

## POLICY ON EXPENDITURES FROM ENDOWED FUNDS

<b>Policy Owner:</b>	Finance and Administration
<b>Category:</b>	Finance and Administration
<b>Applies to:</b>	All staff
<b>Approved by:</b>	Board of Directors (Committee: Investment and Finance)
<b>Effective Date:</b>	July 1, 2023
<b>Contact:</b>	Senior Vice President of Finance and Administration
<b>Official Website:</b>	<a href="http://www.foundation.uconn.edu/policies">www.foundation.uconn.edu/policies</a>
<b>Revision History:</b>	July 1, 2021 July 1, 2020 October 4, 2019 February 23, 2018 June 16, 2017 March 11, 2016 October 16, 2015 November 7, 2014 February 4, 2009 December 8, 2008

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### **I. Purpose of Policy**

This is the Policy on Expenditures from Endowed Funds (“Policy”) of The University of Connecticut Foundation, Inc. (“Foundation”). The purpose of this Policy is to establish the annual procedure by which the Foundation will decide amounts to be expended from the Endowed Funds for the Spending Allocation and the Advancement Fee (as each term is defined herein).

### **II. Policy**

1.0 The Foundation is committed to administering and investing Endowed Funds in compliance with the Statement Of Investment Policy And Objectives For Assets Invested In The Long-Term Investment Portfolio and all relevant Foundation by-laws, industry standards, and federal and state laws and regulations, including without limitation the Connecticut Uniform Prudent Management of Institutional Funds Act (the “Act”). No policy will supersede any provision of federal or state law or regulation.

2.0 The Investment and Finance Committees of the Foundation shall jointly review the Policy’s application of the Spending Allocation and the Advancement Fee (described below) to the Endowed Funds on an annual basis and shall make a determination that such application to the Endowed Funds is prudent. In deciding to expend such amounts from Endowed Funds, the Foundation and Committees shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances and shall consider the following factors:

- a) The duration and preservation of the Endowed Funds;
- b) The purposes of the Foundation and the Endowed Funds including, without limitation, spending needs identified by the University program benefitting from the Endowed Funds;

- c) General economic conditions;
- d) The possible effect of inflation or deflation;
- e) The expected total return from income and the appreciation/depreciation of investments;
- f) Other resources of the Foundation; and
- g) The investment policy of the Foundation.

The Foundation has a duty under the Act to maintain the long-term purchasing power of each Endowed Fund and in accordance with that duty will record the historic dollar value (“HDV”) of each Endowed Fund as a benchmark by which to measure each fund’s performance. The Foundation shall also institute such procedures as are reasonably calculated to identify any individual Endowed Fund, the long-term purchasing power of which has the potential to be significantly impaired by continued application of this Policy and present a strategy for remedying such impairment to the Investment and Finance Committees, jointly, of the board of directors of the Foundation (the “Board”).

3.0 The Foundation will in good faith regularly make information available to donors and potential donors concerning this Policy.

### **III. Calculation Method and Underwater Fund Analysis**

1.0 Expenditures from Endowed Funds for the Spending Allocation and the Advancement Fee shall be calculated as described below. Such expenditures may be made regardless of whether an Endowed Fund has sufficient current period and/or accumulated net investment returns to support such allocation unless a determination has been made pursuant to Section II above to limit or withhold such payments with respect to a particular Endowed Fund.

In the event that the sum of the calculated Spending Allocation plus the calculated Advancement Fee (“Total Endowment Expenditures”) is less than three percent (3%) or greater than six and one-half percent (6.50%) of the current market value of the Endowed Funds, then the Spending Allocation and the Advancement Fee will be proportionally increased or decreased such that the Total Endowment Expenditures is increased to three percent (3%) or reduced to six and one-half percent (6.50%) accordingly.

#### **a) Spending Allocation**

The amount of funds allocated for expenditure for the purposes for which an Endowed Fund was established by the donor (“Spending Allocation”) will equal 4% annually (1% per quarter) of the rolling prior 12-quarter average Unitized Market Value of the long-term pooled investment portfolio multiplied by the number of units held by each Endowed Fund at the end of the quarter. The Spending Allocation will be transferred to the Endowed Fund spending account in quarterly installments on the first day of each quarter following the calculation.

#### **b) Advancement Fee**

The amount of funds allocated for expenditure for administrative costs related to investment and administration of the Endowed Funds and operating expenses that support the Foundation’s mission (“Advancement Fee”) will equal one and three-quarter percent (1.75%) annually (.4375%

per quarter) calculated based on the rolling prior twelve (12) quarter average Unitized Market Value of the long-term pooled investment portfolio multiplied by the number of units held by each Endowed Fund at the end of the quarter. The full Advancement Fee, as calculated, will be transferred to the Foundation's operating funds in quarterly installments on the first day of each quarter in the fiscal year beginning on the July 1st following the calculation.

2.0 The Foundation may decide to spend from Endowed Funds, even to the extent of expending a portion of the fund which constitutes HDV, in accordance with its expenditure policies; provided, such spending is part of a purposeful, prudent, and documented strategy to maintain the long-term purchasing power of such funds.

In the event an Endowed Fund is Underwater (as defined herein), an analysis of the Endowed Fund will be undertaken to decide if any Spending Allocation or Advancement Fee distributions will be permitted. The analysis will occur at least annually and will consider the factors set forth in Section II(2.0) above and following:

- a) Level of impairment of the Endowed Fund;
- b) Discussion with the University signatory authorized to disburse the Endowed Funds about the purpose of the Endowed Fund and needs of the benefiting program;
- c) Cash balance available in the affected Endowed Fund for use for the purposes of such Endowed Fund; and
- d) Availability of any temporary alternative funding sources at the University that could be used to support the same purposes as the Endowed Fund.

If the Foundation's Underwater analysis determines a distribution is prudent then the Spending Allocation and Advancement Fee will be permitted, except as otherwise prohibited in Section IV.(4.0) below.

#### **IV. Exceptions**

The following exceptions to this Policy shall apply:

1.0 The Spending Allocation will not be calculated as set forth above for Endowed Funds established pursuant to a Gift Instrument which by its terms specifies a different spending method provided, however, that any Gift Instrument to which the Foundation is a party shall conform to this Policy unless an exception is granted as provided herein.

2.0 The Advancement Fee will not be assessed as set forth above for Endowed Funds: (i) established pursuant to a Gift Instrument which by its terms does not permit the assessment of such fees provided, however, that any Gift Instrument to which the Foundation is a party shall conform to this Policy unless an exception is granted as provided herein; and (ii) for new gifts from large Private Foundations (as defined herein) the governing boards of which prohibit the assessment of fees as an established organizational policy which can be documented in writing.

3.0 Spending Allocation and Advancement Fee will not be calculated, assessed, or distributed until the Endowed Fund has participated in the long-term pooled investment portfolio for two (2) calendar quarters. A donor may request a longer period before distribution of a Spending Allocation, but the request must be approved by the Foundation's Senior Vice President of Finance and Administration and the University signatory authorized to disburse the funds.

4.0 Neither the Spending Allocation nor the Advancement Fee will be calculated, assessed, or distributed from Endowed Funds that are Underwater by greater than fifteen percent (15%) at the end of any quarter during the fiscal year. Exceptions to this requirement are intended to be extremely rare and can only be granted upon request by the University Provost and approval by the Foundation's Senior Vice President of Finance and Administration, with consideration of the factors listed in Section II(2.0) above. All approved exceptions under this Section IV(4.0) shall be reported to the Finance and Investment Committees at each of their next regular meetings.

5.0 The Spending Allocation will not be calculated or distributed if either:

- (i) on or before June 30th the Foundation approves a written request by the University signatory authorized to disburse the funds to waive the Spending Allocation for the following fiscal year (which may not be applied to prior fiscal years). The Senior Vice President for Finance and Administration will review the waiver request and will make determinations regarding the approval of any requested waivers on an annual basis; or
- (ii) the ratio of (a) all amounts held in an Endowed Fund's Spending Account, over (b) the current market value of such Endowed Fund exceeds 10%. However, upon request by the University Provost, the Senior Vice President for Finance and Administration may review and consider any recommendations to permit the calculation and distribution of a Spending Allocation for such funds in accordance with this Policy.

In approving or denying a request to waive or distribute the Spending Allocation, the Foundation will consider the factors listed in Section II(2.0) above as well as (a) the cash balance available in the affected Endowed Fund for use for the purposes of such Endowed Fund; (b) any gifts made directly into the Spending Account in the three immediately preceding fiscal years; and (c) the availability of any temporary alternative funding sources at the University that could be used to support the same purposes as the Endowed Fund.

6.0 All other exceptions to this Policy must be approved by both the Investment Committee and Finance Committee of the Board upon the recommendation of the Foundation President and in consideration of the factors described in this Policy including, without limitation, Section II above. In making any such exceptions related to the Advancement Fee, the Investment and Finance Committee may also consider if there is substantial potential for developing a long-term funding relationship with the donor requesting the exception and if the gift's designated use is compatible with the University's organizational priorities. Exceptions to this Policy under this Section IV(6.0) should be granted in only the rarest of circumstances.

## **V. Applicability**

This Policy applies to all Endowed Funds administered, held, and invested at or by the Foundation. This Policy also applies to University Endowed Funds invested by the Foundation pursuant to the First Amended and Restated Master Agreement executed between the University and Foundation and effective July 1, 2020, as amended from time to time.

## **VI. Definitions**

"Endowed Fund" means a Foundation fund or any part thereof not wholly expendable by the

Foundation on a current basis under the terms of a gift instrument. Except as provided herein, the term does not include assets of the Foundation designated as an endowment fund for its own use (typically referred to as quasi-endowment funds). A fund will be classified as an Endowed Fund when the fund's principal account is equal to or greater than the minimum needed to establish an endowment under the Foundation's *Named Gift Guidelines*, as amended from time to time. Funds will participate in the long-term investment portfolio the quarter following being classified as an endowment.

"Gift Instrument" means a record or records, including a solicitation, under which property is granted to, transferred to, or held by the Foundation as a Foundation fund.

"Historic Dollar Value" means the value of the donor's original gift to an Endowed Fund and any subsequent donations thereto.

"Unitized Market Value" means fair value of the investment assets within the long-term pooled investment portfolio divided by the number of units in such pool.

"Underwater" means the fair value of an Endowed Fund is less than its Historic Dollar Value.

## **VII. Responsibilities**

The Investment and Finance Committees of the Board are responsible in good faith for prudently developing and regularly reviewing the Policy on Expenditures from Endowed Funds and the Senior Vice President of Finance and Administration is responsible for implementing this Policy.

## **VIII. Enforcement and Interpretation**

It is the responsibility of all employees and Board members to uphold this Policy. Any violation of this Policy may result in disciplinary action up to, and including, termination of employment. Questions regarding interpretation of this Policy should be directed to the Foundation's Senior Vice President of Finance and Administration.

## **IX. Effective Date**

This Policy is effective July 1, 2023 and replaces and supersedes any proceeding policy concerning this subject matter. This Policy shall be reviewed by the Investment Committee and Finance Committee of the Board, which shall jointly make any necessary recommendations with respect to amendments to this Policy to the Board, not less than annually.