



Soaring Society of America Foundation

October 22, 2002

Open Letter to SSA Membership

Dear SSA Membership:

Purpose:

The SSA, through the SSA Foundation, manages and invests long-term trust and endowment funds that have been established for various purposes in support of soaring activities. Special gifts from members, which form the backbone of the Foundation, are very important to the SSA and its ability to operate in the future. The goals of the Foundation are to ensure that such gifts are well managed and put to good use, and, of course, to encourage more giving. This letter is intended to provide the SSA membership with a common set of facts and information concerning the Foundation's activities as well as to answer questions and concerns that have been expressed by some members.

Questions and suggestions are always welcome.

Trust Funds:

Since its inception the Soaring Society of America has been the beneficiary of a number of large contributions designated either for the general use of the Society or for a more dedicated purpose. A descriptive listing of current Trust Funds and the purposes to which they are dedicated is provided as an addendum to this letter.

SSA Foundation:

In 1998, the Soaring Society of America created the Soaring Society of America Foundation for the purpose of, among other things, managing and administering endowment funds for the benefit of the Society. The SSA Foundation, as a stand-alone entity from the Soaring Society of America, has its own corporate identity, operating by-laws and designated officers. The concept of the SSA Foundation is that an autonomous foundation managed by independent trustees would be the best way to solicit and manage the various trusts dedicated to support the Soaring Society of America.

The corporate identity of the Foundation structure provides for long-term security and stability for management of endowed funds. Further, the Foundation structure provides the internal discipline required to preserve and to manage long-term trusts and endowments thus assuring contributors that their long-term interests will be preserved.

Trustees:

As was the case prior to the establishment of the Foundation, Trustees are elected by the SSA Board for three year terms. It is their direct responsibility to administer the income and disbursements of the various Trust Funds, to invest funds with an eye toward

an appropriate balance of long-term performance and acceptable risk, and to report performance on a periodic basis to the SSA Board of Directors.

With establishment of the SSA Foundation, the Trustee roster was increased from three to six, with the sitting SSA Treasurer and the sitting SSA Chairman of the Administrative Committee as automatic one year term members. Decision-making is by majority vote.

All Trustees are volunteers and serve without compensation. Individuals who have served as Trustees over the past ten years and their terms are:

Former Trustees:

1993-5 Dick Hall, Harner Selvidge, Ted Sharp

1996-8 Dick Hall, Doug Jacobs, Sterling Starr

March '98 Foundation Established

1998-01 Dick Hall, Doug Jacobs, Sterling Starr, Bill Sproull, Brian Utley

Jim Short

2002 Seated Trustees

Bill Sproull, SSA Foundation Chairman - Term expires 2004

Sterling Starr, SSA Foundation Treasurer - Term expires 2003

Eric Mozer - Term expires 2005

John Seaborn - Term expires 2005

Doug Jacobs - Appointed SSA Treasurer - Term annual

Jim Short - Appointed SSA Chair - Administrative Committee - Term annual

Investment Approach

The Trustees act as investment advisors for the Foundation portfolio. Their objective is long term capital appreciation of the portfolio, while meeting a current requirement for annual distributions. It is the policy of the Foundation to support SSA approved programs at a level of 5% of the yearly Fund Balance for current activities. This level provides both a stable level of funding to the program and is within the historical average earnings from fund investments. It continues to be the policy of the Foundation not to curtail program funding in down market years, such as we are currently experiencing, or to over-fund programs in high market growth years, as was experienced in the late 90's.

Investment strategy is discussed at semi-annual meetings or in direct phone/email discussions. An excerpt from the February 7, 2002 Foundation Trustee meeting at the Ontario Convention is reproduced below to give members a sense of these deliberations:

"After much discussion, it was decided, by unanimous vote that the current policy of maintaining generally 70% invested in Equity Funds and 30% invested in Fixed Income Funds will continue. Equity Funds will be invested per the following Category distributions:

<i>Large Cap Blend (Vanguard 500 Index)</i>	<i>15%</i>
<i>Mid Cap Blend (Vanguard Midcap Index)</i>	<i>15</i>
<i>Large Cap Value</i>	<i>10</i>
<i>Mid Cap Value</i>	<i>10</i>
<i>Small Cap Value</i>	<i>10</i>
<i>Small Cap Blend</i>	<i><u>10</u></i>
	<i>70%</i>

Equity Funds will be purchased using the following criteria:

- *Selected funds will be four and Five Star funds as rated by Morningstar Investment Services*
- *They will be no-load funds*
- *They will be among the best performing funds in their Category ranked on a 1 year, 3 year and 5 year basis by Morningstar*
- *The fund manager will have been in place three years or more*
- *The fund risk rating by Morningstar will be either Low or Average*

Candidate funds in these Categories, meeting these criteria, were presented for review”

In recent years, Trustee Starr has done yeoman work as the point person for executing Trustee-approved strategy and for tracking performance. All Trust funds are co-mingled for investment purposes but each fund’s value is tracked separately through accounting procedures. Thus the investment performance of each is identical. Differing contributions and distributions in any particular year affect the investment balance of each fund.

Holdings in both equities and fixed income instruments are primarily in mutual funds offered by nationally recognized investment management firms. No individual stocks or bonds are currently held.

Custodian Bank

Wells Fargo in Albuquerque, NM serves as Custodian for the Foundation funds. Based on instructions from the Trustees, the Bank executes purchases and sales of securities, but does no investment advising. Fees for this service are approximately 60 basis points (0.006%) of asset value annually.

Major Investment Allocations

While not a complete rendition of all transactions, the following snapshot asset allocation percentages were representative of an investment strategy reflecting a long term buy and hold rather than short term trading orientation.

Date	Fixed Income Percentage	Equity Percentage	Cash Percentage	Month End Dow Industrials
March 1993	77%	22%	1%	3,435
Feb 1995	75%	21%	5%	4,011
Feb 1997	30%	60%	10%	6,877
Feb 1999	40%	60%	0%	9,306
March 2000 to date	30%	70%	0%	10,921

The Dow Jones Industrial average peaked at 11,722 on January 14, 2000 and is currently at 8433 on October 22, 2002.

Term Loan Extended to the SSA:

As a result of the additional costs experienced in the computer conversion, a \$160,000, 3 year term loan was arranged at the Prime Rate from the Foundation’s Life Trust Fund to the SSA. Under the terms of this loan, the SSA makes regular quarterly payments to the Foundation.

The SSA has met every payment and therefore has reduced the balance due the Foundation to \$110,000 currently. The Trustees feel it to be good policy to handle financing within the SSA whenever possible at regular commercial rates. While no additional financing needs are currently anticipated, the Foundation maintains a Line of Credit for \$100,000 to the SSA, which, if utilized, would require repayment within one year and interest at the Prime Rate.

Reporting:

Monthly reports are received from Wells Fargo and converted into spreadsheet format. In addition to realized and unrealized gains and losses, these reports summarize contributions received and distributions made for the period. These reports are circulated to all Trustees and will shortly be made available to the members on a new financial section of the SSA web site.

Investment Performance:

A seven-year history of performance, including contribution, dividend and interest income less expenses and distributions, is included below.

FY	BEGIN MKT VAL	CONTR. & RCPTS	DIV/INT INCOM	CAPITAL GAIN/ (LOSS)	EXPENS	DISTRIBU TIONS	LOAN TO SSA (OUT)/IN	END MKT VAL	TOTAL RETURN % **
95	750,729	3,937	50,047	52,250	3,140	51,878		801,994	13.7
96	801,994	6,375	58,989	13,805	3,403	42,495		834,973	8.9
97	834,973	232,985	59,159	12,017	6,680	76,907		1,055,547	7.1
98	1,055,547	21,167	72,824	5,090	5,850	40,250		1,108,527	6.9
99	1,108,527	123,518	72,866	79,817	6,586	80,809		1,297,233	12.9
00	1,297,233	****	33,165	(42,046)	7,491	39,000		1,241,851	-1.3
01	1,241,851	178,100	26,552	(254,605)	6,669	137,000	(144,762)*	888,323	-18.6
02***	888,323	102,015	14,840	(68,996)	4,913	81,054	49,879	900,094	-7.7

* Includes loan of \$160,000 from the Life Membership Trust Fund to the SSA in 2001, offset by repayment of \$15,238

** Total Return Annualized (INT + DIV+CAP GAIN- EXP)/(BEG MKT VAL + 0.5xCONTRIB-0.5 DISTRIB) x 365/NO. OF DAYS where CAP GAIN = END MKT VAL + EXP + DISTR – INT – DIV – CONTRIB – BEG MKT VAL

*** Through August 31

**** Contributions for the year 2000 are aggregated with those in 2001 due to record keeping problems experienced during the computer system conversion

NOTE: The above table summarizes the performance of the Soaring Society of America Foundation portfolio for each fiscal year noted, beginning November 1 of the previous calendar year. This portfolio includes all Trust, Undesignated and Custodian funds under Foundation management, which are collected together for investment purposes, but which are separately managed using accounting procedures.

Discussion:

The facts above indicate that there is a well-defined governance structure around the SSA endowment funds. Foundation Trustees are serious and dedicated long-term SSA volunteer members, all of whom have held other offices in the SSA Board structure, and all of whom have excellent business and financial credentials. All are freely elected by the SSA Board of Directors, must periodically report performance to them, and are subject to removal by Board vote.

The size of the SSA endowment, while large in personal terms, is small in investment management circles. Most professional investment management firms set lower limits on the size of accounts they are willing to individually manage to amounts well above \$1 million. Engagement of a management professional would cost on the order of 2-3% per year, and the SSA funds would most likely be co-managed within a larger pool of investments and get no individual attention.

Mutual funds, because of their inherent diversification, professional management, and ready liquidity, have been a reasonable choice for investment of SSA funds. The equity and fixed income funds selected are offered by some of the most well known names in the mutual fund business. Other than short term cash investments, no individual stocks or bonds have been purchased since at least before 1995.

The allocation of assets since 1997 at 60-70% equities, 30-40% debt is not at all unusual in professional investment management circles and would suggest a long-term growth strategy. Most pension funds, endowment funds and the like, which are invested for long term capital appreciation rather than to maximize current interest and dividend income, would fit a similar profile.

As the economy recovered from the 1989-90 recession, equity values began to rise, culminating in an unprecedented market rally in the late '90's. Growing criticism for excessive conservatism was leveled at the sitting Trustees in the 1995-6 period as stocks ran up dramatically and double digit annual returns came to be expected as a given. In response the Trustees changed their allocation to more heavily weight stocks in February of 1997 when the Dow Industrial Average was in the high 6000 range. This strategy was quite successful until the market peaked at just below 12,000 in 2000. With the subsequent correction, a good portion, but not all of this performance has been reversed as the Dow has fallen to the low 8000 range. Along the way, the fixed income portion of the portfolio has performed reasonably well as market interest rates have fallen over that time period. With 20-20 hindsight it would have benefited the SSA to have moved into equities earlier in the decade (and, of course, sold at the top in 2000). But as highlighted by no less an authority than John Cochran, Professor of Finance at the University of Chicago in a recent communication, nobody can predict the stock market – would that we could. In retrospect, neither the selection of a heavier equity allocation nor the timing of the change can be criticized as imprudent, and inflammatory rumors to the effect that Foundation funds were moved into equities at the top of the market and lost simply do not fit the facts.

Again, questions and suggestions from the membership are welcome.

Sincerely,

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Addendum:

The original trusts designated for the SSA Foundation include:

Life Membership Trust Fund

Trophy Endowment Fund

The SSA Foundation Trustees established this fund to provide financial support for the various awards, trophies and medals awarded by the Society. Funds in this category are dedicated and may be used only for trophies, awards and medals.

General Endowment Fund

The endowment trust contains within it several different program funds. The Trustees of the SSA Foundation have found this particular category of funds to be a practical way to administer funds dedicated to providing income to the Society for either special purpose such as the life trust or funds allocated to Society operations. Currently the different funds in the general endowment include

Eagle Program Funds

Life Membership Trust Fund

General Endowment Trust Fund

SSA Designated Trust Fund

Wolfgang B. Klemperer Memorial Fund

U.S. Team Trust Fund

Funds within this segment of the portfolio are contained in two memorial trusts dedicated exclusively for the operational support of the U.S. Teams competing in sanctioned world-class competition comes from two specific trust funds – the Wood and the Robertson trusts. For a comprehensive look at the Robertson Fund, go to <http://www.robertsontrust.com>. Kudos to John Seaborn for his excellent work on U.S. Team fundraising and support.

Lawrence Wood Memorial Trust Fund

Robert L. Robertson Memorial Trust Fund

Youth Funds

This segment of the Foundation's portfolio contains those funds dedicated to the support of youth and their educational goals. Through the application process young persons may apply to one or more of these funds for scholarship support. The current array of youth funds include:

Paul Kolstad Memorial Fund

Gross Cadet Youth Flight Scholarship Fund

Richard Bultman Memorial Fund