

# University of Vermont and State Agricultural College

## Board of Trustees

### Underwater Endowment Guidelines

**Executive Summary:** The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was passed by the State of Vermont effective May 5, 2009. UPMIFA broadens and clarifies the latitude of institutions to manage overall endowment returns, without specifically isolating those particular endowments that because of timing of receipt of the gift and market conditions are deemed underwater. Rather, the institution is expected to define an overall prudent approach both to distribution of funds for spending and long term preservation and growth of capital. The University shall continue with its uniform endowment distribution practice in accordance with the statute.

**Guidelines:** The University shall continue to calculate and make distributions on an annual basis, valuing endowment shares as of December 31 and using the average of the prior 13 quarter endowment value as a basis for the calculation. The distribution for the endowment fee and spending will be set at a level recommended by the Investment Subcommittee and the Budget, Finance and Investment Committee and authorized by the Board of Trustees.

In making a determination to appropriate or accumulate, the University 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, if relevant, the following factors:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the University and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The average expected total return from income and the appreciation of investments;
- (6) Other resources of the University; and
- (7) The investment policy of the University.

The University shall identify any gifts which restrict the expenditure of principal and/or the historic dollar amount under UPMIFA. To the extent expenditure restrictions are not applicable, underwater endowments and their relative proportion of total endowments will be defined and reported to the Investment Sub-Committee as of each December 31 valuation. This information, together with the overall endowment performance and market conditions will be part of the annual review and confirmation and/or change in the overall endowment spending policy.

**Definitions:**

**Above water Endowments:** Endowments for which Market Value exceeds Historical Dollar Value

**Endowment Spending:** Amounts distributed from endowments based on endowment spending rule adopted by Board of Trustee resolution. Currently the rule allows for spending of 4.5% of the average of the last thirteen quarters market value as of 12/31. These amounts are transferred from the endowment accounts to separate operating accounts from which program expenditures are made in accordance with any restrictions established by the donor agreement.

**Endowment Fee** An amount distributed from the endowments to cover administrative costs. Currently the Board of Trustees has authorized an administrative fee of .5% of the average of the last thirteen quarters market value as of 12/31.

**Expenditures:** Amounts expended from operating accounts funded by endowment spending. This represents the actual use of the funds for the endowment purpose.

**Historical Dollar Value:** The corpus or total amount of gifts and donor stipulated reinvestment to an endowment.

**Net appreciation:** Market value, net of fees, in excess of the historic dollar value.

**Reserve Balances:** Endowment spending amounts transferred from endowment accounts to the operating accounts in prior periods that have not been expended.

**True Endowment:** Funds received from donors with the stipulation that the principal be maintained permanently and be invested to produce income and appreciation to be expended for the purposes specified by the donor.

**Underwater Endowments:** Endowments for which Market Value is temporarily less than Historical Dollar Value

*Approved by the Executive Committee: April 13, 2009*

*Revised per passage of The Uniform Prudent Management of Institutional Funds Act (UPMIFA) by the State of Vermont effective May 5, 2009*