



The Total Return Concept: Questions and Answers

Q: What is the Total Return Concept?

A: The Total Return Concept was adopted by most Foundations in the early 1980's. It allowed Foundations to set a grantmaking level that is independent of the income earned by the Foundation's funds. CCF determines the appropriate spending level for grantmaking, calculated as a percentage of each fund's "average balance". "Average balance" is calculated as the average of the fund balance for the previous twenty quarters.

The Total Return Concept recognizes that there is more to successful investing than merely maximizing current income – that capital appreciation over time can be significant.

The Total Return Concept also allows CCF to deal with the effects of inflation, both as to spending and investing. CCF is ever mindful that the true test of its investments and spending programs is measured by how well it protects its assets against inflation over time.

Q: Why Consider the Total Return Concept?

A: Prior to Total Return, Foundations were forced to invest solely in bonds, that pay

interest, or dividend paying stocks. Total Return allows Foundations to include in its portfolio, assets that may not pay interest or dividends but rewards investors by price appreciation eg. growth stocks.

Q: What are the Primary Benefits of the Total Return Concept?

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

CCF will design long-term investment 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. Its investment managers will not be forced to focus their investment solely on distributions from income alone

The community-at-large and grant recipients will have a predictable flow of funds, since funds made available for distribution will not be determined solely by changes in current investment income.

Q: How is the Spending Level Determined?

A: As necessary, the Board of Directors will review the spending level based on recommendations from the Investment

Committee (with input and advice from our investment managers and consultants). This level will be set to balance current needs with growth for the future. Most foundations set that level at 4%-5% of the average value of the fund. For the past several years, a 5.0% spending level has been used by CCF.

Q: Are There Any Negative Considerations?

A: It depends on your point of view. Since the spending level is smoothed out,

the grant recipients won't receive windfalls that could occur in periods of high investment returns. (Any excess returns is reinvested in the fund.) On the other hand, recipients won't have cutbacks in periods of low investment income unless such periods were to be protracted. While there is a risk of spending at a certain level and earning a lower total return, proper monitoring by our investment managers and prudent determination of annual spending rates should eliminate this possibility.