

Status Report – Fourth Quarter, Ending December 31, 2007

Commonfund

Volatility in the financial markets continued to make it hard to get a good night's sleep. While the Endowment began the quarter with a total of just over \$211.5 million we saw markets take us near \$218.4 million only to end the year at \$213.5 million. This yields an annualized gain (remember Commonfund only had the corpus for 8 months) of nearly 10.25% against a target of 8.875% in a market that was up about 6% for the entire year ... and tanking at year-end.

Palmetto Bank

Our operating funds remain at The Palmetto Bank in Greenville. We began the quarter with \$300,000. We had earnings of \$2000. We ended the year with cash on hand, not including CD's, of approximately \$75,000.

Based upon actions taken by the Board of Directors' at its November 5-6, 2007, meeting in Greenville, the following budget/finance actions were adopted:

Action 1: Establishment of Corpus

The Board decided to "re-set" the corpus base once annually based upon a long-term inflation calculation of 2.5%. Thus, with an initial investment of \$200 million on May 1, 2007, and given an 8-month earning period, effective January 1, 2008, the corpus is \$203,330,000. Assuming the same methodology (annual calculation at 2.5%) the corpus would grow as follows (rounded to the nearest \$1,000):

- January 1, 2009 -- \$208,413,000
- January 1, 1010 -- \$213,623,000
- January 1, 2011 -- \$218,964,000

Action 2: Establishment of Programmatic Budget

Given the one-time infusion of funds to establish the Endowment, we do not have the advantage of long-term earnings growth to buffer against market gyrations. So as to develop a "ramp-up" strategy, the Board voted to withdraw at least \$5 million before December 31, 2007 based upon an assumed \$10 million programmatic budget for 2008. This resulted in a year-end balance in the Endowment of \$207.65 million and \$5.6 million in the Operating Account. The Operating Account is an "evergreen" interest earning account with Commonfund that provides a "holding place" for programmatic and operating funds.

On an on-going basis the Endowment will withdraw $\frac{1}{4}$ of each year's planned programmatic budget one quarter in advance. However, as the initial action was for $\frac{1}{2}$ of the planned budget, the next transfer to the evergreen account will around June 30, 2008, at an expected \$2.5 million. A similar amount would be transferred September 30, 2008, giving the Endowment the flexibility to invest up-to \$10 million in program in 2008.

Action 3: Establishment of Annual Operating Budget

The Endowment's Investment Policy calls for an amount equal to 0.00375% of the Endowment's corpus to be used for operations. This amounted to \$750,000 in 2007 and with the adjusted corpus of \$203,330,000 for 2008 will yield \$762,500 (rounded to the nearest \$100).

The Board approved transfer of the projected operating budget from the Endowment account to the Commonfund evergreen account. In order to "ladder" withdrawals, the Endowment President and Commonfund began an orderly withdrawal in late October to meet projected transfers for both Program and Operating budgets. To take advantage of better short-term rates, the Endowment moved \$250,000 from the evergreen account to a 7-month CD at The Palmetto Bank on November 9, 2007. The CD yields 0.15% better return to the Endowment and allows a local operating "buffer."

By a special conference call on December 12, 2007, the Board adopted the details of the annual operating budget that totals \$762,500. Using this same philosophy, operating budgets for out-years would be:

- 2009 -- \$781,500*
 - 2010 -- \$801,000*
 - 2011 -- \$821,000*
- * plus any surplus/carry-forward from prior years.

Included in the budget were merit raises of 3.5% for each of the two staff members – effective on their anniversary dates of April 1. The Board also approved an adjustment to the President's salary to be determined based upon the official U.S. annualized Consumer Price Index (CPI) for 2007. This adjustment will be effective January 1, 2008.

Operating Expenses

Operating expenses remained well within budget allowing us to not only pay for the focal initiatives workshop (approximately \$60,000 -- a programmatic expense) but also to purchase grant management software (approximately \$35,000 – a capital expense) originally planned for 2008. We have opted to use GIFTS/IGAM products by Microedge that will allow us to manage all grant activity online. The system will be fully operational by early January 2008.

Contributions

We received no new contribution in the fourth quarter.

Programmatic Investments

As anticipated the only programmatic investment for 2007 was the aforementioned focal initiatives workshop.

Duane McDougall, Treasurer

Carlton Owen, President