “bucket” can accumulate over the years. Any spendable for 2024 would be added to any accumulated spendable from previous years. Spendable amounts are considered part of the fund balance and are invested just the same as the principal.

## Final Thoughts

While 2023 continues to be a challenging market environment due to a variety of factors including pandemic recovery, inflation, and increased interest rates, there are some signs that look promising in the short-term. The Federal Reserve has been aggressively attacking inflation through interest rates, and stock and bond valuations are returning to more normal metrics involving normalized interest rates, and energy prices may have peaked. However, that doesn’t necessarily mean that 2023, 2024, or other years thereafter will have positive returns in an investment portfolio. That is why ACF’s investment philosophy utilizes a diversified global perspective. The Investment Committee believes that with prudent spending and long-term investments, your charitable gifts can go further, and your fund will continue to grow so that you can support your favorite causes and nonprofits for years to come.

## I still have questions. How can I learn more?

ACF is hosting two information sessions in January to share information on the topic of the 2024 Spendable Rate and ACF Investment Policy. One session will be via Zoom and one session will be in person in Anchorage. If you would like to attend, please click [here](#) to learn more and register.