	UNIVERSITY OF DENVER POLICY MANUAL **<u>Consolidated Endowment Fund: Management and Distributions</u>**

<u>Responsible Department:</u> Business and Financial Affairs **<u>Recommended By:</u>** C. Woody **<u>Approved By:</u>** Chancellor Coombe	**Policy Number** 2.20.020	**Effective Date:** Jan. 12, 2012

I. INTRODUCTION

The purpose of the University endowment spending policy is to establish a procedure for determining the annual flow of funds from the corpus earnings of each endowment to the operating budget and other restricted funds at the University. The primary goal is to achieve a proper balance between the present and future needs of the University. To strike an appropriate balance between these, the University's spending policy should consider the following objectives:

- To ensure that the real value (i.e. purchasing power) of the revenue does not decline over the long term.
- To provide current programs with a predictable and relatively stable stream of revenue.
- To reduce the lagging effect of up or down markets in the spending formula.
- To appropriate distributions taking into account general economic conditions and the effect of inflation or deflation.

The University of Denver and its Board of Trustees is committed to administering and investing all endowment funds in compliance with all relevant federal and state laws and industry standards. The Board of Trustees monitors, adjusts, and approves the policy and the spending distribution rate on an annual basis, by maintaining the spending distribution rate within the prescribed policy over time; the institution balances current program support needs and the long-term intergenerational purchasing power of the endowment.

II. GENERAL POLICIES

A. Efficient Management

1. In order to provide for efficient management of endowment assets and to reduce the risk associated with closely tying a particular endowment fund to the performance of separate investments, endowment assets should be pooled for investment purposes to the greatest extent possible. Pooled assets will be called the Consolidated Endowment Fund (CEF) and individual endowment will be issued shares at the end of the month in which they buy into the CEF. Share values will be computed at the end of each month and new purchases will be made at the end of the month per share market value.

2. All assets of the endowment fund deserve professional management. Therefore, except in separately invested endowments where donors or other interested parties have traditionally been granted a role in selecting investments and have, in turn, accepted the associated risk, the University should, as quickly as is practicable, turn over all assets that are publicly traded securities to professional managers to whom the Investment Committee would provide direction. This may require that the assets first be liquidated before funds can be assigned.

3. Endowment fund assets that are not assigned to professional managers and are not publicly traded also need to be managed. These assets should be assessed for potential to yield greater returns or for possible sale, and asset management recommendation should be presented by staff to the Investment Committee on a regular basis.

III. <u>DISTRIBUTING ENDOWMENT EARNINGS</u>

A. The University's policy governing distributions from endowments is designed to be in accordance with UPMIFA as adopted by the State of Colorado. UPMIFA requires the institution to address the duration and preservation of the endowment fund by appropriating a prudent amount for expenditure from endowment funds within the restrictions of any gift agreements and consider the following factors.

- duration and preservation or the endowment fund
- purpose of the institution and the endowment fund
- general economic conditions
- possible effect of inflation or deflation
- expected total return from income and the appreciation of investments
- other resources of the institution
- the investment policy of the institution

B. Distributing Endowment Earnings
It is the policy of the University to distribute, per quarter, 1.125% of the twelve quarter trailing average of the Consolidated Endowment Fund (CEF) unit value applied to the number of units outstanding.

C. *Underwater* Endowment Distributions
UPMIFA's predecessor, the Uniform Management of Institutional Funds Act, contained an express restriction that an institution could not make distributions (other than from

"accounting income" such as dividends, interest and rents) from an endowed fund if the distribution would reduce that fund below its "historic dollar value," there defined as the original gift value, unadjusted for changes in purchasing power. That express restriction was deleted from UPMIFA, although the official comments state that an institution should take into account the donor's intent that an endowed fund should be maintained permanently and that maintenance of purchasing power over time, is a part of such permanence, to be taken into account in developing and administering a policy of distributions from endowed funds. The deletion of the prohibition of distributions that would reduce a fund below its "historic dollar value" permits an institution to avoid artificial restriction on distributions that may result from the fact that contributions are received at all stages of the investment cycle.

D. Donor Intent

Donor intent as specifically stated in the fund agreement takes precedence over UPMIFA standards or University spending policies. If the fund agreement uses general terminology such as "retain principal" or "spend only income", then spending will follow the University spending policies that are in compliance with UPMIFA.