

MANAGING AN ENDOWMENT FUND FOR NONPROFIT DIRECTORS

FINANCIAL ADVISORS



Search ID: aban2149

**"The only way you can become a millionaire
by investing in savings accounts, is to invest
millions in savings accounts."**

Introduction

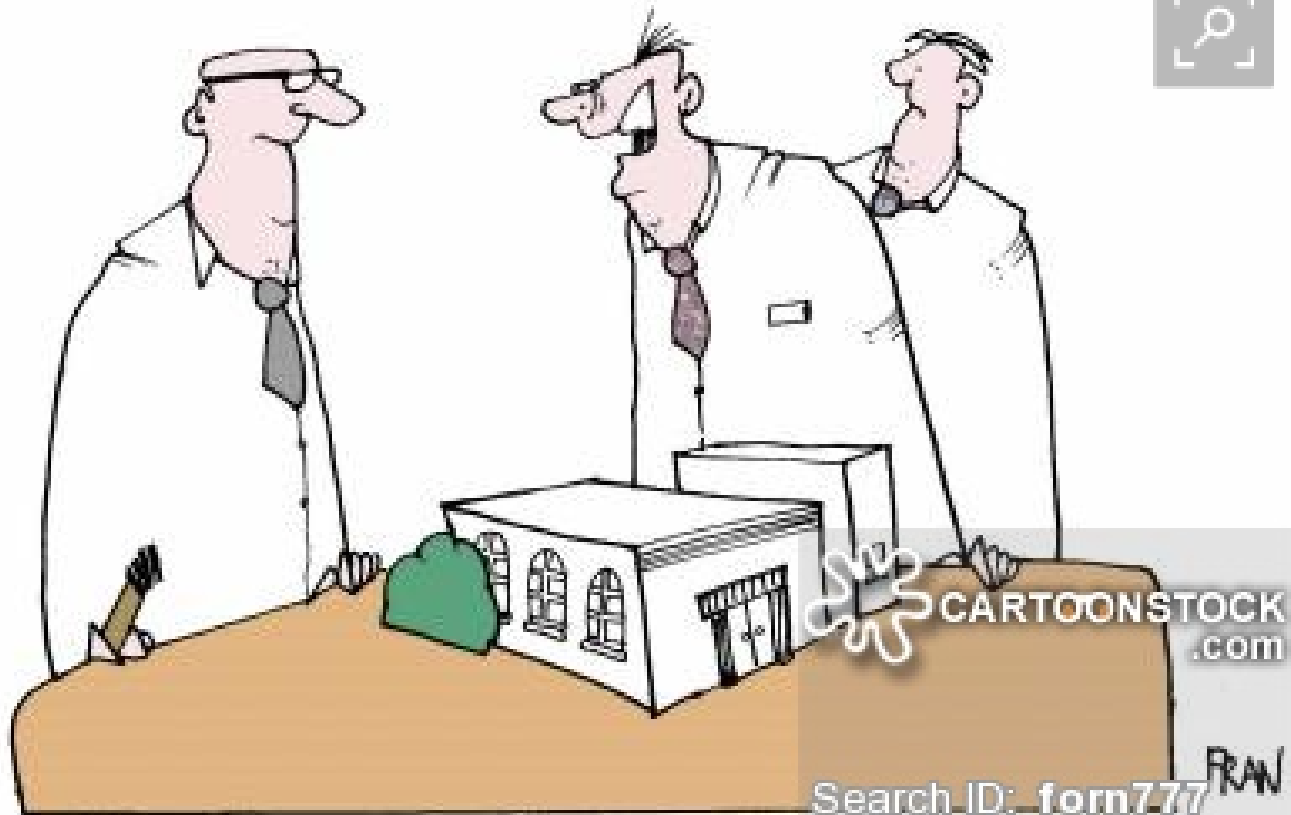
- Fiduciary duties to the Organization and the Donor
- Investment Policy Statement
- Policy Portfolio Target Allocation
- Governance of the Investment Committee
- Spending Policy

Fiduciary duties to the Organization and the Donor

- Duties to the Organization
- Uniform Prudent Management of Institutional Funds Act (UPMIFA)
 - **Loyalty; good faith; care.** In addition to complying with the duty of loyalty imposed by law other than this chapter, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances



- Duties to the Donor
 - You need to follow the donor's direction from the **Gift Instrument**.
 - You need to keep track of the **Historic Gift Value** of gifts received (the original value of gifts received into the endowment)



THE UNIVERSITY IS DELIGHTED WITH THE ENDOWMENT,
SIR ROYSTON, BUT IS THERE ANY FLEXIBILITY OVER
CALLING IT THE 'WHO'S THE RICH ONE NOW, YOU
TOFFEE NOSED BASTARDS' WING?

Investment Policy Statement

- Define your objectives – examples include
 - Invest for long-term growth and capital preservation
 - State your risk tolerance (aggressive, moderate, conservative)
 - What is the time horizon
 - How much liquidity do you require



“If you follow my rules, you will never lose money. Rule #1: Never lose money.”

Define Your Objectives

- Will you use outside advisors?
- Consultants?



Policy Portfolio Target or Ranges

- This will guide the committee to make decisions about portfolio management
- It will probably have the greatest impact on investment performance
 - What is the equity allocation
 - Bond/fixed income allocation
- You should establish the rules when the markets are not distressed
 - Revisit the policy on a scheduled basis
 - Do not make frequent changes

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WOULD
SOMEONE
INFORM THE BULL
THAT THE SKY
IS FALLING!!!



How Much Risk Do you Want to Take

- Risk will have a large influence on how “choppy” your returns are
- Define the role of each asset class
 - For example, is fixed income intended to
 - produce income?
 - Be ultra defensive?

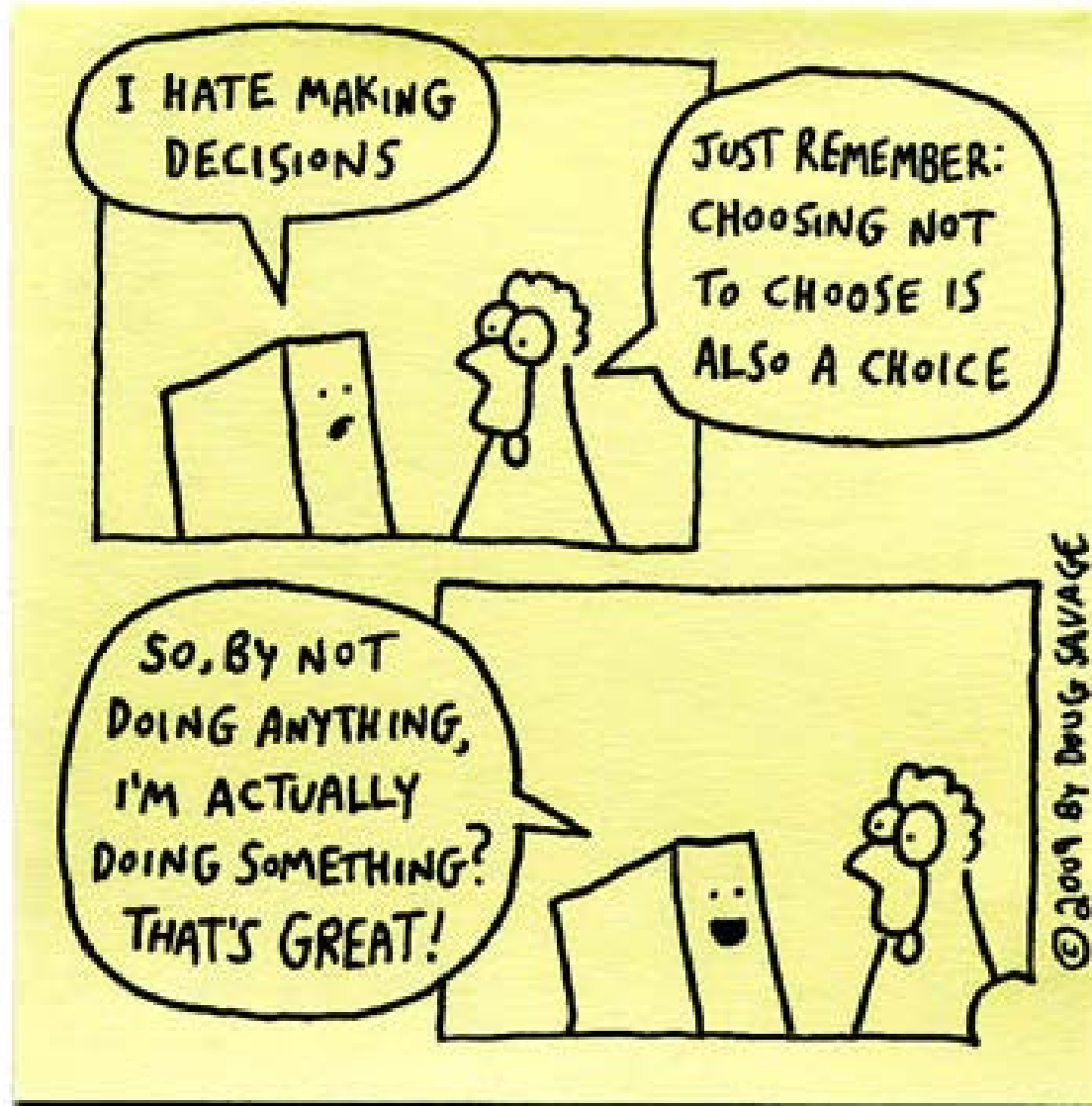


When do you rebalance

- Do you want to have a set schedule to rebalance
- Do you want to make active decisions about rebalancing
- How long will you stick with a strategy that is not working

Savage Chickens

by Doug Savage



The Investment Committee

- Define what your expectations of the investment committee
 - Term length
 - Qualifications
 - Only board members? Or will you invite outside volunteers
 - How many members
 - How frequently will you meet
 - How frequently will you report to the board
 - How are decisions made
 - Define conflicts of interest



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"This pool's no fun — All they let you do
is swim."

Spending Policy

- Spending policies are about fairness to the current and future beneficiaries of the endowment fund
 - If you spend too much in the short run, it will be reduce the benefit of the endowment in the long run
- How will you calculate the spending
 - Total growth v real return
 - Percentage of a rolling average
 - Percentage of an ending value
- When do you make the calculation

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“I found the problem. We earn money 5 days a week, but we spend money 7 days a week.”

Endowments are Intended to be Forever

