

**SSAF TREASURER'S REPORT – YEAR END 2017  
FOR SSA BOD MEETING**

**by: PHILLIP C. UMPHRES**

**TO: SSA Board of Directors &  
SSAF Trustees**  
**FROM: Phillip C. Umphres  
SSAF Treasurer**  
**DATE: February 26, 2018**

**I. 2017 Financial Results**

The preliminary (unaudited) financial statements for the SSA Foundation (SSAF) are included in the Bluebook for the BOD meeting under the documents listed at item 5.0. Highlights are:

1. The realized and book gain on our investment portfolio in 2017 (gains less expenses and fees, excluding new contributions and additions to life member trust) was a gratifying \$464,064.07.
2. Total assets under management by the SSAF (aka, Fund Equity) totaled at year end \$3,900,574.10, which included \$3,903,917.88 in the Vanguard investment account at year end. (The difference is accounted for by the receivables and payables: the “due to” and “due from” accounts.)

**II. Contributions in 2017**

Although there were some additional promised donations to SSA in the pipeline at year end, new contributions to SSA actually forwarded to the SSAF in 2017 were a somewhat disappointing \$8,838.62.

**III. Performance of Investment Portfolio**

The Vanguard investment portfolio did quite well in 2017, returning a gross return of 15.03% and a net return (gross return after fees, commissions and expenses) of 14.61%. These returns were in line with 2017 expectations (2017 being an exceptional year for the market) for a fund balanced as ours is with a mix of high-quality equities and fixed income assets. Vanguard calculates that the average annual return, net of fees and expenses, over the past five years was 8.42%.

**IV. Portfolio Composition**

The Trustees continue to target an asset mix of 60% US and international equities and 40% US and international fixed income securities. As of 12/31/17, the actual

ratios were 63.3% and 36.7% respectively, not unexpected given the outstanding performance of equities in 2017. The Fund is periodically rebalanced to keep it close to the target ratios. Anyone wishing to see the exact list of fund assets can view the most recent Vanguard Investment Statements and Performance Reports on the SSAF webpage within the SSA website.

**V. Attachment A: Summary of Past Fund Performance**

Given the growing importance of the Foundation assets to SSA Operations (see discussion in Part VI, below), I have prepared a spreadsheet summarizing key historical financial data for the SSA Foundation and Vanguard Account, which is included with this report as “Attachment A.”

(Note: the spreadsheet accumulates data from the financial statements for both the SSAF and SSA Operations as well as from the Excel Foundation asset “tracker” spreadsheet. The documents do not always concur because of timing issues related to transfers made near year end and other technical accounting issues, so don’t panic if you try to reconcile my numbers with the underlying documents and can’t follow my math.)

The spreadsheet is somewhat “busy,” but I think it is helpful to get a picture of the investment portfolio performance and changes over time. Four lines containing information I think is particularly relevant are highlighted in yellow.

**VI. A Caution About Reliance on the General Endowment and Kunda Funds**

While we might think that SSA is “sitting pretty” financially with an investment portfolio of over \$3.9 million at the end of 2017, it is important to remember that much of that money is restricted and can be used only for the purposes specified by the donors. SSA can really only use the money in the General Endowment and in the Kunda Fund to support operations and special projects, such as a marketing initiative. And, because the corpus of the General Endowment is restricted and only the income from the General Endowment can be spent, that means that as of the end of 2017 SSA had available only the \$80,363.65 in the General Endowment Available Fund (GEAF) combined with the \$732,608.03 in the Kunda to support operations and projects. Neither the GEAF nor the Kunda should be expected to receive additional outside donations on a regular basis; thus, in my view it is prudent to expect that any growth in those funds likely will be limited to whatever can be generated from internal returns on the investments allocated to those funds plus the annual allocation to the GEAF from the General Endowment (currently 4.5% of the amount in the General Endowment).

The SSA BOD has, we understand, decided to budget use of approximately

\$47,000 from the GEAF and \$91,000 from the Kunda in 2018. It is my view that the GEAF can support an annual withdrawal at the \$47,000 level on an ongoing basis. However, while an amount as large as \$91,000 can be taken from the Kunda fund on an occasional basis, the Kunda fund simply won't support an annual withdrawal of \$91,000. A withdrawal rate of 4.5% annually, based on the 12-31-2017 balance of \$732,608 in the Kunda Fund, equals only \$32,967. It is my recommendation that – unless additional donations to the Kunda Fund can be secured and unless the BOD is willing to treat Kunda as a temporary asset that will be spent and not replaced – the SSA Board plan for the present to limit withdrawals from Kunda to an average of about \$30,000 per year.

Finally, a bit of a warning about withdrawal rates from the General Endowment. The performance of the stock market (and our SSAF Vanguard investment portfolio) over the last five years has been nothing short of amazing. Our investment advisors at Vanguard caution us that there is likely to be a retrenching in the investment world in the near future and that returns in the next five years probably will be nowhere near as high as they were in the past five years. The SSAF Trustees will watch actual returns closely and may decide that – in order to protect the long term health of the General Endowment – the annual distributable amount (the amount that gets transferred into the GEAF to be available for use by SSA) may be reduced from the current 4.5% to a lower number (perhaps as low as 4.0%) in future years.

So, prudence is the watchword as the SSA BOD decides how much money it has to spend from the GEAF and the Kunda funds going forward.

**Very Truly Yours,**

*Phillip C. Umphres*

**Phil Umphres,  
SSAF Treasurer**

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**ATTACHMENTS TO SSAF TREASURER'S 2-25-2018 REPORT:**

- A. Attachment A: selected information for SSAF financial performance, disbursements and asset values from 2010 to 2018