



Madison

COMMUNITY FOUNDATION

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madisongives.org

MCF's Strategic Asset Allocation Dampens Volatility



Stock market volatility, high inflation, surging gas prices, consumer fear – what investor wouldn't question their investment strategy in these uncertain economic times?

But investors like Madison Community Foundation that follow a well-diversified and sound investment strategy focused on long-term returns understand that now is the time to be patient, not panic.

Influential investor and economist Benjamin Graham once said, "The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."

Through the adoption and maintenance of a strategic asset allocation strategy, MCF believes it has done just that.

What Is Strategic Asset Allocation?

Strategic asset allocation is the process of distributing investments across various asset classes, each of which may behave differently at a particular time. It considers an investor's risk tolerance, investment time horizon and return objective to set strategic allocation targets. This allows investors to diversify their portfolios and reduce their dependence on the performance of individual investments. Once these targets are set, other than periodic rebalancing, the investor sticks with the allocation until their objectives or time horizon change.

Because each asset class responds differently to different economic situations, a strategic asset allocation works to minimize volatility over the long term. By reducing volatility, asset allocation likely will increase the compounded portfolio return over time.

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MCF's Spending Policy Stabilizes Distributions

LEARN HOW



Rising Interest Rates Provide Planning Opportunities

Rising interest rates may make a charitable gift annuity (CGA) an even more attractive option for your charitable giving. If you've been considering a CGA, now may be a good time to talk to your advisor about how it may fit into your overall financial and giving plan.

CGAs are a popular way to make a charitable gift for two main reasons: you receive an immediate charitable deduction for gifts (such as cash or stock) used to establish the CGA, and you continue to receive income from it during your lifetime. After your death, the remainder of the CGA goes to the nonprofit organization you chose to support. (You also can establish a joint CGA, which would extend the terms over your life and that of a second person.)

Rising interest rates have led the American Council on Gift Annuities (ACGA) to increase the charitable gift rates Madison Community Foundation (MCF) and other nonprofits use when establishing CGAs, meaning a CGA established now may provide you with a higher annual income stream than in the past.

How Does a CGA Work at MCF?

When you create a CGA at MCF, you make a gift to a nonprofit organization. MCF agrees to pay a stream of income back to you during your lifetime.

When you pass away, the annuity payments cease. The remainder is either used to create a new endowment at MCF, or to supplement an existing endowment fund at MCF, depending on what you specified when you established the CGA.

How Are CGAs Taxed?

You can claim an immediate charitable deduction equal to the approximate value of the gift that will be given to the nonprofit following your death (or following the death of second person in a joint-life CGA).



Giving Back Is a Way of Life for Cathy and Ralph Middlecamp

For the Middlecamps, giving back to their community is a way of life. "It is a core value of ours to take what we need, but not to be extravagant," Cathy explained. This allows them to make charitable gifts to the causes they care about.

Cathy, originally from Queens, New York, met Ralph at UW-Madison when she attended graduate school in the 1970s. They married and settled down in Madison to pursue their careers, Cathy as a lecturer in the UW-Madison Chemistry Department, and Ralph as an executive with St. Vincent de Paul.

Honoring Their Son Through Giving

The Middlecamps lost John, their only child, to childhood leukemia in the 1990s. Both Cathy and Ralph wanted to honor his memory, so it felt right to create a fund named after him with MCF.

Today, the John Middlecamp Memorial Fund supports places John cared about, including Red Caboose, his daycare center, the Baraboo Range, where he loved playing in the woods with his friends, and Holy Wisdom Monastery, where he is buried.

"Having these conversations about the fund has helped us remember John," said Cathy. "It keeps bringing him back to us — we didn't expect that."

Because the John Middlecamp Memorial Fund is designated to support specific organizations, Cathy and Ralph can grow the fund by making qualified charitable distributions from their individual retirement accounts.

"It doesn't ever come into our taxable income, so it's a sensible way to make donations," Ralph observed.



Strategic Asset Allocation, continued from page 1

Exploring MCF's Strategy

The chart below reflects MCF's target asset allocation for its two permanent endowment portfolios as of 3/31/22.



For decades, investors concentrated on three traditional asset classes – stocks, bonds, and cash or cash equivalents. This is the asset mix used in our environmental, social and governance (ESG) portfolio.

Of the three traditional asset classes, stocks have always been considered the most aggressive and volatile. But equities typically compensated investors for these risk elements with the most attractive total returns. Bonds, on the other hand, traditionally produced lower total returns than stocks, but their volatility also was lower.

Going Beyond Stocks and Bonds

MCF's diversified portfolio goes beyond this basic allocation to include a healthy mix of what are often referred to as alternative investments: hedge funds, private equity funds, natural resources and real estate. These asset classes can further diversify a portfolio because historically their performance is not tied to that of traditional asset classes.

Private investments play a dual role: They compensate investors by potentially returning a "liquidity premium," a return above what could be achieved by investing in public markets, and they act as a counterpoint to the volatility of public markets.

For example, real assets such as private natural resource and real estate investments protect against inflation, while a diversifying strategy, such as a hedge fund, is designed to protect the portfolio in a rising interest rate environment.

In the first quarter of 2022, MCF's core real estate investment portfolio was up 7.7% and outperformed its benchmark by 30 basis points. This performance helped hold MCF's overall portfolio return for the quarter to a loss of 2.95%, performing much better than the S&P 500, which lost 4.6% in the first quarter.

Protecting Future Returns Strategically

Strategic asset allocation is considered the most important investment decision an investor makes. It has proven to be effective, but it requires that investors stay the course and avoid making short-term, emotional decisions based on current market conditions.

Remember, what really matters is the portfolio's ability to help us reach our long-term goal: to continue to provide support to the nonprofit organizations that our fundholders have chosen to support. We do this by remaining focused on stability and long-term portfolio growth, maintaining the discipline required to ride out the economic uncertainty of the moment.



Planning Opportunities, continued from page 2

Typically, a portion of the annual payment you receive from the CGA is a tax-free return of principal; the remainder of the payment is subject to tax as ordinary income or capital gains, depending on the types of assets you used to fund the CGA.

How do Rising Interest Rates Make CGAs More Attractive?

When you create a CGA, MCF calculates the stream of payments available to you during your lifetime based on the gift annuity rates suggested by the ACGA. (These rates represent the percentage of the gift's value that is distributed to you each year). The ACGA's new rates will increase the annual amounts of income you will receive for a CGA established on or after July 1, 2022.

The tables below show the increases, which range from 0.4% to 0.6% depending on the donor's age.

One Life		
Age	Old Rate	New Rate
60	3.9%	4.5%
70	4.7%	5.3%
80	6.5%	7.0%
90	8.6%	9.1%

Two Lives		
Ages	Old Rate	New Rate
60/65	3.7%	4.1%
65/70	4.0%	4.5%
75/80	4.9%	5.5%
85/90	7.1%	7.5%

How Do I Establish a CGA With MCF?

Setting up a CGA with MCF is relatively simple. We recommend that you do the following:

- 1. Consult with your financial and/or tax advisors.** CGAs can be very effective planning tools, but you should make sure to understand the impact establishing a CGA may have on your overall giving plan.
- 2. Contact MCF to begin the process.** To establish your CGA, MCF will need your full name, birth date, the amount of your gift, the organization it is to benefit, and the type of assets you will use to fund the gift (i.e., cash, stock, etc.). MCF currently requires a minimum gift of \$30,000 for a CGA that will establish a new endowment and \$10,000 for a CGA that will fund an existing endowment with MCF.
- 3. Execute your CGA agreement.** MCF will provide you with an agreement to sign, as well as a calculation showing the amount of the gift reportable as an immediate charitable deduction and the annual annuity payment you will receive. MCF also will provide you with a document confirming how much of your annual annuity payments will be taxed as ordinary income or capital gains.

If you have any further questions regarding CGAs, or if you are interested in establishing a CGA with MCF, please feel free to contact Carmen Jeschke at **608.446.5932** or by e-mail at cjeschke@madisongives.org.

[Download the CGA Fact Sheet to learn more.](#)



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A Second Fund Supports Current Passions

In late 2021, the couple established a second permanent fund — the Cathy and Ralph Middlecamp Fund — which supports some of their current passions, including the local and national councils of the Society of St. Vincent de Paul, The Nature Conservancy, the UW Nelson Institute for Environmental Studies, and causes that benefit women and girls in our community through MCF's A Fund for Women.

Cathy and Ralph take a long-term perspective on their philanthropy and have named each of their funds as beneficiaries in their estate plan. Their endowments at Madison Community Foundation are a permanent legacy for their family — a way to benefit the causes that are meaningful to them for generations to come.

Did you know?

MCF can accept a wide variety of assets to start a new endowment fund or add to an existing fund, including:

- Cash
- Stocks and mutual fund shares
- Qualified charitable distributions from your Individual Retirement Account
- Life insurance

Whether you want to make gifts now, during your lifetime, or through your will or estate plan, we're here to help you achieve your charitable giving goals. To learn more, visit www.madisongives.org/ways-to-give or call us at 608-232-1763.

Upcoming Dates to Remember

AUG

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Letters of Inquiry Due for Community Impact Grants

MCF's Community Impact grant application process begins with the submission of a Letter of Inquiry. You can [learn more about the process here](#).

SEPT

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Legacy Society Brunch

Legacy Society members, save the date. We'll be celebrating you at the new Madison Youth Arts Center. Not a member yet? Contact us to learn how [you can leave a legacy](#).

MAY 2023

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Save the Date for Madison Gives 2023

Mark your calendars now for next year's Madison Gives celebration at Monona Terrace. Stay tuned for more details.

Last Word

As the community's foundation, MCF works to help community members achieve their philanthropic goals, allowing them to tap into MCF's expertise in charitable giving, deep knowledge of the community, and commitment to permanent, sustainable philanthropy.

Have an idea for a story? Have exciting news you'd like to share?
Join the conversation.



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