BEACON POINTE
ADVISORS

BEACON POINTE RESEARCH
WHITE PAPER

SPENDING IN A LOWER RETURN ENVIRONMENT

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CONFIDENTIAL – PROPRIETARY

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HIGHLIGHTS

- *Background:* Investors today are facing a possible third year negative performance in the public equity markets. The markets have have negative returns for two consecutive years, 1973 and 1974. The Dow Jones Industrial Average 1973 performance was –12.89%. The Dow 1974 performance was –23.69%. A number of concerns loom in the face of today's capital markets, including the technology and dotcom bubble burst, future terrorist attacks against the United States, possible military actions against Iraq, continued Middle East turmoil, accounting fraud, and continued weak corporate profits and earnings.

- These issues have led to lower expected equity returns from many of today's leading investment professionals. Investors have been warned not to expect the high double-digit equity returns that were common in the late 1990s. Investors, instead, should perhaps expect single-digit equity returns going forward.

- *How will lower investment returns affect endowment foundation spending? Although many investors understand that lower returns will lower endowment / foundation spending, many have not analyzed the severity of the possible spending changes.*

- *Case Outline:* The Foundation's investment committee provided Beacon Pointe with the following information:

  - As of 9/30/2002, Foundation XYZ had $37.2 million in assets. The Foundation's assets as of 9/30/2001 were $39.10 million, $44 million as of 9/30/2000, and $50 million as of 9/30/1999.

  - The Foundation has established a spending policy of 5%. The spending rate is based on a rolling 3-year average.

  - The Foundation's present asset allocation policy is 60% Equities and 40% Fixed Income.

  - The Foundation does not wish to depend on new gifts for real asset growth and does not want to include gifts in this preliminary spending analysis.

- *Case Objective*: The Foundation's investment committee has historically been very optimistic about future capital market expected returns. The committee, however, has been concerned that the Foundation will see a lower return environment in the future and would like to see how lower returns will affect Foundation spending.

  The committee has also considered three other asset allocation targets (70% Equities/30% Fixed Income, 50% Equities/50% Fixed Income, and 80% Equities/20% Fixed Income) and would like to see how a different asset allocation strategy would affect spending.

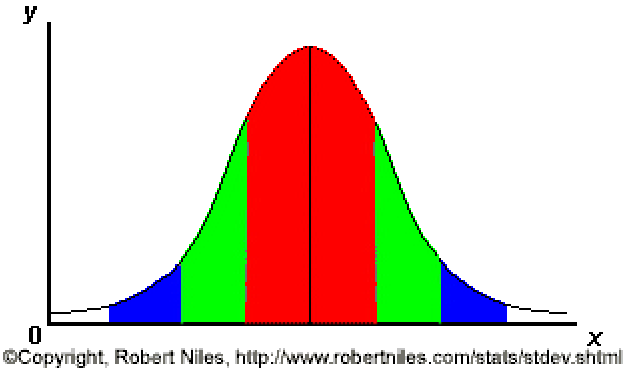
  The objective of this paper is to show how a lower return environment may affect an endowment's and / or foundation's spending. Institutions should be aware of possible changes to their spending and begin to plan accordingly.

Spending Analysis

- The following spending analysis uses Monte Carlo simulations, a simulation technique that derives its name from the casinos in Monte Carlo. Beacon Pointe's spending model generates simulated returns for each asset class and then analyzes how these returns will impact fund spending. *Monte Carlo simulations allow a fund to "pre-experience" "best-case" and "worst-case" scenarios*.

- Monte Carlo simulations are different from the traditional method of standard deviation application. The concept of standard deviation centers on a normally distributed curve. Exhibit 1 presents an example of a normally distributed curve.

Exhibit 1



- With a normally distributed curve, the majority of observations or values fall in the middle of such a curve, with lesser observations at the edges of the curve. The average of all observations falls in the middle of the curve.

- In a normal distribution, +/- 1 standard deviation represents 68% of all observations (red shading in Exhibit 1). +/-2 standard deviations represent approximately 95% of all observations (red plus green shading). +/-3 standard deviations represent approximately 99% of all observations (red plus green plus blue shading).

- In the investment industry, a portfolio may have an average return of 10% with a standard deviation of 15%. This suggests that the portfolio's returns have fallen between 25% (10%+15%) and –5% (10%-15%), 68% of the observations. The portfolio's returns have fallen between 40% and –20%, 95% of the time.

- Beacon Pointe has decided to use a spending model that incorporates Monte Carlo simulations because the model provides the investor with all types of returns based on statistics. These simulations allow us to predict thousands of possible outcomes for a given plan from the "best-case" to "worst-case" and everything in between.

Capital Market Assumptions

- Beacon Pointe has decided to use the capital market expectations from two leading asset allocation specialists for this case study. The two providers not only have different capital market forecasts, but they have different methodologies. The expected asset class returns, expected risk levels, and expected correlations among asset classes from both specialists are provided below and on the following page.

- *Wilshire Associates*

Exhibit 1

Asset Class	Expected Return	Expected Risk
U.S. Stocks	8.00%	17.00%
U.S. Bonds	5.25%	7.00%
Cash Equivalents	3.25%	3.00%
International Stocks	8.00%	20.00%
International Bonds	5.00%	13.00%
Emerging Markets	8.00%	27.00%
High Yield Debt	7.00%	10.00%
REITs / Real Estate	6.75%	14.00%

Exhibit 2

Correlation Matrix	U.S. Stocks	U.S. Bonds	Cash Equivalents	International Stocks	International Bonds	Emerging Markets	High Yield Debt	REITS Real Estate
U.S. Stocks	1.00							
U.S. Bonds	0.40	1.00						
Cash Equivalents	0.00	0.15	1.00					
International Stocks	0.65	0.20	-0.10	1.00				
International Bonds	0.00	0.40	-0.10	0.60	1.00			
Emerging Markets	0.60	0.10	0.00	0.75	-0.15	1.00		
High Yield Debt	0.50	0.50	-0.10	0.30	0.00	0.20	1.00	
REITs / Real Estate	0.45	0.30	0.00	0.35	0.05	0.20	0.50	1.00

Wilshire presents its asset allocation assumptions at the beginning of each year. Wilshire, however, recently made changes in its assumptions mid-year for the following reasons:

- U.S. Bonds (5.50% to 5.25%) – the yield on the Lehman Aggregate Bond index continued to fall as investors moved from stocks to bonds.

- U.S. Stocks (8.75% to 8.00%) – Wilshire's revised returns included current and expected future earnings revised downward, a weakened economic recovery, and questionable "quality" of earnings.

Capital Market Assumptions

- *Ibbotson Associates*

Exhibit 3

Asset Class	Expected Return	Expected Risk
U.S. Stocks	13.35%	20.87%
U.S. Bonds	5.96%	7.66%
Cash Equivalents	4.64%	2.94%
International Stocks	14.23%	27.21%
International Bonds	5.75%	15.64%
Emerging Markets	15.37%	40.23%
High Yield Debt*	6.17%	9.85%
REITs / Real Estate	8.33%	18.52%
* Lehman Credit Index		

Exhibit 4

Correlation Matrix	U.S. Stocks	U.S. Bonds	Cash Equivalents	International Stocks	International Bonds	Emerging Markets	High Yield Debt	REITS Real Estate
U.S. Stocks	1.00							
U.S. Bonds	0.26	1.00						
Cash Equivalents	-0.02	0.12	1.00					
International Stocks	0.42	0.07	-0.12	1.00				
International Bonds	0.25	0.36	0.17	0.33	1.00			
Emerging Markets	0.29	-0.06	-0.15	0.70	0.12	1.00		
High Yield Debt	0.30	0.97	0.03	0.11	0.38	-0.02	1.00	
REITs / Real Estate	0.27	0.04	0.15	-0.14	-0.03	-0.01	0.05	1.00

Unlike Wilshire Associates' asset allocation model that references both historical and forward-looking data, (Wilshire uses a discount dividend model to forecast expected returns), Ibbotson's model uses a "building block" approach to arrive at asset class expected returns. Historical data is used to calculate risk premia. These premia are then added to the risk-free rate in order to arrive at the asset classes' expected returns. Ibbotson breaks out the expected return for each asset class into three different components:

Building-Block Component	Description
Real Risk-Free Rate	A return that can be earned without incurring any default or inflation risk.
Expected Inflation	The additional reward demanded to compensate investors for future price increases.
Risk Premia	The additional reward demanded for accepting the return uncertainty associated with investing in a given asset class.

** Ibbotson Inputs Methodology, Portfolio Strategist*

Spending Analysis Inputs

- Exhibits 1-4 identify the risk, return, and correlation inputs necessary for the spending analysis. The Foundation has based its present asset allocation policy on Ibbotson's capital market assumptions. Beacon Pointe will also run the spending analysis using Wilshire's assumptions to simulate a lower return environment. Exhibit 5 below shows the differences in expected returns from both firms—Ibbotson has higher assumptions for each asset class.

Exhibit 5

Asset Class	Ibbotson	Wilshire
U.S. Stocks	13.35%	8.00%
U.S. Bonds	5.96%	5.25%
Cash Equivalents	4.64%	3.25%
International Stocks	14.23%	8.00%
International Bonds	5.75%	5.00%
Emerging Markets	15.37%	8.00%
High Yield Debt	6.17%	7.00%
REITs / Real Estate	8.33%	6.75%

- As set within the Foundation's Investment Policy Statement, the Foundation is required to follow a 5% spending rate based on the Foundation's rolling 3-year average market value. As a side note, according to the NACUBO (National Association of College and University Business Officers) 2000 Endowment Study, over 80% of surveyed endowments use a rolling average market value as the base for endowment spending. 81.9% of funds with less than $100 million spend a prespecified percentage of a moving average of market values. The average annual spending rate of all endowments was 4.9% in 2000. For institutions with less than $100 million, the annual spending rate was 5.1%.

- Exhibits 6 and 7 identify the different asset allocation mixes considered by the Investment Committee. Exhibit 6 shows the risk and return characteristics for the different mixes using Ibbotson's capital market assumptions. Exhibit 7 presents the risk and return characteristics using Wilshire's capital market assumptions. Based on Ibbotson's assumption, the Foundation presently has an expected return of 10.48% and a risk level of 12.94%. Using Wilshire's assumptions, the Foundation's present asset allocation mix has an expected return of 6.90% and an expected risk of 11.29%.

Exhibit 6

Spending Model
Model Portfolios

User Defined Names	Current Mix	Alt 1	Alt 2	Alt 3
Asset Class	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4
U.S. Stocks	50.00%	45.00%	55.00%	65.00%
U.S. Bonds	40.00%	50.00%	30.00%	20.00%
Cash Equivalents	-	-	-	-
International Stocks	10.00%	5.00%	15.00%	15.00%
International Bonds	-	-	-	-
Emerging Markets	-	-	-	-
High Yield Debt	-	-	-	-
REITs / Real Estate	-	-	-	-
Buyouts	-	-	-	-
Venture Capital	-	-	-	-
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Return	10.48%	9.70%	11.27%	12.00%
Risk	12.94%	11.61%	14.42%	16.16%
		Number of Trials =		3,000

Exhibit 7

Spending Model
Model Portfolios

User Defined Names	Current Mix	Alt 1	Alt 2	Alt 3
Asset Class	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4
U.S. Stocks	50.00%	45.00%	55.00%	65.00%
U.S. Bonds	40.00%	50.00%	30.00%	20.00%
Cash Equivalents	-	-	-	-
International Stocks	10.00%	5.00%	15.00%	15.00%
International Bonds	-	-	-	-
Emerging Markets	-	-	-	-
High Yield Debt	-	-	-	-
REITs / Real Estate	-	-	-	-
Buyouts	-	-	-	-
Venture Capital	-	-	-	-
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Return	6.90%	6.63%	7.18%	7.45%
Risk	11.29%	10.22%	12.47%	13.79%
		Number of Trials =		3,000

Nominal Market Value Distribution Analysis

- The analyses on the following pages review the spending analysis results. The output includes the following analyses:

  - Distribution of Nominal Market Values
  - Distribution of Real Market Values
  - Distribution of Normal Spending
  - Distribution of Real Spending

- *Distribution of Nominal Market Values*
  Ibbotson Capital Market Assumptions

Exhibit 8

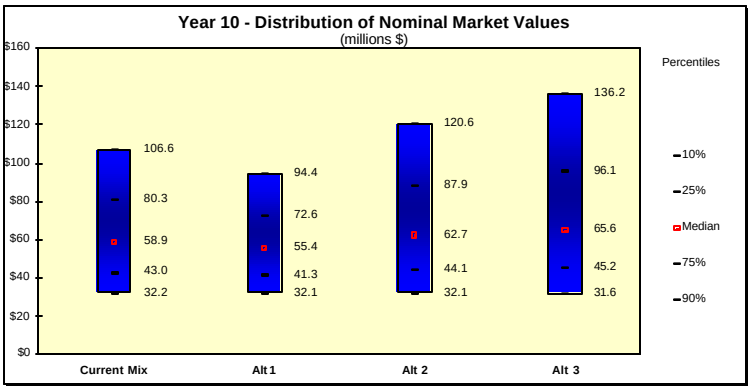
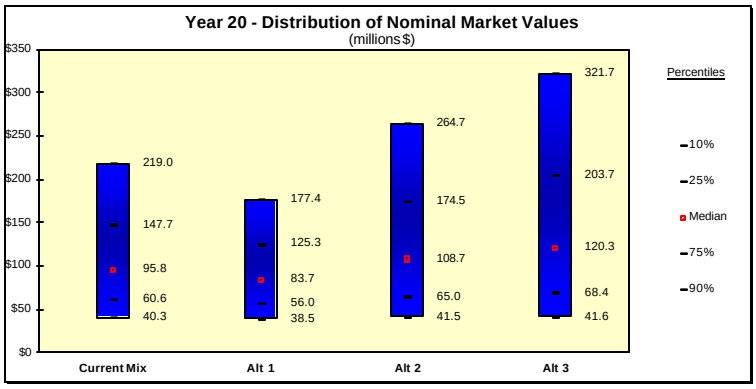


Exhibit 9



- Exhibits 8 and 9 are probability distribution graphs of the Foundation's market values over a 10-year and 20-year period for the different mixes. If the Foundation plans to maintain its present asset allocation mix, the model shows a distribution range of $32.2 to $106.6 for a 10-year time horizon. In year 20, the Foundation, with its present mix, can expect a range from $40.3 to $219.0. Distribution graphs of the other considered asset mixes are presented as Alt 1 (50/50), Alt 2 (70/30), and Alt 3 (80/20).

- Exhibits 10 and 11 simply show the chart formats of Exhibits 8 and 9. The low can be considered a proxy for the "worst-case" scenario, while the high can be considered a proxy for the "best-case" scenario. The higher equity asset mixes, as one would expect, show a higher "best-case" **and a lower** "worst-case".

Exhibit 10
Ibbotson-10 Years

Mix	Worst-Case	Median	Best-Case
60/40	32.2	58.9	106.6
50/50	32.1	55.4	94.4
70/30	32.1	62.7	120.6
80/20	31.6	65.6	136.2

Exhibit 11
Ibbotson-20 Years

Mix	Worst-Case	Median	Best-Case
60/40	40.3	95.8	219.0
50/50	38.5	83.7	177.4
70/30	41.5	108.7	264.7
80/20	41.6	120.3	321.7

Nominal Market Value Distribution Analysis

Wilshire Capital Market Assumptions

- The Wilshire forecasts provide the Foundation with a lower return environment scenario. The Monte Carlo simulations for the 10 year time horizon provide a range from $28.0mm to $74.4mm for the Foundation's present asset allocation mix. The "worst-case" scenario using Wilshire's assumptions is much lower than Ibbotson's "worst-case" of $32.2mm. The "best-case" scenario is also dramatically different ($74.4mm vs. $106.6mm). The 20-year time horizon analysis concludes with the similar results.

- *We can see that for a 10-year and 20-year time horizon,the Alt 3 portfolio (80/20) clearly dominates the more conservative current asset allocation mix (60/40), the proposed Alt 1 portfolio (50/50), and the 70/30 Alt 2 portfolio. The median market value for the 80/20 portfolios is above that of the current mix, the 50/50 mix, and the 70/30 mix. In addition, the 80/20 mix has higher upside potential and less downside risk (for both the 10- and 20-year time horizons) relative to the current and other proposed mixes. The same holds true for the simulations using Ibbotson assumptions and forecasts.*

Exhibit 12

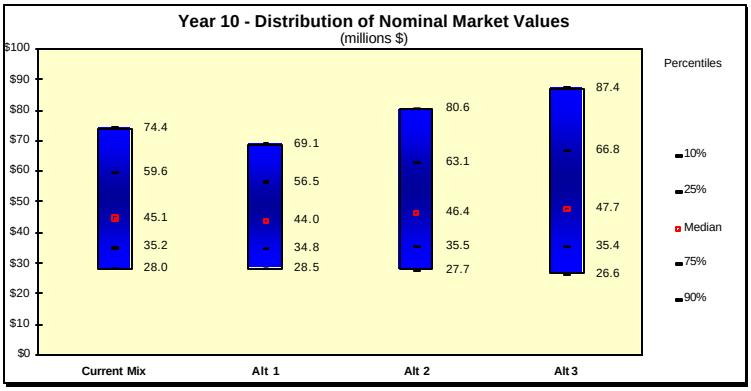
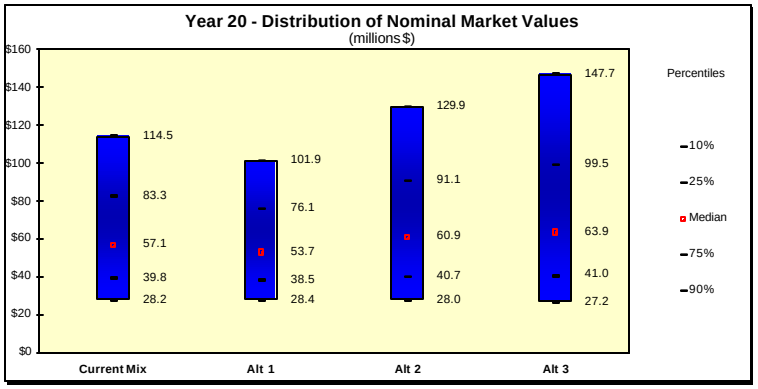


Exhibit 13



- Exhibit 14 below shows that a lower return environment, represented using the Wilshire capital market forecasts, will significantly affect the future nominal market value of the Foundation. Using the median as the Foundation's expected 10-year time horizon market value, a lower return environment will result in a value of $45.1mm. The analysis using Ibbotson's assumptions result in a higher $58.9mm. The differences are much more significant if the Foundation decides to select a more aggressive or higher equity allocation mix.

Exhibit 14
10-Year Time Horizon

Mix	Wilshire Low	Ibbotson Low	Wilshire Median	Ibbotson Median	Wilshire High	Ibbotson High
60/40	28.0	32.2	45.1	58.9	74.4	106.6
50/50	28.5	32.1	44.0	55.4	69.1	94.4
70/30	27.7	32.1	46.4	62.7	80.6	120.6
80/20	26.6	31.6	47.7	65.6	87.4	136.2

Nominal Market Value Distribution Analysis

- The 20-year time horizon analysis has similar results to the 10-year time horizon. Using the median as the Foundation's expected 20-year time horizon market value, a lower return environment will result in a value of $57.1mm. The analysis using Ibbotson's assumptions result in a significantly higher $95.8mm. The differences, again, are much more significant if the Foundation decides to select a more aggressive or higher equity allocation mix.

- Similar to the 10-year time horizon analysis, the asset allocation mixes that have heavier equity allocations seem to dominate the more conservative higher fixed income allocation mixes. The probability distribution of nominal market values using the Wilshire assumptions show that the 80/20 mix has a higher median market value than the other mixes, a higher upside potential, and less downside risk. The distribution of market values using the Ibbotson assumptions shows that the 80/20 mix has a higher median market value, a high upside potential, and a similar downside risk.

Exhibit 15

20-Year Time Horizon

Mix	Wilshire Low	Ibbotson Low	Wilshire Median	Ibbotson Median	Wilshire High	Ibbotson High
60/40	28.2	40.3	57.1	95.8	114.5	219.0
50/50	28.4	38.5	53.7	83.7	101.9	177.4
70/30	28.0	41.5	60.9	108.7	129.9	264.7
80/20	27.2	41.6	63.9	120.3	147.7	321.7

Real Market Value Distribution Analysis

- *Distribution of Real Market Values*
  Ibbotson Capital Market Assumptions

- The ultimate goal of the Foundation's investment portfolio is to meet investment objectives after inflation and spending. The following analysis evaluates the different asset allocation mixes on the basis of real market value (inflation-adjusted) forecasts.

Exhibit 16

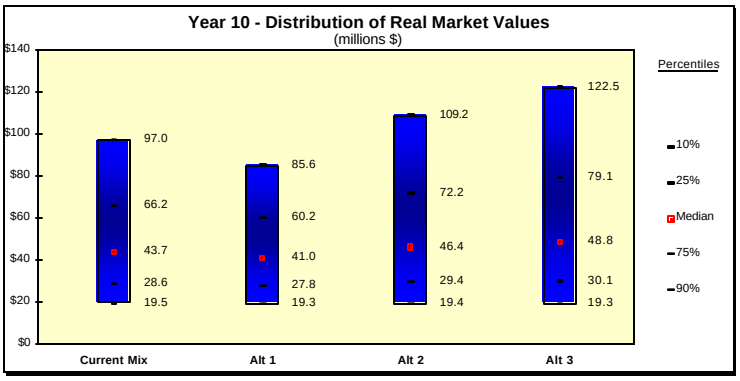
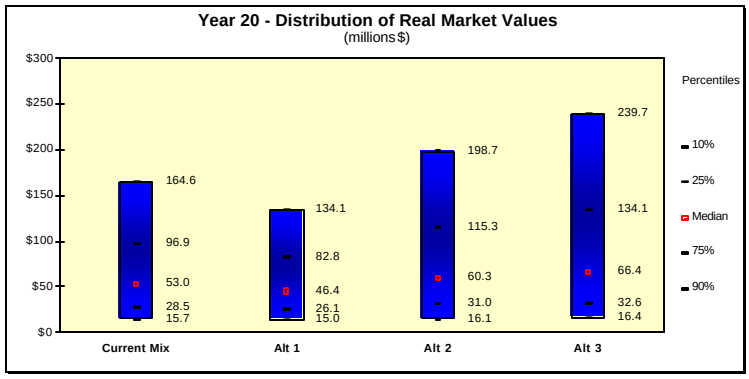


Exhibit 17



- Exhibits 16 and 17 present the probability distribution graphs of real (inflation-adjusted) market values. Over a 10-year time horizon, the Foundation is expected to achieve a $43.7mm real market value (median). The "worst-case" scenario for this time horizon, with a 60/40 mix, is a real market value of $19.5mm. What is interesting to note is that with an 80/20 mix, the "worst-case" scenario ($19.3mm) is very much in-line with the 60/40 mix ($19.5mm). The 80/20's "best-case" scenario, however, has significant upside potential relative to the 60/40 mix ($122.5mm vs. $97.0mm). This phenomenon also occurs for a 20-year time horizon.

Wilshire Capital Market Assumptions

- The expected (median) real market value in this environment over a 10-year time horizon is $36.5mm (compared to the Ibbotson's $43.7mm), with the Foundation's present asset allocation. The expected (median) real market value in this environment, using the Foundation's present 60/40 mix, over a 20-year time horizon, is $37.0mm (compared to the Ibbotson's $53.0mm).

Exhibit 18

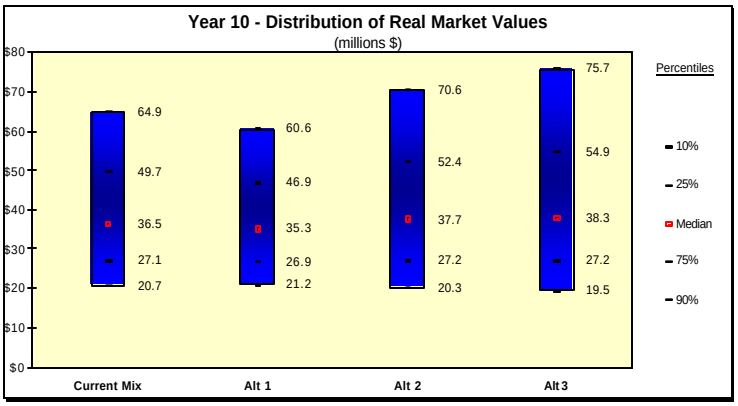
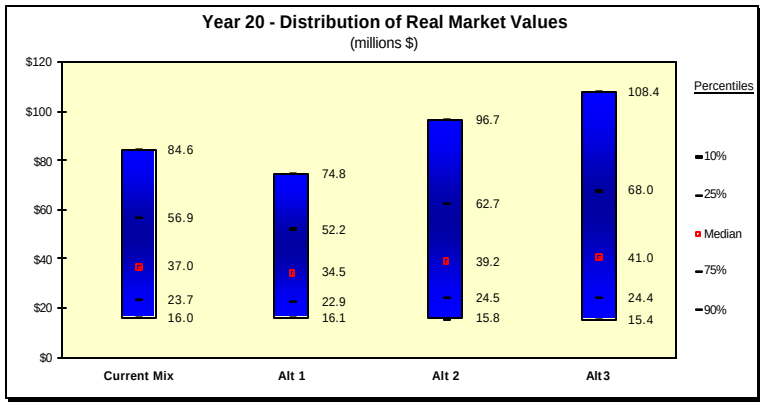


Exhibit 19



Real Market Value Distribution Analysis

- The real market value distribution analysis parallels the results from the nominal market value distribution analysis. A lower return environment will *significantly* affect the Foundation's real market value.

- In a 10-year time horizon, the expected market value difference between the more optimistic Ibbotson environment and the lower expected return Wilshire environment, with a 60/40 mix, would be $7.2mm ($43.7mm-$36.5mm). For an 80/20 mix, the expected market value difference would be $10.5mm ($48.8mm-38.3mm).

- In a 20-year time horizon, the expected market value difference, with a 60/40 mix, would be $16.0mm ($53.0mm-$37.0mm). For an 80/20 mix, the expected market value (median) difference would be $25.4mm ($66.4mm-$41.0mm).

- The mixes with heavier equity allocations dominate the mixes with higher fixed income allocations.

- The "worst-case" scenarios, using the more optimistic Ibbotson assumptions, are in-line with the lower Wilshire assumptions. These are a result of the higher expected risk (volatility) inherent in the Ibbotson assumptions. The Ibbotson "best-case" scenarios are much higher than the Wilshire "best-case" scenarios as well.

Exhibit 20
10-Year Time Horizon

Mix	Wilshire Low	Ibbotson Low	Wilshire Median	Ibbotson Median	Wilshire High	Ibbotson High
60/40	20.7	19.5	36.5	43.7	64.9	97.0
50/50	21.2	19.3	35.3	41.0	60.6	85.6
70/30	20.3	19.4	37.7	46.4	70.6	109.2
80/20	19.5	19.3	38.3	48.8	75.7	122.5

Exhibit 21
20-Year Time Horizon

Mix	Wilshire Low	Ibbotson Low	Wilshire Median	Ibbotson Median	Wilshire High	Ibbotson High
60/40	16.0	15.7	37.0	53.0	84.6	164.6
50/50	16.1	15.0	34.5	46.4	74.8	134.1
70/30	15.8	16.1	39.2	60.3	96.7	198.7
80/20	15.4	16.4	41.0	66.4	108.4	239.7

Growth of Real Market Values

- The exhibits below present the year-by-year growth of real market values for what the Foundation considers a low and a more optimistic return environment. The exhibits also present the expected (median) and "worst-case" (90%) scenarios. *The "worst-case" scenario in both environments shows that the foundation does not maintain its real value.*

Ibbotson Assumptions

Exhibit 22
Expected (Median) Growth

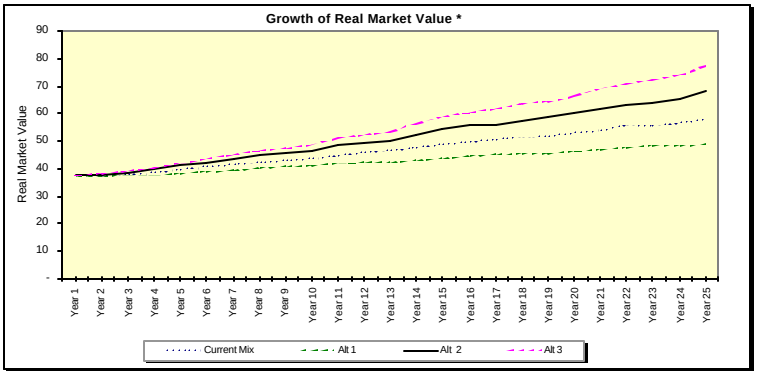
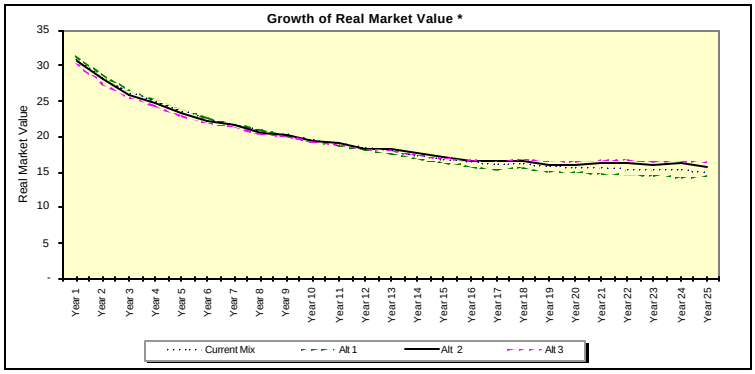


Exhibit 23
"Worst-case" (90%) Growth



Wilshire Assumptions

Exhibit 24
Expected (Median) Growth

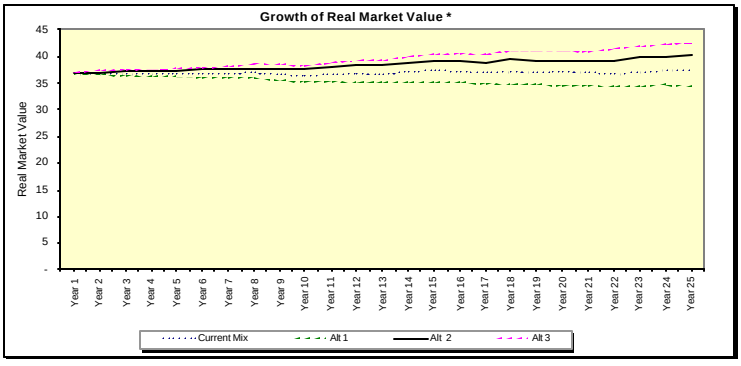
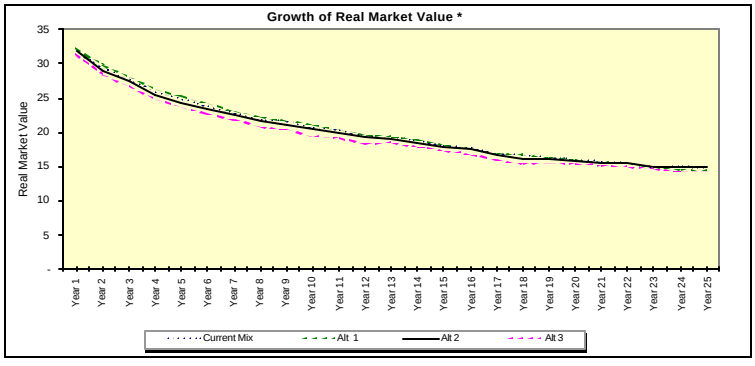


Exhibit 25
"Worst-case" (90%) Growth



Spending Analysis

- The Investment Committee also asked Beacon Pointe to analyze how a lower return environment may affect the Foundation's spending. The exhibits below present the spending distributions in Year 10 and 20, using both Ibbotson's and Wilshire's capital market forecasts.

Ibbotson Assumptions

- Exhibit 26 shows that with a 5% spending rate based on an average 3-year rolling market value, the Foundation can expect to spend $2.5 million in Year 10 (with its current 60/40 mix). The "worst-case" scenario, however, shows that the Foundation can expect to spend $1.6mm.

- In Year 20, as shown in Exhibit 27, the Foundation can expect to spend only $4.2mm. The "worst-case" scenario shows that the Foundation may only spend $1.9mm in Year 20. The distribution range for spending values is largest in the 80/20 mix for Year 20. The "best-case" scenario (80/20 mix) suggests that the Foundation may be able to spend $12.7mm for the year. The "worst-case" scenario (80/20 mix) suggests that the Foundation may be able to spend only $1.9mm for the year, not different from the Foundation's current mix "worst-case" scenario spending of $1.9mm.

  The spending distributions in Year 10 and Year 20 are similar to the real and nominal market value distributions—the more "aggressive" asset mixes dominate the more "conservative" asset mixes.

Exhibit 26

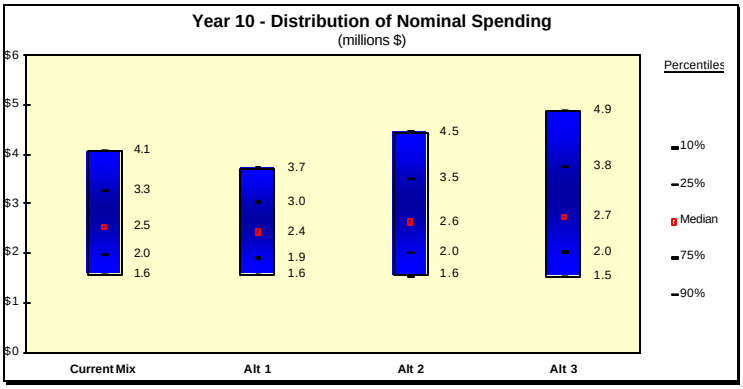
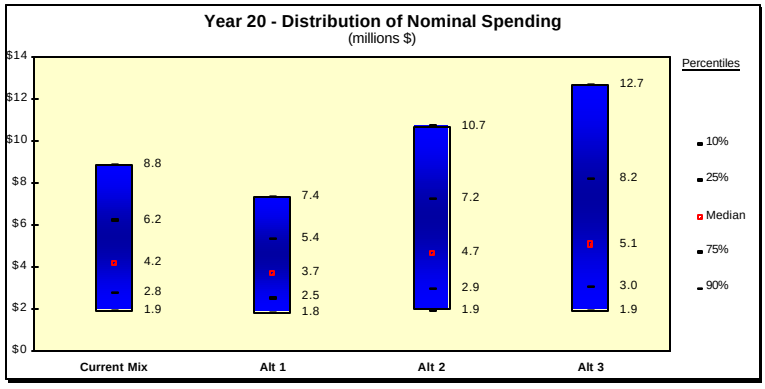


Exhibit 27



Spending Analysis

Wilshire Assumptions

- Exhibit 28 shows that with a 5% spending rate based on an average 3-year rolling market value, the Foundation can expect to spend $2.1 million in Year 10 (with its current 60/40 mix). The "worst-case" scenario, however, shows that the Foundation can expect to spend $1.4mm.

- In Year 20, as shown in Exhibit 29, the Foundation can expect to spend only $2.7mm. The "worst-case" scenario shows that the Foundation may only spend $1.4mm in Year 20. The distribution range for spending values is largest in the 80/20 mix for Year 20. The "best-case" scenario (80/20) suggests that the Foundation may be able to spend $6.2mm for the year. The "worst-case" scenario (80/20 mix) suggests that the Foundation may be able to spend only $1.3mm for the year, not significantly different from the Foundation's current mix "worst-case" scenario spending of $1.4mm.

- *A lower return environment, as represented in the spending analysis using Wilshire's assumptions, shows significant decreases in Foundation spending—especially in Year 20. The biggest discrepancy lies in the 20-year 80/20 mix: using Ibbotson's assumptions, the Foundation can expect to spend $5.1mm (median); using Wilshire's assumptions, the Foundation can expect to spend only $2.9mm (median). If the Foundation wishes to maintain an asset allocation mix of 60/40, the Foundation can expect to spend $4.2mm (median) in Year 20 using Ibbotson's assumptions. The Foundation can expect to spend $2.7mm (median) in Year 20 using Wilshire's assumptions. A lower return environment, with a 60/40 mix, would decrease spending by* ***$1.5mm*** *for Year 20.*

Exhibit 28

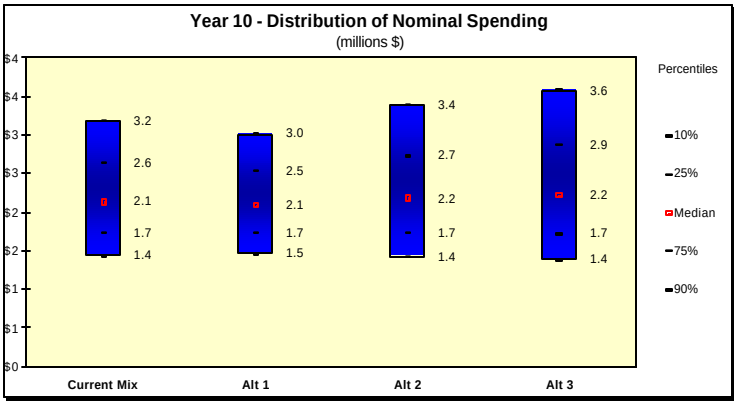
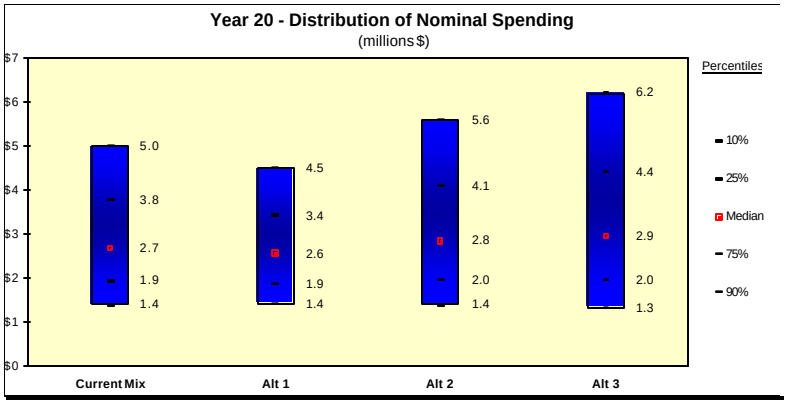


Exhibit 29



Summary

- Beacon Pointe's spending analysis shows that a lower return environment will affect the Foundation's nominal and real market values and spending values over 10- and 20-year time horizons. The exhibits below provide a summary spending analysis.

Exhibit 30

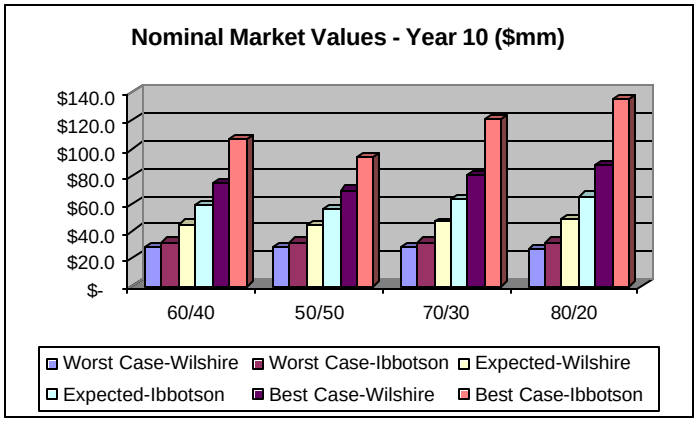


Exhibit 31

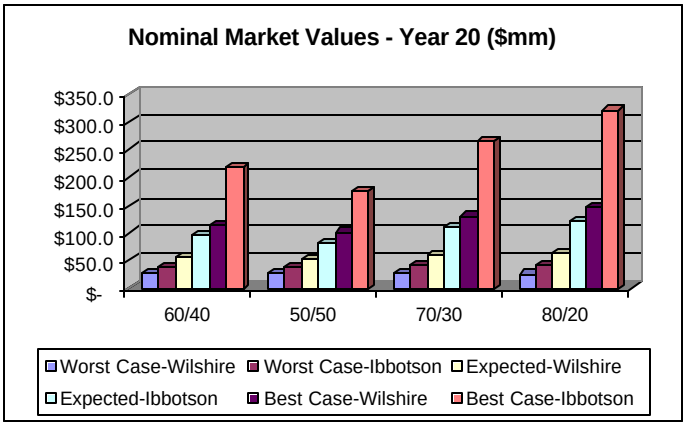


Exhibit 32

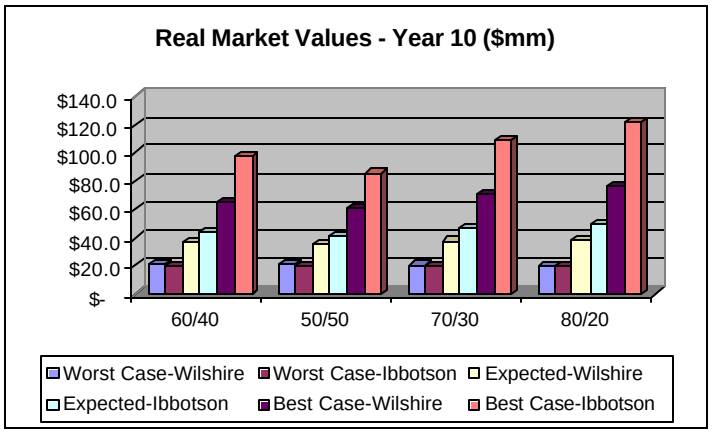


Exhibit 33

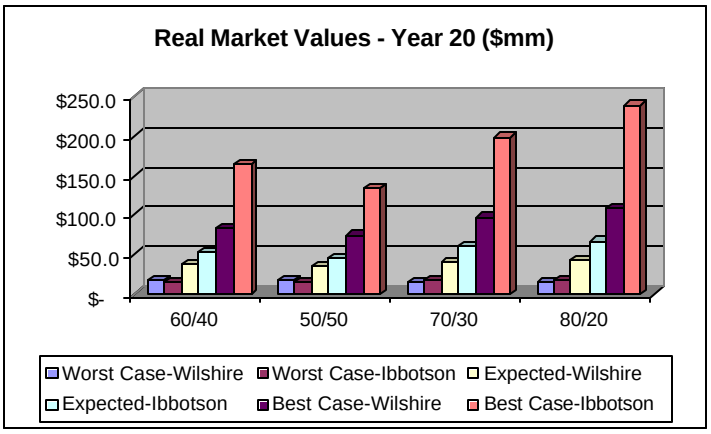


Exhibit 34

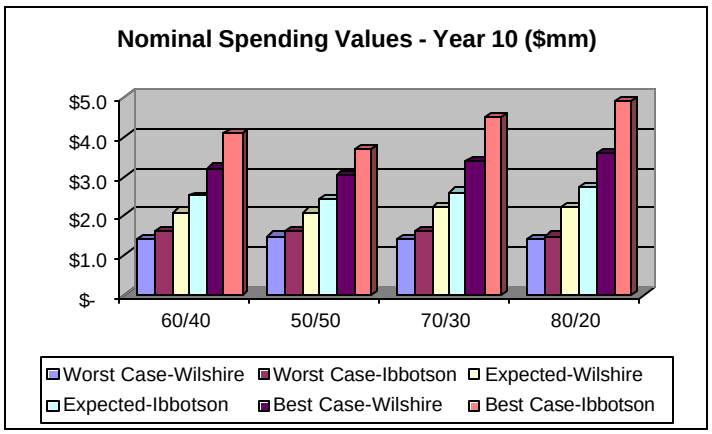
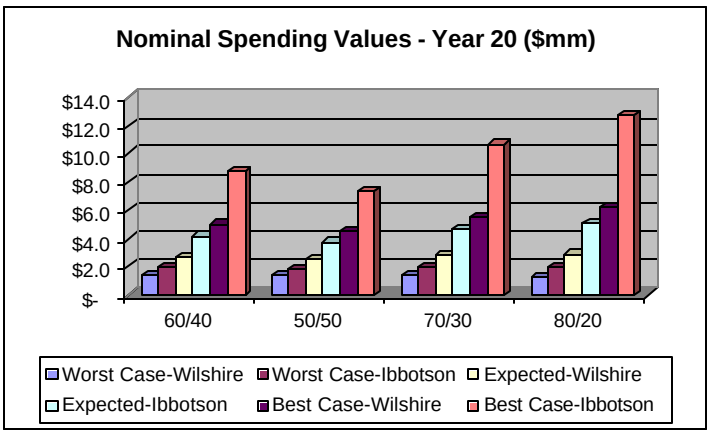


Exhibit 35



Summary

- Monte Carlo simulations allow the Foundation to "pre-experience" the impact capital market returns have on spending. The spending analysis shows that a lower return environment has significant effects on the Foundation's spending in the future. For example, if the Foundation were to maintain a 60/40 mix, it can expect to spend $2.5mm in Year 10 with Ibbotson's assumptions. Using Wilshire's lower forecasts, the Foundation can expect to spend $2.1mm—slightly lower than the $2.5mm. By Year 20, however, the Foundation can expect to spend $4.2mm using Ibbotson's assumptions. Using Wilshire's assumptions, the Foundation can expect to spend $2.7mm in Year 20. The difference of $1.5mm, although a small value relative to the Foundation's present assets of $37.2mm, is a large percentage of the Foundation's expected spending no matter what environment.

- The expected (median) scenarios (Exhibit 22, Exhibit 24) show that the Foundation can expect growth in the fund's real market value over the next 20 years. The ***"worst-case"*** scenarios (Exhibit 23, Exhibit 25) show that the Foundation, with its present spending rate, cannot maintain the real market value of the fund.

- The spending analysis shows that the proposed mixes with higher equity allocations dominate the more "conservative" or higher fixed income allocation mixes. The higher equity allocation mixes have a higher expected median market value, higher upside potential, and less or similar downside protection.

- The spending amounts in Year 10 and Year 20 will decrease in a lower return environment according to our spending analysis. The Foundation can expect to spend $4.2mm in Year 20 with its present mix. In a lower return environment, however, the Foundation can expect to spend only $2.7mm with its present mix (a $1.5mm difference). If the Foundation moves from its current 60/40 mix to an 80/20 mix, the Foundation can expect its spending to decrease from $5.1mm to $2.9mm in a lower return environment (a $2.2mm difference).

- The spending analysis shows that a lower return environment will affect the Foundation's spending. Although the Foundation's spending rate of 5% is in-line with the average endowment and the real market value of the fund is expected to grow, Beacon Pointe cautions the Foundation to watch over fund spending as there can be a significant decrease with a lower return environment.