JUF/Jewish Federation of Metropolitan Chicago, IL

Update following upgrade to Aa2

Summary
JUF/Jewish Federation of Metropolitan Chicago's (JUF/JFMC; Aa2 stable) excellent credit quality is highlighted by its significant and growing total wealth. In addition to that strong and growing wealth, JUF/JFMC has reduced total debt, with some reduction in debt structure complexity and increased liquidity relative to demand debt. Credit quality is underpinned by its prominent market position as a leading Jewish philanthropy in the metropolitan Chicago area with material operating flexibility to adjust grant-making expenses. Strong gift support and endowment spending fuel the federation's grant making ability and strong operating performance. An offsetting factor is that both gift revenue and investment income can be sensitive to economic and market factors. Offsetting factors include high reliance on gift revenue and investment income that are sensitive to cyclical economic and market volatility. Other challenges include exposure to potentially expanding social needs of affiliate institutions that serve vulnerable populations.

On July 22, 2021, Moody's upgraded JUF/JFMC's issuer rating to Aa2 from Aa3.

Exhibit 1
Robust wealth growth along with declining leverage buoy JUF/JFMC's excellent credit quality

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Source: Moody’s Investors Service
Credit strengths

» Substantial total wealth of over $2 billion provides a strong buffer to debt and expenses

» Solid market position as a leading Jewish philanthropy in the Chicago Metropolitan area with historically strong community support and fundraising

» Conservative budgeting and built in flexibility to reduce grantmaking in response to lower revenue

Credit challenges

» High reliance on gift revenue and investment income that are sensitive to economic volatility, demographic shifts and reputational risk

» Geographic concentration of services primarily in Chicago limits donor base relative to large, national and international peers

» Organizational complexity with numerous affiliates, related grant recipient organization and intercompany debt guarantees

Rating outlook

The stable outlook reflects our expectation that JUF/JFMC will maintain its extensive wealth providing robust support for debt, strong fundraising and make adjustments to grant making in line with resources.

Factors that could lead to an upgrade

» Substantial growth in financial resources on an absolute level that would provide an even stronger buffer for debt and operations

Factors that could lead to a downgrade

» Deterioration in financial reserves or liquidity

» Prolonged decline in gifts or operating performance

» Substantial increase in debt without offsetting growth in reserves and revenue

Key indicators

Exhibit 2

<table>
<thead>
<tr>
<th>JUF/JEWISH FEDERATION OF METROPOLITAN CHICAGO, IL</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Operating Revenue ($Million)</td>
<td>181</td>
<td>217</td>
<td>379</td>
<td>266</td>
<td>371</td>
</tr>
<tr>
<td>Annual Change in Operating Revenue (%)</td>
<td>14.5</td>
<td>19.4</td>
<td>74.8</td>
<td>-29.7</td>
<td>39.4</td>
</tr>
<tr>
<td>Total Cash &amp; Investments ($Million)</td>
<td>1,146</td>
<td>1,307</td>
<td>1,524</td>
<td>1,590</td>
<td>1,822</td>
</tr>
<tr>
<td>Total Adjusted Debt ($Million)</td>
<td>361</td>
<td>354</td>
<td>331</td>
<td>298</td>
<td>349</td>
</tr>
<tr>
<td>Spendable Cash &amp; Investments to Total Adjusted Debt (x)</td>
<td>3.0</td>
<td>3.5</td>
<td>4.4</td>
<td>5.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Spendable Cash &amp; Investments to Operating Expenses (x)</td>
<td>6.9</td>
<td>6.9</td>
<td>7.4</td>
<td>7.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Monthly Days Cash on Hand (x)</td>
<td>1,403</td>
<td>1,231</td>
<td>1,340</td>
<td>1,221</td>
<td>1,153</td>
</tr>
<tr>
<td>EBIDA Margin (%)</td>
<td>12.8</td>
<td>17.3</td>
<td>48.0</td>
<td>23.5</td>
<td>27.3</td>
</tr>
<tr>
<td>Three-Year Average Gift Revenue ($Millions)</td>
<td>123</td>
<td>119</td>
<td>181</td>
<td>221</td>
<td>281</td>
</tr>
<tr>
<td>Annual Debt Service Coverage (x)</td>
<td>7.1</td>
<td>5.2</td>
<td>23.9</td>
<td>8.0</td>
<td>45.5</td>
</tr>
</tbody>
</table>

Source: Moody’s Investors Service; JUF/JFMC audited financial statements

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Profile
Founded in 1900, The Jewish Federation of Metropolitan Chicago is a nonprofit philanthropic organization that provides grant support for Jewish social services and humanitarian affiliate agencies and other beneficiaries. Grants are primarily focused on charitable, educational, social welfare and health activities. Jewish United Fund conducts annual fundraising as a nonprofit social services organization and consolidated with JFMC in fiscal 2020. As of fiscal 2020 JUF/JFMC had total cash and investments of $1.8 billion.

Detailed credit considerations

Market position: excellent brand and strategic position demonstrated gift driven wealth growth
JUF/JFMC’s mission-based programs will continue to attract donors and volunteers to maintain its strong fundraising capabilities underpinning its excellent brand and strategic positioning. The annual gift revenue for JUF/JFMC was $323 million for fiscal 2020, which has grown nearly 60% since fiscal 2016. In fulfilling its mission, JUF/JFMC made $242 million in grants, distributions and appropriations to its affiliates and other charities in fiscal 2020. While JUF/JFMC’s strategic position is constrained by a limited geographic scope and revenue that are sensitive to social risks and economic volatility, gift support did not wane during the height of market stress stemming from the pandemic-related market shocks. Excellent investment returns in fiscal 2021 will augment JUF/JFMC’s wealth as well as that of many key donors. Additionally, revenue volatility is largely offset by JUF/JFMC’s generally flexible expense structure related to grants and programs that can contract as needed.

Operating performance: excellent operating performance supported by return on wealth and solid gift revenue
Operating performance will remain strong, driven by investment returns, gift support and a flexible expense structure. As a philanthropic organization that maintains an endowment in perpetuity, operating performance is typically characterized by total wealth and returns on investments. While JUF/JFMC is a balance sheet heavy organization, its operations additionally generate very strong cash flow. Fiscal 2020 gift revenue comprised 76% of operating revenue, while investment returns generated nearly 22% of operating revenue. With the onset of the pandemic, JUF/JFMC conservatively reduced its expenses by almost 15%. The better than expected revenue performance in conjunction with expense reductions generated a strongly positive EBIDA margin of 29%. Growing endowment distribution, responsive donor support and conservative budgeting will produce similar operating results in fiscal 2021.

Wealth and Liquidity: high wealth with solid growth underpins excellent credit quality
Total wealth of $1.8 billion as of fiscal 2020 had grown 46% since 2016 and benefited from strong investment returns. Returns in fiscal 2021 are expected to exceed 20% and will increase total wealth to over $2 billion. JUF/JFMC maintains a large pool of well-managed and diversified cash and investments, of which nearly 95% are spendable resources. Spendable cash and investments are 6.5x expenses and 5x total adjusted debt, in line with JUF/JFMC’s peers.

Liquidity
The Federation maintains exceptional unrestricted monthly liquidity of $853 million. This equates to over 1,153 monthly days cash on hand. Liquidity additionally covers Moody’s classified demand debt by 845x. Unfunded capital commitments of $175 million do not pose material liquidity risk.

Leverage: debt complexity balanced by overall manageable leverage
As part of a long-term strategic plan to reduce its total debt exposure, JUF/JFMC’s fiscal 2020 direct debt of $273 million is 24% lower than fiscal 2016’s direct debt. Total cash and investments are a very strong 6.4x total debt in fiscal 2020, compared to 3.3x in fiscal 2016. Metrics will improve even further in fiscal 2021 with expected growth in total wealth and a further 17% reduction in direct debt. JUF/JFMC has no future borrowing plans.

Legal security
The rating is an issuer rating incorporates the general credit characteristics of the federation and has not been assigned to any debt instrument.

Debt structure
Of JUF/JFMC’s $273 million fiscal 2020 outstanding debt, 91% is comprised of guaranteed debt to its affiliate organizations. Included in JUF/JFMC’s affiliated organizations is the JUF/JFMC Facilities Corporation, which is a legally separate not-for-profit organization formed to operate and administer properties for the benefit of JUF/JFMC and its beneficiaries. The corporation’s bylaws provide that in the event of its dissolution its net proceeds, including the payment of all debts, would be distributed to JUF/JFMC. Other debt includes a
line of credit and other direct debt issued on behalf of beneficiary organizations. JUF/JFMC also participated in the Payroll Protection Plan, which was $5.4 million of total debt in fiscal 2020 and has since been forgiven.

Of fiscal 2020 direct debt, 39% was issued at a variable rate, which is down from nearly 96% in fiscal 2016.

**Debt-related derivatives**

As of fiscal 2020, JUF/JFMC had six interest rate swap arrangements to hedge against the effects of variable rate debt. JUF/JFMC has two master agreements with JPMorgan Chase Bank, N.A. and Wells Fargo Bank, N.A. that have collateral posting requirements if the combined market values of the swaps exceed a negative value of $20 million and $25 million, respectively. As of June 30, 2020 the aggregate fair value of the swaps was a liability of $20.5. No collateral posting was required, though JUF/JFMC’s spendable resources and liquidity would provide ample coverage.

**Pensions and OPEB**

JUF/JFMC offered post-retirement benefits to its employees through multi-employer defined benefit and defined contribution plans. The defined benefit plan had a liability of $75 million in fiscal 2020, which has grown from $50 million in fiscal 2016. The $75 million pension liability was 22% of JUF/JFMC’s $349 million total adjusted debt, which is the sum of JUF/JFMC’s direct debt and its pension liability. Like the loan guarantee program, most of the liability is associated with JUF/JFMC’s affiliates, for which JUF/JFMC recorded $42 million due from the participating employers; thereby, JUF/JFMC’s direct liability was $33 million.

Despite the growth in the pension liability, the plan was closed in to new employees in fiscal 2021. All new employees will participate in a 401(k) defined contribution plan going forward. The closure of the plan should help minimize liability growth. As of the June 30, 2020 reporting date, the plan was materially underfunded at 55%, however, June 30, 2021 actuarially determined results show an improved funded ratio of 68%.

Total leverage, nonetheless, is trending downward with JUF/JFMC’s retirement of direct debt. Spendable resources were an excellent 5x total adjusted debt in fiscal 2020.

**ESG considerations**

**Environmental**

Environmental considerations are not a key consideration given JUF/JFMC’s organizational structure that minimizes its exposure to hazards stemming from environmental risk. Though JUF/JFMC may extend environmental related grants to partnering organizations, we expect that it would remain within its mission and resource scope.

**Social**

JUF/JFMC may be exposed to reputational risk through its grantees that work with at vulnerable populations including youths and populations in residential facilities. Other longer term challenges relate to demographic shifts that could pressure JUF/JFMC’s ability to attract new generations of donors.

**Governance**

JUF/JFMC is governed by a board of directors guided through clearly articulated bylaws and mission statement. Financial management is overseen by executive committees reporting to the board. Investments maintain adherence to its periodically reviewed and updated Investment Policy Statement (IPS). The Pooled Endowment Portfolio is managed to exist in perpetuity to provide ongoing support to JUF/JFMC’s programs and affiliates. Investment policies include asset allocation and risk management guidance. JUF/JFMC contracts with external investment management firms in accordance with its IPS with careful oversight from the board’s designated investment committee.
Rating methodology and scorecard factors
The Nonprofit Organizations (Other Than Healthcare and Higher Education) rating methodology includes a scorecard that summarizes the factors that are generally most important to nonprofit credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess strategic positioning on a qualitative basis, as described in the methodology.

For JUF/JFMC, the difference between the scorecard-indicated outcome and the assigned rating incorporates the organization's reliance on gift revenue, exposure to social risks and organizational complexity.

Exhibit 3
JUF/Jewish Federation of Metropolitan Chicago, IL

<table>
<thead>
<tr>
<th>Rating Factors</th>
<th>Value</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Market Profile (15%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Operating Revenue in Millions</td>
<td>378</td>
<td>Aa</td>
</tr>
<tr>
<td>Brand and Strategic Positioning</td>
<td></td>
<td>Aa</td>
</tr>
<tr>
<td><strong>Factor 2: Operating Performance (20%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIDA Margin</td>
<td>29%</td>
<td>Aaa</td>
</tr>
<tr>
<td>Financial Strategy</td>
<td></td>
<td>A</td>
</tr>
<tr>
<td><strong>Factor 3: Financial Resources &amp; Liquidity (40%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cash and Investments in Millions</td>
<td>1,822</td>
<td>Aaa</td>
</tr>
<tr>
<td>Spendable Cash and Investments to Operating Expenses</td>
<td>6.4</td>
<td>Aaa</td>
</tr>
<tr>
<td>Monthly Days Cash on Hand</td>
<td>1,153</td>
<td>Aaa</td>
</tr>
<tr>
<td><strong>Factor 4: Leverage (25%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spendable Cash and Investments to Total Adjusted Debt</td>
<td>5.0</td>
<td>Aa</td>
</tr>
<tr>
<td>Total Adjusted Debt to Operating Revenue</td>
<td>0.9</td>
<td>Baa</td>
</tr>
<tr>
<td><strong>Scorecard-Indicated Outcome</strong></td>
<td></td>
<td>Aa1</td>
</tr>
<tr>
<td><strong>Assigned Rating</strong></td>
<td></td>
<td>Aa2</td>
</tr>
<tr>
<td>Balance Sheet Heavy Benchmark?</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

Data is based on most recent fiscal year available.
Nominal figures are in US dollars consistent with the Nonprofit Organizations (Other Than Healthcare and Higher Education) Methodology.
The scorecard has somewhat different weights and thresholds for standard nonprofits and balance sheet-heavy nonprofits. Where the total cash and investments of the nonprofit exceeds five times annual operating expenses, we typically use the balance-sheet-heavy weighting, because these nonprofits typically face less market and operational risk and depend more on their financial resources.

Source: Moody’s Investors Service
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