Expenditure Policy for New Endowment Funds

POLICY:

Unless otherwise authorized by the Board of Directors, no expenditure shall be made from new endowment funds until the fund has achieved cumulative net investment returns, less applicable management fees charged by the Foundation, greater than or equal to eight per cent (8.0%), or, the second anniversary of the establishment of the fund, whichever occurs first. At present, this holding period threshold (8.0%) approximates the current payout rate plus the current Consumer Price Index, thus, requiring annual review for possible change.

APPLICABILITY:

This policy shall apply to (i) all donor-created endowment funds, and (ii) any funds which the Board of Directors of the Foundation shall have designated as Board-designated endowment funds, until such time as the Board may change such designation.

RATIONALE:

The South Carolina Uniform Prudent Management of Institutional Funds Act (S.C. Code §34-6-10 et. seq., adopted effective July 1, 2008) authorizes the Foundation to expend or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established.

In general, Foundation endowment funds are authorized to expend, on an annual basis, no more than the Foundation’s current payout rate multiplied by a three year rolling average of the historical fair market value of the fund as determined each December 31. This policy, standing alone could permit expenditures from new endowment funds in the calendar year following the year of their creation. However, if a new fund immediately begins making expenditures from its net appreciation, there is a much greater risk that market fluctuations will cause the fund to drop below its principal value, thus prohibiting any further expenditures from the fund until it has regained its value through market appreciation. “Net appreciation” is defined as the net increase, both realized and unrealized, in the fair market value of the fund over its principal value. Principal value is (i) the value of the fund at the time of the original contribution, plus (ii) the value of any subsequent gifts to the fund.

For these reasons, the Foundation historically has delayed expenditures from new endowment funds for several years after the creation of the fund. This procedure has permitted new funds to build in value above their principal value and thus minimize the risk that market fluctuations will cause the funds to dip below that value. After this initial growth period, a regular annual payout is more likely, as is growth of the fund in real dollar terms so that annual payouts may grow as well.

As with all policies, special circumstances may dictate a departure from the Foundation’s expenditure policy for new endowment funds. Such circumstances might include: (1) significant investment growth in an endowment’s early years (thus minimizing the risk that market fluctuations would cause it to dip below its principal value in future years), (2) a demonstrated immediate need for fund expenditures, as documented by the person(s) responsible for the fund and confirmed by the cognizant Dean, or (3) a specific request from the creator of the new endowment fund that, if possible, expenditures be made in the early years for purposes of initiating the work of the fund. However, under no circumstances may expenditures from the fund cause it to go below its principal value.

The amendment of this expenditure policy is effective July 1, 2008 and will formalize and make more specific the Foundation’s previous operational procedure.