

Augustana Foundation Lunch and Learn Series

Fund Management and Investing Wisely

Presented by: Michele Suriano, Lisa Mikolajczak

and Bill Crossen

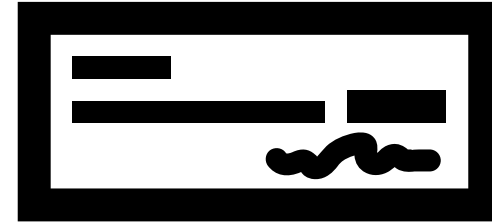
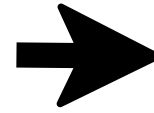
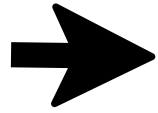
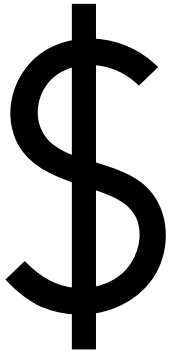
June 16, 2021



Lunch and Learn - Objectives

- ▶ The Foundation is an important part of Augustana's outreach ministry
- ▶ The goal is to better understand the purpose of the Foundation and how it operates to achieve its objectives
- ▶ Simply stated, the Foundation:
 - ❖ Receives gifts - bequests, memorials and living donations
 - ❖ Invests the money from those gifts to generate investment returns
 - ❖ Uses the investment returns to fund grants
- ▶ We have scheduled 3 sessions in June to explore each of these in detail
 - ❖ June 9 – Grateful Generosity and Gifts Received – Greg Bickle & Bill Crossen
 - ❖ June 16 – Fund Management and Investing Wisely – Lisa Mikolajczak, Michele Suriano & Bill Crossen
 - ❖ June 23 – Grants Awarded and Making Impacts – Tim Garrington & Bill Crossen

Augustana Foundation - Flow of Funds



Money Comes in:

- Bequests
- Memorials
- Lifetime giving

Funds are invested:

- Interest from bonds
- Dividends from stocks
- Gains and losses

Grants are made:

- Augustana ministries
- Scholarships
- Outside organizations

Today's Focus: Funds are Invested

Types of Investments

► Bonds

- ❖ A promise to pay on a date certain (next week, next month, next year or longer)
- ❖ Interest bearing – rate is based on the credit worthiness of the issuer and the term
- ❖ Relatively safe:
 - If the issuer remains in business, your investment will be recovered
 - In bankruptcy, bondholders are paid before shareholders
 - Not a lot of upside unless interest rates change dramatically

► Stocks

- ❖ Represent an ownership share in an organization
- ❖ May or may not pay a dividend
- ❖ Volatile – value changes based on success of the organization as well as economic factors

► Alternative investments – hedge funds, private equity, exotic real estate

- ❖ Tend to be illiquid so not appropriate for a small foundation
- ❖ Introduce a level of complexity and expense we are not willing to take on

Investment Vehicles

► Individual investments

❖ Reasons for:

- Less expensive – no fund manager
- If you pick winners, you get all of the winnings
- Predictable – especially for bonds

❖ Reasons against:

- Fund managers have access to pricing individuals cannot get
- Single issuer risk
- Keeping track of individual investments is time consuming
- Increased volatility

► Funds – hold a variety of investments with different credit ratings, maturity dates and other factors designed to achieve a stated objective

- ❖ Professionally managed
- ❖ Easy way to achieve diversification and risk mitigation

Factors Influencing Investment Decisions

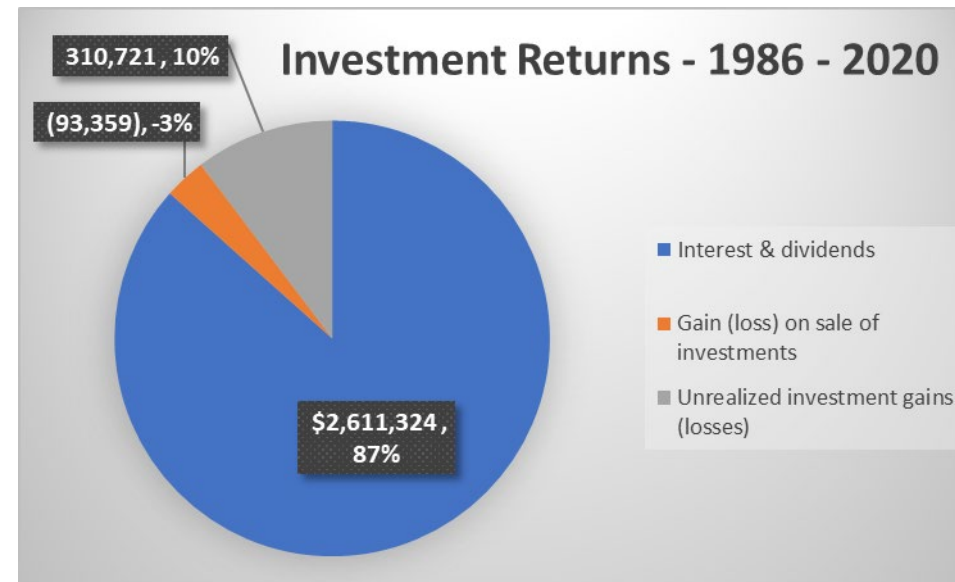
- ▶ Cash flow needs of the organization dictate time horizon for investing
 - ❖ Dedicated Ministry Funds
 - ❖ Foundation Funds
- ▶ Need to diversify
 - ❖ Diversification is a strategy to reduce risk and maximize returns by allocating invested assets across different vehicles, industries, companies, etc.
 - ❖ You cannot eliminate all risk; however, you can manage the amount of risk you take on
- ▶ Objectives of the organization – an organization designed to give away money will invest differently than one designed to provide services (i.e., a hospital)
- ▶ Size of the organization – a small organization cannot afford a substantial loss nor does it have the staff to dedicate to monitoring investments and investment decisions

Evolution of our Investment Strategy

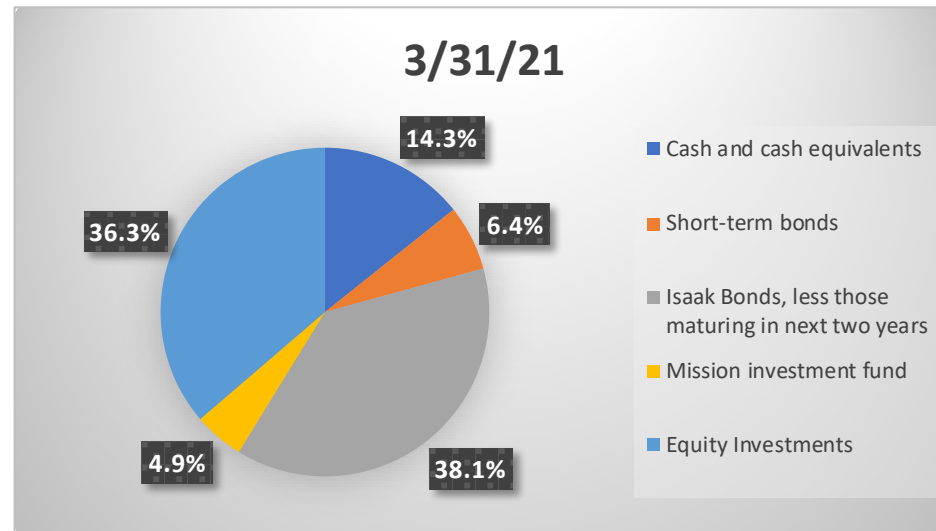
- ▶ From about 2010 to 2017, the Foundation invested largely in individual bonds
 - ❖ Safe – used investment grade securities
 - ❖ Predictable return assured a consistent level of grants / laddered to assure consistent maturities
 - ❖ During much of this period, interest rates > 5.5%
- ▶ 2017 Committee Commissioned by the Congregational Council to determine if a more diversified approach might make sense
 - ❖ Developed a Request For Information and distributed it to 7 advisors
 - What would they advise regarding diversification?
 - What could have been achieved had a more diversified approach been followed in recent years
 - If stock investments were advised, describe a strategy for moving into stocks
 - Fees?
 - ❖ Communicated with fourteen churches, two universities, one seminary, two Lutheran Family Services entities and two 'mega-funds' (combine the endowments of over 300 churches each)
 - None were invested solely in fixed income (bonds)
 - While all had some of their portfolio invested in fixed income securities, usually they invested in bond mutual funds that were more liquid and didn't require reinvestment by the endowment itself

Evolution of our Investment Strategy *(continued)*

- ▶ Conclusions of the Committee (presented to and adopted by the Council)
 - ❖ The Foundation should diversify its portfolio as bonds mature to facilitate entry into equity markets over the next 36 months, using dollar-cost averaging
 - ❖ The Foundation should include asset allocation guidelines in the Investment Policy Statement with target benchmarks (25% to 70% was recommended as the benchmark for equities)
 - ❖ Permit the Foundation's Investment Committee to engage an investment advisor if deemed prudent
 - ❖ Calculate income on either a 3 year or 5 year rolling average to determine annual giving thresholds

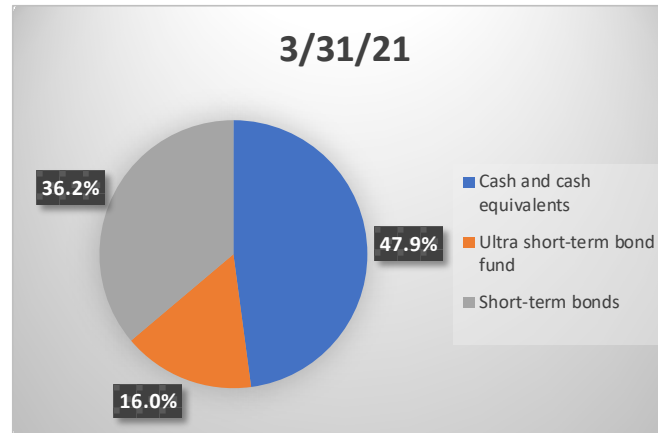


Current Investments - Foundation Funds



	Dollars As Of			Percentage Of Portfolio as of:			Investment Policy Benchmark
	12/31/19	12/31/20	3/31/21	12/31/19	12/31/20	3/31/21	
Foundation Investments (at FMV)							
Cash and cash equivalents	\$ 50,000	\$ 482,708	\$ 458,509	1.8%	14.7%	14.3%	10.0%
Short-term bonds	563,443	313,891	206,568	19.8%	9.6%	6.4%	45.0%
Isaak Bonds, less those maturing in next two years	1,638,941	1,234,137	1,220,679	57.7%	37.6%	38.1%	
Mission investment fund	56,291	156,886	157,876	2.0%	4.8%	4.9%	5.0%
Equity Investments	532,096	1,094,039	1,164,169	18.7%	33.3%	36.3%	40.0%
	\$ 2,840,771	\$ 3,281,660	\$ 3,207,801	100.0%	100.0%	100.0%	100.0%

Current Investments - Dedicated Ministry Funds



Dedicated Ministry Fund Investments (at FMV)

	12/31/20	3/31/21	12/31/20	3/31/21
Cash and cash equivalents	\$ 598,410	\$ 495,961	52.8%	47.9%
Ultra short-term bond fund	165,000	165,272	14.6%	16.0%
Short-term bonds	370,434	374,433	32.7%	36.2%
	<u>\$ 1,133,844</u>	<u>\$ 1,035,666</u>	<u>100.0%</u>	<u>100.0%</u>

Dedicated Ministry Funds

Operating	\$ 26,325	\$ 23,935
Capital Improvement	324,138	316,169
Children and Family	33,947	41,937
Council Discretionary	423,006	403,008
Health	34,000	31,219
Music	114,909	112,908
Senior	63,322	63,259
Dedicated Ministry Funds Accounts Payable	114,198	43,232
	<u>\$ 1,133,844</u>	<u>\$ 1,035,666</u>

Foundation Fund - Current Investments - Highlights

- ▶ The Isaak Bond Fund is a portfolio of individual bond investments
 - ❖ Managed by Byron Isaak
 - ❖ Average coupon rate is 4.99% and weighted average duration is 4.6 years
 - ❖ As these bonds mature, we evaluate options
 - Recently, these have been rolled into Vanguard bond and equity funds
 - Volatility in the bond market (inflationary concerns) has driven a short-term focus to mitigate risk; we will be moving to longer-term targeted maturities as conditions permit
 - ❖ Monitor quality via investment ratings
- ▶ The Mission Investment Fund (MIF) is a financial ministry of the ELCA
 - ❖ Provides investment vehicles for individuals, congregations and social ministries
 - ❖ Offers loans for church and ministry building projects, land purchases, refinances and as seed money for start-up missions
 - ❖ Foundation Board determined to invest 2 - 5% of its assets in MIF in 2009 as a means of offering support for sister congregations nationwide

Foundation Fund - Current Investments - Highlights *(continued)*

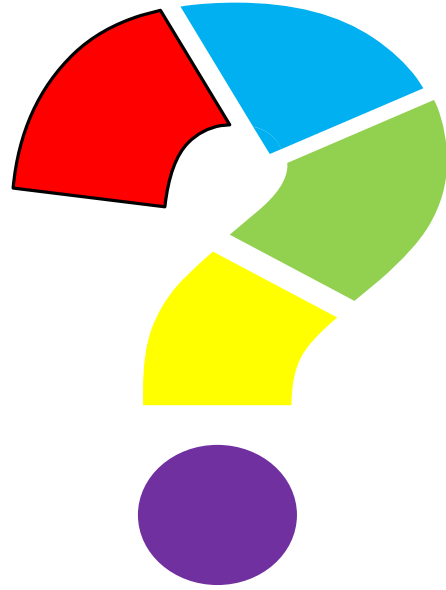
► Equity portfolio

- ❖ Comprised of 6 different Vanguard Equity Funds

<u>Stocks</u>	<u>Symbol</u>	<u>Cost</u>	<u>FMV as of 03/31/2021</u>
Emerging Markets Stock Index	VEMAX	\$ 90,000	\$ 113,774
FTSE All World ex US	VFWAX	180,000	221,869
FTSE All World ex US Small Cap Index	VFSAX	90,000	114,948
Large Cap Index Fund	VLCAx	270,000	361,724
Mid-Cap Index Fund	VIMAX	90,000	121,457
Real Estate Index	VGSLX	88,428	97,294
Tax-Managed Small Cap	VTMSX	90,000	133,104
		<u>\$ 898,428</u>	<u>\$ 1,164,169</u>

- ❖ Invested \$50,000 per month in equities beginning in March 2019
- ❖ Quality is monitored using Fi360 Fiduciary Score Methodology
 - Investments are measured against 9 criteria including regulatory oversight, organizational stability, minimum track record, expense ratio and risk-adjusted performance relative to peers
 - Points are totaled and compared to peer groups
 - Lower points are better: at 3/31/21, our portfolio had an Fi360 score of 5 (of 100)
 - More information on the FI-360 methodology can be accessed at: <https://www.fi360.com/what-we-do/data-analytics/fi360-fiduciary-score/>

Questions



Feedback and/or questions for this or any other session may be e-mailed to Foundation@augustanadenver.org

Wrap-up

- ▶ The 50th anniversary celebration continues with the following events:
 - ❖ **3-Minute Grant Competition**
 - Timeframe: July & August
 - Overview: instead of submitting a lengthy written grant application, individuals or organizations will submit a 3-minute i-Phone quality video. Video applications will be evaluated using the same process used for other grant applications.
 - Awards will be announced at the Gala.
 - ❖ **50th Anniversary Gala**
 - ❖ The Gala is set for Friday, November 5 at Augustana Lutheran Church
 - ❖ All venues have been reserved to permit a likely hybrid event as pandemic precautions dictate.
 - ❖ A 15- person Gala Planning Committee has commenced meetings to shape every detail. They are welcoming volunteers.
- ▶ Next Lunch & Learn - June 23 – Grants Awarded and Making Impacts – Tim Garrington & Bill Crossen
- ▶ Thank you for your interest in the Augustana Foundation

Augustana Foundation Lunch and Learn Series

Fund Management and Investing Wisely

Appendix A - matching cash flows and investments - an example

Matching Cash Flows and Investment

	Projected Expenses		Investments Supporting				Foundation Fund Percentages	Investment Policy Benchmarks	Foundation Funds after PT's	Fund Misalign-ment after PT's	Foundation Fund Percentages after PT's
Liability Years	Ministry Funds	Foundation Funds	Ministry Funds	DMF Misalignment	Foundation Funds	FF Misalignment					
2021	\$ 458,706	\$ 136,300	\$ 495,961	\$ 37,255	\$ 458,509	\$ 322,209	14.3%	10.0%	\$ 137,509 206,568 387,144 847,036 166,500	\$ 1,209 51,568 232,144 72,036 (376,490)	5.6%
2022	200,000	155,000	165,272	(34,728)	206,568	51,568	6.4%				6.4%
2023	150,000	155,000	374,433	224,433	207,144	52,144	6.5%				11.9%
2024-2028	226,959	775,000		(226,959)	847,036	72,036	26.4%	45.0%			26.1%
2028+ maturity		542,990			166,500	(376,490)	5.2%				5.1%
(2-5% of Foundation Assets)		160,390			157,876	(2,514)	4.9%	5.0%	162,876	2,486	5.0%
> 25% of Foundation Assets		1,283,120			1,164,169	(118,952)	36.3%	40.0%	1,300,169	17,048	40.0%
	\$ 1,035,666	\$ 3,207,801	\$ 1,035,666	\$ -	\$ 3,207,801	\$ -	100.0%	100.0%	\$ 3,207,801	\$ -	100.0%

PT's = proposed transactions

- ❖ This is a quarterly process linking church and Foundation cash flow projections
- ❖ A collaboration among the Church Finance Administrator, the Foundation's Investment Advisor and the Foundation's Finance and Investment Committee
- ❖ Developed in response to the Financial Crisis spawned by COVID 19