

Response to ACS Member Inquiries Regarding 2008 Investment Performance

There has been considerable confusion as to what caused the Society's financial position to deteriorate in 2008. While it's true that the Society's unrestricted net assets (or "reserves") declined from \$212 million at the end of 2007 to \$60 million at the end of 2008, a decline of 72%, the underlying causes of the decline are only partially attributable to poor investment returns. In fact, the \$152 million decline in unrestricted net assets is actually the sum of four factors:

- 1) A positive net contribution from operations of **\$9.7 million**
- 2) A deficit of **(\$1.2 million)** from New Ventures
- 3) A decline in the market value of investments of **(\$85.8 million)**
- 4) A decline in the funded status of the Society's Postretirement Benefit Plans of **(\$74.8 million)**.

In terms of investment returns, 2008 was obviously an extraordinary year. ACS suffered through the worst capital market environment since The Great Depression. The US stock equity market declined (37%), international stocks fell (43%), and emerging markets plummeted (53%). The collapse in the capital markets had a significant impact on the Society's financial position. First, the ACS investment portfolio (approximately \$335 million at January 1, 2008) while conservatively managed, did have average stock exposure of approximately 56% throughout 2008. As a result, our investments declined (22.7%) for 2008. In dollar terms, this resulted in a decline in the market value of the portfolio of (\$85.8 million). While this return is very disappointing, independent benchmarking by several investment consulting firms (e.g., Callan Associates, Cambridge Associate and Mercer) confirms that the Society's investment performance actually compared favorably to most university endowments and foundations. The median decline in university endowments and foundations was approximately (28%).

Unfortunately, the impact of the adverse capital markets wasn't limited to the Society's investments. The historic decline in the capital markets also impacted the funded status of the Society's postretirement benefit plans (the Defined Benefit Pension Plan and Retiree Medical Insurance Plan). For example, the Defined Benefit Pension Plan (approximately \$491 million at January 1, 2008) experienced a return similar to that of the Society's investment portfolio which resulted in a decline in the funded status of the Plan (\$74.8 million). As required by Generally Accepted Account Principles, any change in the funded status of these plans must be recorded on the Society's balance sheet as a charge to unrestricted net assets. With the market collapse last year, the Society's Plan went from being overfunded (112%) in 2007 to just 70% funded in 2008. This situation is not unique to ACS. The Society has received several surveys that show most corporate pension plans ended 2008 with funding levels of 65% to 70%, and that many state and municipal plans across the United States have considerably lower funding levels.