



Basics of Endowment Management

*Presented by
Kenneth H. Quigley, Program Director
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- Outdated Structure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

General Endowment Draw for 2010

<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>3-Year Average</u>	<u>4% draw</u>	<u>3% draw</u>
199,276.10	132,274.14	164,043.76	165,198.00	6,607.92	4,955.94

General Endowment Draw for 2011

<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>3-Year Average</u>	<u>4% draw</u>	<u>3% draw</u>
132,274.14	164,043.76	186,951.92	161,089.94	6,443.59	4,832.69

General Endowment Draw for 2012

<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>3-Year Average</u>	<u>4% draw</u>	<u>3% draw</u>
164,043.76	186,951.92	177,421.89	176,139.19	7,045.56	5,284.17

General Endowment Draw for 2013

<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>3-Year Average</u>	<u>4% draw</u>	<u>3% draw</u>
186,126.73	177,421.89	220,248.28	194,598.89	7,783.95	5,837.96

General Endowment Draw for 2014

<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>3-Year Average</u>	<u>4% draw</u>	<u>3% draw</u>
177,421.89	220,348.28	268,088.57	221,952.91	8,878.81	6,658.58

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%
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	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

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(800) 697-2858

Jim Murphy, Managing Program Director,
Financial Resources
jmurphy@episcopalfoundation.org

Ken Quigley, Program Director,
Endowment Management Solutions
ken@episcopalfoundation.org

Meg King, Assistant Program Director,
Financial Resources
mking@episcopalfoundation.org

Josh Anderson, Program Associate,
Financial Resources
janderson@episcopalfoundation.org

Demi Prentiss, Financial Resources Consultant
dprentiss@episcopalfoundation.org

