



Reach Within to Embrace Humanity

Five-Year Financial Forecast August 2011

FY2010-11 unaudited results

Twice a year, both the RI Finance Committee and the RI Board review a financial forecast that projects out five-years.

All 2010-11 numbers are preliminary and unaudited. Audited results will be approved by the Board at its September Board Meeting.

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General notes to the presenter:

-When the word "CLICK" appears in the notes, the slides should be advanced.

-The presented forecast projects through 2016.

-All dates in this presentation refer to fiscal years. For example, fiscal year 2011 refers to Rotary Year 2010-11 or the 12 months ended 30 June 2011.



Five-Year Financial Forecast Presentation Overview

- 2010 – 2011 Highlights
- Five Year Financial Forecast
 - Current Forecast Assumptions
 - Revenues
 - Expenses
 - Projected Surplus / Deficit
- General Surplus Fund
- Key Initiatives & Projects

•Our presentation will start with the highlights of fiscal year 2010 – 2011.

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•Next we will present the five year financial forecast covering the assumptions, revenues, expenses, and projected surplus and / or deficits.

CLICK

•Then we will show the resulting impact on Rotary International's General Surplus Fund and comment on key initiatives and projects underway.

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2011 Highlights

- Strategic Focus resulting in Board approved strategic initiatives
- Strong Financial Gains
- General Surplus Fund at highest level of all time

Now I would like to present 2011 highlights–

•At the 2010 Institutes, we noted that a key initiative was to have a stronger alignment of budgets to the Strategic Plan. As a result, the RI Board approved US\$9.9 million dollars to support strategic initiatives over the next 3 fiscal years including:

- Additional district public relations grants
- Major research and initiatives in branding
- Communications Campaign
- Social Networking initiatives

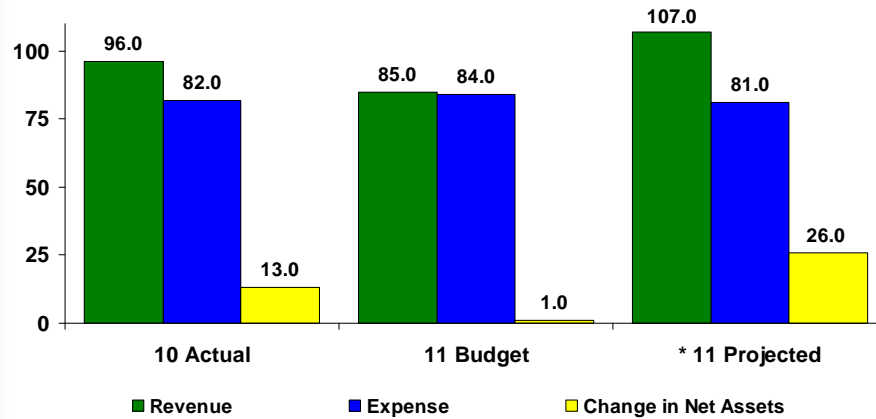
•We experienced strong financial gains resulting from continuing strong financial markets and reduced spending.

•The General Surplus Fund is at the highest level it has ever been. The projected General Surplus Fund balance for fiscal year 2011 is estimated to be US\$132 million.



2010 – 2011 Financial Highlights

Preliminary Unaudited Results
US\$(millions)



* These FY2011 results are preliminary and unaudited

- Here is a look at our projected financial results for the year. Again, please note that the 2011 figures are preliminary and unaudited.

- For revenues, we are projecting to be approximately US\$ 22 million over budget. The variance is primarily driven by net investment returns. The 2011 returns were budgeted at 4% versus preliminary unaudited actual returns of 22.5%.

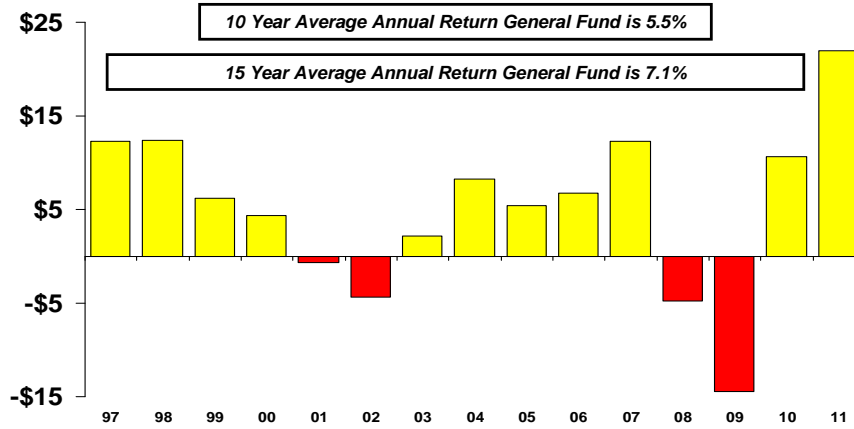
- For expenses, the variance is primarily driven by cost savings initiatives. Note that we expect to be US\$3 million below budget and US\$1 million lower than prior year actuals which included US\$ 3.7 million for the Council on Legislation.

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Net Investment Return

US\$(millions)



- This slide shows RI's historical Net Investment Returns from fiscal year 1997 to the present.
- This slide clearly indicates significant volatility in the annual returns over the past 15 years. Despite the economic crisis, during which Rotary's investment losses totaled US\$19 million during fiscal years 2008 and 2009, net investment earnings averaged an annual return of 5.5% over the past 10 years and 7.1% over the past 15 years.
- Strong investment results over the past two years have more than recovered the losses reported during the economic crisis.

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(Note to presenter: These returns include currency translation gains and losses.)



Five-Year Financial Forecast 2011 – 2012 Assumptions

- Presents fiscal year 2011 preliminary, unaudited results
- Reflects fiscal year 2012 approved budget
- Per capita dues: fiscal year 2012 = US\$51/year ;
Annual US\$1.00 increases in 2013 and 2014,
as approved by the 2010 COL;
Assumes no dues increase after 2014
- Stable Membership
- Inflation 3%
- Net Investment Earnings assumes a return of 5%

Now we present Rotary International's financial forecast for the next five years - 2012 through 2016

The following are the key assumptions used to develop this forecast:

•This forecast begins with RI's projections for fiscal year 2011.

•**CLICK**

•Fiscal year 2012 utilizes the budget approved by the Board of Directors at their May meeting.

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•Membership dues are budgeted at US\$51 per Rotarian for fiscal year 2012.

•The forecast includes annual dues increases of US\$1.00 per member for fiscal years 2012 through 2014 as approved by the 2010 Council on Legislation.

•The forecast assumes no dues increase after fiscal year 2014.

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•We assume that RI's membership will remain stable during the forecast period.

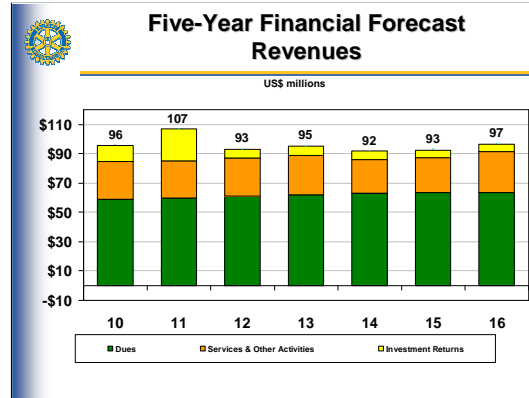
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•The forecast assumes that costs will increase throughout the world at an average of 3% annually.

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•The forecasted net investment earnings assumes a rate of return of 5% per annum.

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This slide displays RI's forecasted revenues by component.

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- The first major component of our revenues is **DUES** which is based on membership. This forecast assumes that membership remains stable and that membership dues will increase US\$1 each year through 2014. No dues increases are forecasted after 2014.
- Maintaining membership levels are important to dues revenues; note that a 1% increase in membership would increase revenues by approximately US\$600,000 per year. Conversely, a 1% decline in membership would decrease dues by approximately US\$600,000 per year.

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• The second major revenue component, **SERVICES & OTHER ACTIVITIES**, represents revenue from activities that are mainly self funded. These include-

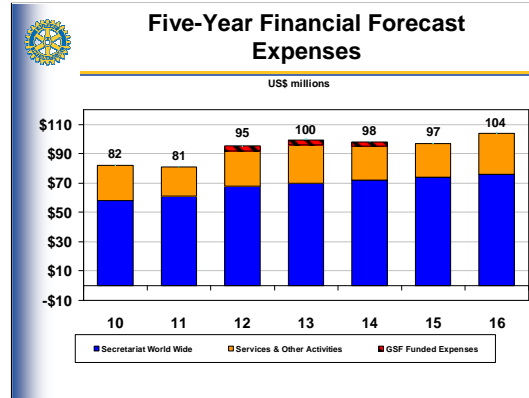
- The International Convention registration fees,
- *The Rotarian* magazine subscription revenue,
- Rental income from One Rotary Center (our World Headquarters);
- Sale of publications, licensing fees and royalties,
- Councils on Legislation every third year

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• The third major component of Revenues is **NET INVESTMENT RETURNS**. Net investment returns were strong in both 2010 and 2011, recovering all investment losses incurred during fiscal 2008 and 2009.

• Based on the long-term outlook in the financial markets and the 10-year historical investment returns for the General Fund, the Rotary International Finance Committee increased the investment return assumption from 4% to 5%.

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This slide presents RI's forecasted expenses in a format consistent with the revenues.

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•The first category is **the expenses to operate the Secretariat worldwide**. These expenses include:

- Rotary's Programs and Meetings including the International Assembly
- Communications and Public Relations
- Your District Governors' allocations
- Membership Services including the new Rotary Public Image Coordinators
- Our International Offices
- **And all other Secretariat Services that support Rotary Clubs World Wide**

•**The Secretariat has continued to expand support to clubs and district. This support includes:**

- Increases in Public Relations grants to your districts worldwide.
- Improved multilingual communications and publications,
- Enhanced training and development tools,
- The development of web-based information and social networking, and
- Expanded operations in Pune, India.

•**Secretariat expenses projected to rise at the rate of inflation, which is assumed to be 3%. It is noteworthy that for every 1% increase in inflation, expenses increase approximately US\$800,000 per year.**

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•The second major expense component, **SERVICES & OTHER ACTIVITIES**, represent expenses for activities that are mainly funded by separate revenue sources as previously mentioned. These expenses mainly include:

- The International Convention expenses,
- The direct costs of the *Rotarian* magazine;
- The cost of operating One Rotary Center; and
- The cost of publications sold;
- Councils on Legislation every third year

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•The third category reflects the US\$9.9 million designated by the RI Board for investments in Strategic initiatives as previously mentioned. Notes that these investments will be financed by the **General Surplus Fund**.

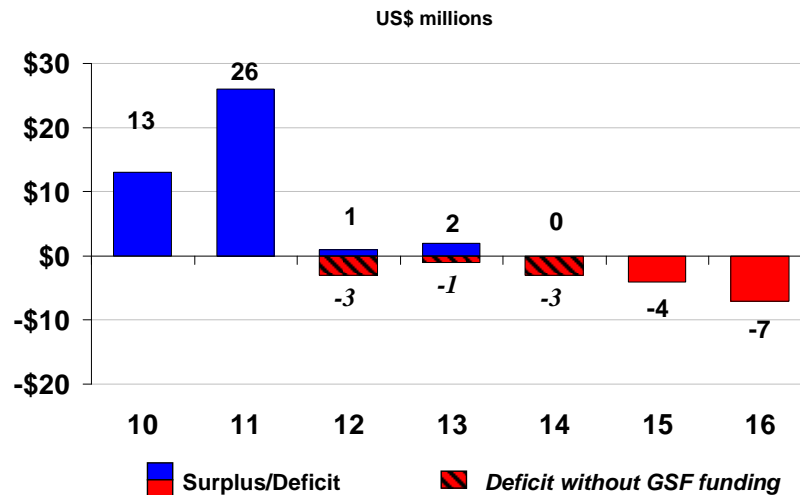
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General notes to the presenter: As noted on Slide 2, the Strategic Plan Initiatives include

- Additional district public relations grants
- Major research and initiatives in branding
- Communications Campaign
- Social Networking Initiatives



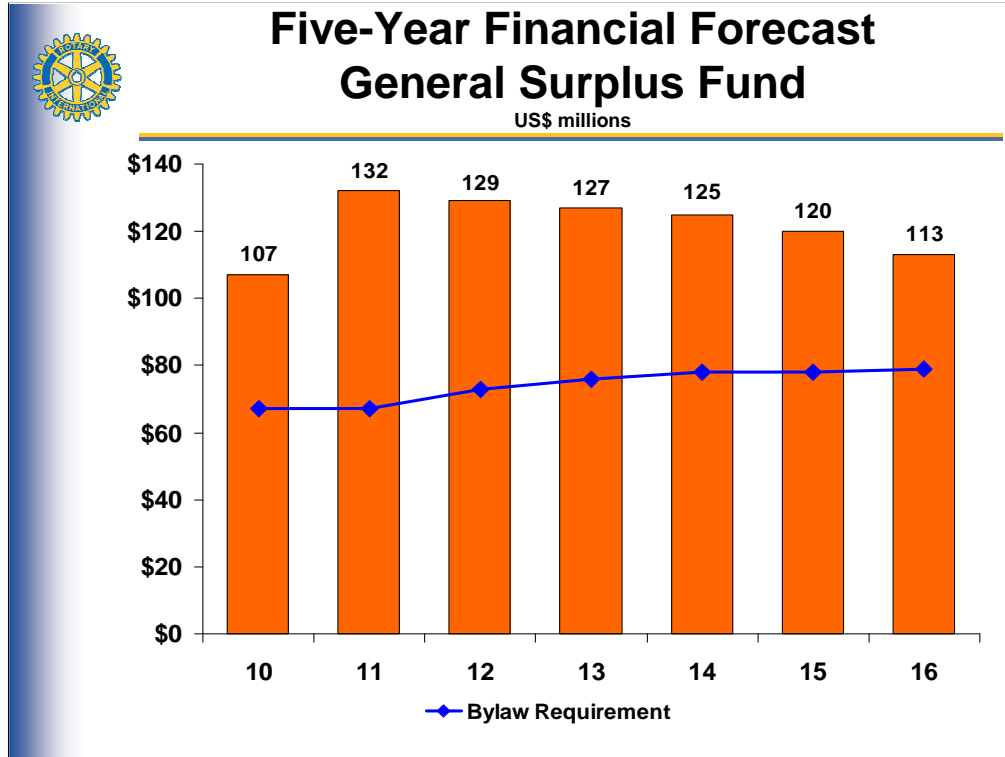
Five-Year Financial Forecast Projected Surplus / Deficit – Net GSF



*Excludes pension liability adjustment

- This slide presents the actual and projected surplus or deficit (the difference between revenues and expenses) for each year from 2010 through 2016 net General Surplus Fund funding.
- The forecast indicates revenues will likely exceed expenses through fiscal year 2014 before considering the strategic investments approved by the RI Board.
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- When we add in the US\$ 10 million dollars of spending over the next three years related to the strategic initiatives approved by the RI board, you can see that revenues would not cover these expenses. However these expenses will be funded by the General Surplus Fund.
- Beginning in 2015, expenses could exceed revenues by approximately US\$4 million. The Board will either need to
 - **reduce costs and / or services;**
 - **use general surplus funds or;**
 - **increase revenues to balance the budgets beginning in fiscal 2015.**
- Approximately a 7% increase in membership would be needed in FY2015 to balance the budget.
CLICK

(*Note to presenter: The forecast details indicate an excess of approximately US\$400,000 for FY2014 which does not show on the graph.)



This slide presents RI's forecasted general surplus fund at the end of each year.

- This fund mainly represents RI's investments and unrestricted cash. The primary objective of the general surplus fund is to provide for the long-term financial security of RI.
- Note that we project the surplus to be US\$132 million at the end of fiscal year 2011, the highest in RI history.

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- The blue line represents the forecasted minimum bylaw requirement. The general surplus fund must be at least 85% of the highest level of annual expenses during the most recent three-year period (excluding the International Convention and COL expenses which are mainly self funded events).

- Funds over the minimum bylaw requirement i.e. above the blue line represent funds that will be available to fund operations, if required.

- The forecast reduction in the General Surplus Fund reflects the US\$10 million in strategic initiatives approved by the RI Board. As you can see, the fund can adequately finance these investments as well as the projected deficits through fiscal year 2016. The fund is forecast to remain well above the bylaw target and is adequate to provide funds in the event of emergencies and unforeseen circumstances.

- Even in these challenging economic times, the financial position of Rotary International remains strong. It is through the combined efforts of your Board of Directors, our volunteer committees, the general secretary and the professional secretariat staff that RI's operations and related spending levels are consistently and conscientiously monitored throughout each year.

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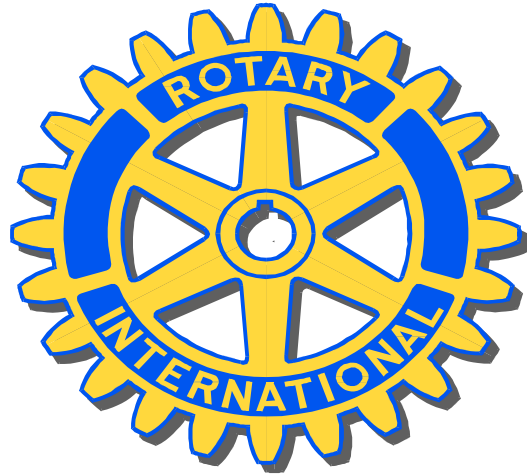
Key Initiatives & Projects

- Stronger alignment of budgets to the Strategic Plan
- Continued focus on business process improvements and implementation of a new budget methodology

Lastly, here are a few key initiatives and projects that the RI Board is working closely with the General Secretary and senior management to implement. These include:

- Stronger alignment of budgets to the Strategic Plan. This includes an emphasis on “ONE ROTARY” to maximize efficiency and effectiveness in all Rotary operations.
- Continued focus on business process improvements and implementation of a new budgeting methodology.

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Actions taken to reduce investment portfolio risk

- Reduced allocations to equities
- Further diversified the portfolios
- Introduced flexible manager mandates
- Established an operating reserve with designated assets for the Foundation

While Rotary's investment are not immune to the recent volatility and declines in the equity markets, the impact on investment returns has been reduced as a result of the following:

1. **Reduced allocations to equities.** When the Annual Programs Fund and RI General Fund were restructured in 2010-11, the allocations to equities were substantially reduced. Most of the recent market volatility has been in the equity markets. While Rotary is not immune to equity market volatility, portfolio losses resulting from sharp market corrections have less of an impact on total returns.
2. **Further diversified the portfolios** by adding assets that will help protect the portfolio's value during rising inflation (e.g. inflation-linked bonds and natural resource stocks) to all portfolios and hedge funds to the RI General Fund. This serves to reduce the volatility of the portfolio's total return and limit the impact of returns from any single asset class.
3. **Introduced flexible manager mandates** for U.S. equities (all-cap mandates as opposed to small, medium and large cap), and the RI General Fund added global asset allocation managers to provide those managers with more discretion to invest in those markets in which they saw the greatest opportunities.
4. **Established an operating reserve with designated assets for the Foundation.** At 30 June 2011, about 1/3 of the reserve was funded. Staff is in the process of funding an additional 44% of the reserve, which will bring the reserve to more than 70% funded or equal to US\$50 million.

The Investment Advisory Committee continues to look for ways to further diversify and balance portfolio risks.

Note: PolioPlus assets are not impacted by the market decline as these funds are 100% invested in short-term fixed income securities. In exchange for protecting the principal value, returns are extremely low (under 1%) on this fund.