

CHAIRMAN'S STATEMENT – 2022

The McCune Foundation supports non-profit organizations that advance the quality of life for the people of Southwestern Pennsylvania by fostering community vitality and economic growth to improve the region for current and future generations.

The McCune Foundation was established in 1979 by the will of Charles L. McCune. The donor, a Director of The Union National Bank of Pittsburgh for 56 years, served as its President from 1945 until 1972, and then as Chairman of the Board until his death. His life was spent providing capital to people with good ideas and the ability to execute them.

Charles McCune also gave generously to charitable organizations, mostly in the Pittsburgh area, while seeking no public recognition of his philanthropy. He established the Foundation in memory of his parents, Janet Lockhart McCune and John Robison McCune. He left us a legacy less of what to do, and more of how to do it. As those who knew him will attest, his style of dealing with people and with challenges would be described as purposeful, simple, and direct. The Foundation he created continues to provide capital to people with good ideas and the ability to execute them.

In the McCune Foundation's establishing document Mr. McCune required that all the assets of the Foundation be paid out in grants by October 16, 2029 and the Foundation cease operation on that date. The 2016 Chairman's Statement gave a history of the major decisions the Distribution Committee has made to meet this requirement. Our commitment to the Sunset Strategy was made fully apparent in 2017. While our work continues in Education, Health and Human Services, Humanities and Economic Development, we no longer organize our grantmaking around these categories. Now, our Sunset Strategy deals with Sunset Grants, Concept Testing, Readiness and Ending Well with each being described in the Annual Report.

In 2022, the Distribution Committee disbursed 90 new and conditional grants totaling \$51,288,575. The 2022 Annual Report lists these grants. Our average grant size this year is \$569,873. Exactly 80% of all our grants made this year were dedicated to the Sunset Strategy but, more importantly, almost 95% of all dollars granted were dedicated to the Sunset. The spending rate this year was 17.5% of invested assets at the beginning of the year. Each of these numbers are up significantly from the year before. This is due to the Big Idea grants approved this year and the spending rate that is necessary to meet our termination in seven years.

Back in the Business of Big Ideas

When chronicling the Distribution Committee's early decisions about how to implement our spend-down, early versions of these statements talk a good deal about Big Ideas. This was going to be our sole method of making large, impactful grants. Big Idea grants are designed to be transformative to the organization, accelerative of evidence-based practices and be most impactful outside the walls of the organization. Our first three Big Idea grants were made in 2012 and 2013 to Carnegie Mellon, Innovation Works, and Bridgeway Capital. We took several years off to evaluate the concept and learned that other strategies, like Ending Well and Sunset grants, would have to be developed for us

to reach beyond a select few organizations. Since 2013 we have only made one Big Idea grant – to ACTION-Housing in 2017.

In 2022 we re-entered the business of Big Ideas. At its May meeting, the Distribution Committee approved a grant to Dollar Energy to build a Solar Generation Farm that is projected to produce over \$250 million over the next 30 years for their Hardship Program. In September, the Committee approved grants to Carlow University to endow their Early Childhood Apprenticeship Hub and to the Community Foundation for the Alleghenies for Early Childhood Education and Community Development endowments. All three grants were the direct result of Concept Testing grants that demonstrated the efficacy of the organizations' planning.

The cornerstone of most successful Big Idea grants is the Concept Testing grant. These were formalized around 2017, and we are finally seeing our pipeline of future grants filling up with the Big Idea grants that result from this work. It is likely that the next seven years will continue this year's trend of multiple Big Idea grants.

Time to Pay the Piper

Since 2018 these Statements have repeated the comment that the rising markets have made spending down our asset base very difficult as the Foundation moves toward its termination. In fact, from 2013 thru 2021, over \$280 million was distributed without seeing any significant reduction in our asset base. This steady replenishment by the markets forced us to move off a Constant Stream approach to setting our grants budget and to create a gentle upward curve until we slope down to 2029. During all these years, we would smile when seeing the asset reports when our real job was to drive the number down.

The smiles are gone now, and it is time to pay the piper.

The invested assets for the McCune Foundation started the year at \$302 million and finished the year at \$216 million. Our unprecedented level of grant distribution accounts for sixty percent of this loss, but the rest were the markets taking back what they had given. In 2017 a plan was developed with the Trustee where the stock portion of our portfolio would be reduced by 5% each year. This would allow us to better forecast distributions and continue the multi-year work needed to create optimal grants. The decision to reduce our stock exposure was a good one, but it was not enough to protect us fully.

Everyone knows the mix of conditions that have gotten us here. Unfortunately, for most people, these conditions have only been experienced in a textbook. Volatility is so large as this is being written that it is impossible to predict where we will be when this piece is posted – let alone where we will be in the next six years.

During the next few meetings, the Distribution Committee will be dealing with the same issues as most other foundations. What is the right amount of risk for our portfolio? Do we reduce our grants budget to protect our assets? Do we increase our grants budget to support our non-profit partners? The answers to these questions will be different for each

foundation. Many of the answers will be based on whether a short time horizon or a long one is used. The only answer for the circular questions is to stop going in circles and pick an exit point. Next year's statement should indicate where this foundation ended up.

Since the McCune Foundation is sunsetting, we also must deal with other questions. Can our partners continue the strategic planning that is so necessary for our work, or will day-to-day decisions overwhelm them? Most importantly, what is the optimal way to grant out our remaining assets in a way that is true to our mission and guidelines? The clarity and focus that sunsetting brings is only becoming more acute as our focal length decreases.

These economic conditions are forcing a realization on us that has been a long time coming. Going out of business in 2029 is no longer theoretical. Even having only seven years left has not brought this realization home in quite the same way as the reduction in assets has. Laurel and her team have been working hard for a long time to set us on the right path toward termination. The Distribution Committee and Trustee have been making decisions for almost twenty years to prepare us. Our grants are now carefully designed to have our partners stronger in anticipation of our absence. Our termination is imminent and inevitable. Our resources are limited. We will not be able to support all the deserving non-profits in Southwestern Pennsylvania. This realization could be crushing but we will not let it be. For the next seven years we will continue to work with our partners to move them forward and make them stronger.

Farewell

Volunteers are so necessary for all non-profits to work properly. Yet we offer them little other than the opportunity to participate in the fulfillment of our missions. In our governance, people step forward to take on huge responsibilities even when they are heavily committed elsewhere. It is amazing that we can fill these positions at all.

Dawne Hickton is just such a volunteer. Six years ago, Dawne quickly said yes when she was asked to join our Distribution Committee even though she had had almost no contact with us or our work. Dawne was then stalwart in preparing for and attending our meetings and contributing her expertise when applicable. Dawne even volunteered for service on several ad hoc committees during her two terms on the committee. We could not have asked for any more from someone with so many demands on her time from her family and work. Dawne will be greatly missed.

Michael M Edwards
Chair – Distribution Committee