Basics of Endowment Management

Presented by
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Endowment Management Solutions

Principles of Endowment Management

Why Endowments Matter:

- Respect for the past, vision for the future
- The sin of not having one
- The joy of doing it right
Four Core Principles
(and the tragedy of doing it wrong)

1. Purpose
2. Perpetuity
3. Prudent Investing
4. Prudent Spending

Endowments

What It is

Long-term invested fund with restrictions
True endowment (donor designated)
Quasi endowment (board designated)

What it is not

Reserve funds
Collection of Trusts
Invested Funds
Why have an endowment to begin with?

What an Endowment is NOT for

- To plug holes in the annual operating budget
- A savings account for future emergencies
- Self-preservation
What an endowment IS for

• To support ministries beyond the annual operating budget
• To be an “opportunity” fund
• To provide donors with a trustworthy place to leave legacy gifts

Why Endowments don’t grow

▪ Lack of Structure
▪ Outdated Structure
▪ Lack of Trust
▪ Unclear Purposes
▪ No one asked (Planned Giving)
Why is Structure so Important

- Fiduciary Responsibility
- Clarity of Purpose
- Clarity of Process

Policies Needed

Enabling Resolution
Operating Policies

- Investment Policy Statement
- Disposition of Bequest Policy
- Designated Gift Policy
- Spending Rule
- Gift Acceptance Policies

Other start-up considerations
- Reserve Funds
- Record Keeping
Key Operating Principles

- Understanding True vs. Quasi Endowments
- Investing as one; spending as two
- Protecting the corpus (spending power)
- Understanding UPMIFA (Uniform Prudent Management of Institutional Funds Act)

How UPMIFA Applies to Churches

- Applies to donor-restricted funds
- Rescinds “historic dollar value”
- Removes “income only” restraints
- Defines what “prudent” means
- Can be used to guide management of both restricted and unrestricted funds
Spending from the Endowment

- Total Return Spending Policy
- Setting a Reasonable Draw
- Long-Term Asset Class Forecasts
- Preserving Spending Power

### St. Swithin’s, Swampland – Total Return Calculation

#### Three-Year Average & Annual Draw Percentage

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<tr>
<th>General Endowment Draw for 2010</th>
<th>12/31/2007</th>
<th>12/31/2008</th>
<th>12/31/2009</th>
<th>3-Year Average</th>
<th>4% draw</th>
<th>3% draw</th>
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<td>8,878.81</td>
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Spending Rule Calculation

Here is a simple calculation we use to help endowment boards think through the implications of spending rules.

- Spending Rate  5%  4%  3%
- Inflation  2%  2%  2%
- Fees  1%  1%  1%

8%  7%  6%

Investing the Endowment

Investment Options
- Bank/Brokerage House
- Diocesan Investment Trust
- Episcopal Church Foundation

What to Look For
Diversification of assets
Solid performance measured against benchmarks
Reporting
Service
Fees
Effective Communications

- Keep good records
- Honor donor’s wishes
- Explain the concept, share details
- Tell what the endowment has done
- Explain how to give
- Thank your donors

Growing Your Endowment

- Build a well-ordered structure
- Use the money
- Communicate
- Say thanks
Recorded Webinars to Empower your Leaders

- Basics of Planned Giving for Parish Leaders
- Basics of Endowment Management for Parish Leaders
- Prospective Donors of Planned Gifts
- Basics of a Capital Campaign
- Annual Stewardship
- Vestry Leadership 101

For links to recordings visit: www.ecfvp.org

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