



November 28, 2008

AVI CHAI Trustees

Dear All,

When we began our autumn meetings this year, the financial markets were unsettled, and as the meetings progressed, the situation became worse and worse. In the course of the first ten months of 2008, AVI CHAI has lost or spent - approximately \$190 million. A quarter of that has been our philanthropic and overhead activities, and the balance has been eaten, in huge bites, by the market's deterioration.

When we met, I suggested that we not panic and that we continue with "business as usual"; however, that is no longer possible. It has become clear that this is going to be a long and difficult period, and therefore it is incumbent upon us to consider the appropriate action that we must take.

In the course of the past two weeks, Lauren, Mem and I have had a series of conversations on what must be done in order to maintain the philanthropic and administrative vitality of the Foundation. I have enclosed our most recent (31/10/08) portfolio report, which discloses that our assets have been reduced to \$554 million. In addition, although it is not on our financial statements, we have outstanding school loans that will mature - on average, over the next two and half years - of approximately \$30 million. That gives you a clear picture of our capital. However, we also presently have outstanding grant commitments, over the next four years, of approximately \$95 million, some of which are internal AVI CHAI projects which we could possibly reduce in scope or curtail, but the vast bulk are commitments we have made, via grant letters, to the many organizations with which we work. However, let us remember we also have a goal of providing an endowment of up to \$150 million for Beit Avi Chai.

The question before us has been raised in earlier meetings, even at a time when our asset base was considerably higher. Do we continue to spend at current rates of approximately \$60 million a year and therefore, most probably, be forced to curtail our activities long (5-6 years) before 2020, or do we take a hard look at all we are doing today, and decide that after paying off, or perhaps modifying our existing commitments, that we consider funding only those projects and programs that the Trustees, as a group, consider to be our highest priorities,

אבי חי ישראל ע"ר

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thereby giving the Foundation much greater financial flexibility. In an era of plenty, all that we have done has been considered, at least when we authorized the grants, to be of value in pursuing the Mission and goals of AVI CHAI. However, in a period of scarcer resources, Lauren, Mem & I felt that an effort must be made to curtail support for those activities that although good, might not be amongst the very best things that AVI CHAI funds.

Alan Feld will be running the Bernstein model to determine what the implications might be to continuing with the current spending pattern (see above), or reducing it to say \$50 or \$40 million per annum. I have no doubt that you have quickly assimilated the impact on some of our programs of an overall 20% or 33% reduction. Excruciatingly painful decisions will have to be made; yet, nevertheless, they may be unavoidable.

You may all recall that a short time ago, David Tadmor suggested that we should consider making a 5% across-the-board cut. That is no longer sufficient, in our view. So therefore, we propose a process that will enable us to determine what the Trustees think are the highest and lowest priorities for AVI CHAI, in terms of existing projects. We propose to ask our three executives – David, Eli and Yossi – to create, perhaps with the assistance of their colleagues – a short, less-than-one-page, summary of each of our programs, including our previous spending and future commitments, and an evaluation grid that will aid the Trustees in prioritizing our activities along geographic lines and in broad subject categories. That will enable us to determine what we think is most important, down to what we think is least important. We expect to include the recommendations of management, to assist you in determining those projects that are priorities, or those we will unfortunately have to either shed, or significantly reduce the funding for. Only by engaging in this process will we be in a position to free up resources for new philanthropic initiatives as they arise.

Once we receive your approval for us to move forward in this manner, we will discuss the process with David, Eli and Yossi. We have given considerable thought to why doing this form of reevaluation of our projects makes sense. We believe that only with a blind vote by Trustees individually will we be in a position to know what the appropriate rankings are.

Based on the results of the rankings, the staff will propose a new philanthropic plan for your consideration, including whether any new projects should be started in the course of 2009, how we will have to go about notifying our grantees of our plans, and perhaps how we communicate more broadly with the philanthropic world of which we are a part. It is our expectation that we can have the materials to you within three weeks with an expected turnaround on your part within seven days.



Additionally, permit me to say in closing how well our management and staff have performed under these unsettling conditions, and have endeavored to work with our grantees to make them aware of the changing circumstances, and the need to plan for difficult times ahead.

Please let Evan David Feinsilver know (Tel: +972-2-621-5366 or edf@kerenkeshet.org.il) that you are comfortable with our suggestion, so that we can begin to move forward. Assuming you agree, we expect to have your response by the first week in January. The results, along with a proposal for discussion of a restructured philanthropic program, will be the topic of the Trustees' meeting previously scheduled for Wednesday, 4th February.

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Yours sincerely
Arthur W. Fried

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