

Subject: Rotary International - Financial Update from the General Secretary - February 2010

Dear Rotarians,

The financial picture for both Rotary International and The Rotary Foundation has continued to improve since my last update on 30 November. As of 31 December, net investment returns for the first half of the 2009-10 fiscal year are US\$13.8 million for RI and \$71.9 million for the Foundation. Revenues from dues and other activities are on budget. Total contributions to the Foundation are slightly ahead of last year, with a \$2 million gain in giving to Rotary's US\$200 Million Challenge offset by a similar drop in giving to the Annual Programs Fund. Contributions to the challenge passed the halfway mark in December and now stand at about \$109 million.

Operating reserves have improved significantly. RI's General Surplus Fund remains well above the amount stipulated in the bylaws. The Foundation's operating reserve increased by about \$38 million in the first half of 2009-10, though at negative \$4 million it is still a cause for concern. Cash flows remain positive, making it unlikely that either RI or the Foundation will need to sell securities to operate this fiscal year.

On the expense side, we are also doing well. Operating expenses are currently running 5 percent below budget for RI and 10 percent below budget for the Foundation. These cost savings can be mainly attributed to several factors: operating at staffing levels below budget, and reductions in expenses for committee meetings, RI Board activities, and Information Systems. At this time, we are projecting that RI will outperform its budget for the full year and that the Foundation's net investment returns will fully cover general administration and fund development expenses this year.

Since the financial crisis began, a number of Rotarians have asked if we are planning to change our investment policies, especially in relation to Foundation funds. In December, the Foundation retained the investment consulting firm NEPC. These consultants will work with the Foundation's Investment Advisory Committee, which is meeting in mid-February, and the investment staff to review policies for the Annual Programs Fund and the Permanent Fund and make recommendations to the Trustees in April. Having the correct balance between risk and returns is just one of the challenges that the Trustees will be tackling. They are also working to re-establish and fund the Foundation's operating reserve and determine what policy changes would help us best achieve our goals.

Although the Trustees were able to restore some funding to our Matching Grants budget this year, the Foundation was still unable to support many worthy projects. The Trustees fully understand the frustration this caused throughout the Rotary world and are grateful for your willingness to support the Foundation with your continuing contributions to the Annual Programs Fund. Currently, we are engaged in the 2010-11 budget process and, based on the positive financial performance noted above, the Trustees intend to increase next year's budget for Matching Grants funded by the World Fund. The 2010-11 budget will be discussed at the Trustees meeting in April along with changes in the Foundation's investment policies noted above.

Many investment experts are now cautiously optimistic about economic recovery, but they agree that the financial markets remain volatile and that recovery will be slow. Therefore, we remain committed to prudent investment, judicious budgeting for the coming fiscal year, and continued vigilance in cutting and controlling costs. Our numbers confirm that this strategy is working, and we will continue to follow it to ensure that both Rotary International and The Rotary Foundation have the necessary resources to support the vital service efforts of our member clubs.

I encourage you to read the [2008-09 annual report](#) and to review the [audited financial statements](#). Another key source of information is the Foundation's [2008-09 Annual Report on Operations](#), which offers an in-depth look at the accomplishments and costs associated with the Foundation's programs and fund development efforts.

Sincerely

Ed Futa

General Secretary