



## Endowment Operations & Administration

### ENDOWMENT FUNDS

#### Preface

This policy statement is issued by the Board of Trustees of the Southern Oregon University Foundation (SOUF) for guidance in the investment of endowment funds.

Gifts are critical to the mission of Southern Oregon University (SOU) to develop and maintain quality in faculty, students and facilities. The SOUF Board of Trustees recognizes the importance of establishing policies and procedures to meet the development needs of both SOU and SOUF and of directing vigorous efforts to attract private fund support. This policy is intended to establish administrative processes to accept and administer gifts in a fiduciarily prudent and efficient manner. When this policy does not indicate the appropriate course of action, or are inappropriate in light of all aspects of a specific situation, the Executive Director or the Director of Finance & Administration of SOUF is to work with the Finance and Investment Committee to establish the recommended course of action.

An endowment is established with a gift from the private sector, which comprises the corpus or principal of the endowment. The corpus is invested, and the income or the capital gain is used to fund a project or need. The corpus remains intact in perpetuity, thereby continuing to generate funds to be used by the institution. Normally, the gain or loss on the sale of any asset, which originally comprised the corpus, shall be deemed to be corpus of the endowment. Endowments are divided into the following three categories:

#### **Permanent endowments**

Permanent endowments are sometimes referred to as "true" or "pure" endowments and are assets designated by the donor to be held in perpetuity. The corpus of these endowments may never be spent. Earnings and capital gains must be expended in accordance with the terms and conditions established by the donor. However, it must be recognized that the corpus may decline during unfavorable market conditions.

#### **Term endowments**

Term endowments are established when the donor specifies that the endowment shall terminate following a particular date or event and that the corpus of the endowment may be expended in accordance with the terms and conditions specified by the donor. Until the passage of the specific date or event, term endowments operate in a manner similar to permanent endowments with expenditures made in accordance with the conditions established by the donor.

#### **Quasi-endowments**

SOUF may set aside certain foundation funds to be maintained as endowments and may well specify the use of the assets and spendable income, and set other terms and conditions relating to the fund. The Foundation may change the terms and conditions of the endowment or terminate the endowment.

### **Gifts to Establish Endowments**

A written donative instrument should be provided for each new endowment fund established. This instrument would provide:

A statement providing that additions to the endowment from any other person or entity, unless prohibited, are made subject to the provisions of the donative instrument, and

A statement that if, in the opinion of the Board of Trustees, future circumstances change so that the purposes for which the endowment is established become illegal, impractical or no longer able to be carried out to meet the needs of SOUF, the Board may designate an alternative use for the endowment payout to further the objectives and purposes of SOUF, giving consideration to the donor's special interest as evidence by the original purpose of the endowment.

In cases where an endowment is established pursuant to a component solicitation or campaign, the solicitation letter or document sent to the donor or donors may be used as the donative instrument to evidence the donative intent and purposes.

The Board of Trustees reserves the right to establish the amount required for a permanent endowment for an academic position (i.e. chairs, professorships, lectureships, and fellowships). Current guidance can be requested from the Executive Director of SOUF. In no case will an endowment for an academic position be established without prior approval of the President of SOU.

### **Fiduciary Responsibility**

The Board of Trustees of the Southern Oregon University Foundation has a fiduciary responsibility to comply with the restrictions imposed by the donors of endowment funds. The Trustees also have a legal responsibility to ensure that the management of endowment funds is in compliance with state and federal law, rules, customs, accounting conventions, and applicable sections of the Uniform Management of Institutional Funds Act.

The primary and constant standard for making investment decisions for endowment is the "Prudent Person Rule" which states that the investment manager may trade and retain investments... "that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well and the probable safety of their capital".

### **Investment Policy**

No endowment shall be accepted in which the donor directs the investment transactions or holdings or may approve investment policy or strategy. The endowment fund shall be under the sole control of the Board of Trustees of SOUF.

It is the specific and strong preference of the Board of Trustees that all endowment gifts be eligible for commingling for investment purposes with other endowment funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time.

The financial goal for management of endowment funds is to preserve the real (i.e. inflation-adjusted) purchasing power of principal and income after accounting for endowment spending, inflation and costs of investment management. Performance of the endowment fund against this objective is to be measured over rolling 3-year periods.

SOUF has a separate Statement of Investment Policy document, dated November 2001, and which more fully describes the endowment purpose and goals; the roles and responsibilities of the trustees, staff, consultants, custodians and investment managers; the investment instruments, performance evaluation and reviews. This document is available from the SOUF office.

### **Unitization of Endowments**

The commingled endowment funds, excluding endowments not permitted to be invested in equities, shall be unitized and each new endowment gift added to the Fund shall receive units in the fund based upon the market value of the gift and the unit value of the Fund for the preceding quarter. The unit value of the endowment fund shall be determined at least quarterly. Income determined under the policy statement's spending policy should be calculated on a unit basis for distribution purposes.

### **Spending Policy for unitized endowments**

SOUF recognizes the need for spendable income by the beneficiaries of the endowment funds under their custodianship. The following spending policy reflects an objective to distribute as much total return as is consistent with overall investment objectives defined herein while protecting the real value of the endowment principal.

The following definitions are used:

Total return is defined as the sum of total interest and dividends, and realized and unrealized gains, less all investment management costs.

Net current yield is defined as the sum of total interest and dividends earned less all investment management costs.

An endowment should be excluded from the target distribution until the endowment has been established for one year.

The target distribution of spendable income to each unit of the endowment fund will be between 3 to 6 percent of the average market value of a unit of the endowment fund for the preceding 12 quarters. Unless otherwise determined by the SOUF Finance and Investment Committee the target annual distribution rate shall be 4.5 percent of the average unit market value. Distribution shall be made quarterly, as soon as practicable, after the last calendar day of September, December, March, and June. This distribution amount shall be recalculated each quarter based on a 12 quarter rolling average.

If, at any point of distribution, the fair market value of the endowment is below the corpus of the endowment the distribution shall be net current yield.

If, in any given fiscal year, the total return, excluding the net unrealized appreciation, shall be less than the target annual distribution, the actual distribution shall be limited to the net current yield, not to exceed the target distribution rate.

### **Endowment funds**

The majority of endowment funds are pooled and invested under the guidance of Prime Asset Consulting Group/UBS Financial Services, Inc. Prime Asset Consulting group has provided consulting services to institutional and high net worth investors since 1978. There are forty-one consultants in twenty-two offices across the United States. UBS is one of the world's leading financial companies, a global investment banking and securities firm and a leading asset manager. Up to nine investment managers are allocated fund assets in accordance with policy in several assets classes and styles.

### **Asset allocation for unitized endowments**

To achieve the goal and objectives of the endowment fund, the fund's assets may be invested into four categories: an equity, fixed-income, alternative strategy and cash component. The endowment fund shall be diversified to limit the specific risk associated with any single security. The target asset allocation of the endowment funds shall be structured as follows:

- 55% - Equities - Domestic
- 20% - Equities - International
- 15% - Fixed Income
- 10% - Alternative Strategies

The asset allocation shall be monitored on an ongoing basis and rebalanced on a regular basis. Any rebalancing of assets will be done upon the investment of net new dollars and upon 20% deviation from target. See the Statement of Investment Policy for additional details.

### **Endowments not unitized**

Endowments that do not provide for investments in equities will not be unitized and they will receive interest and dividends on their funds invested in fixed income securities.

December 1, 2004