

# REVIEWING & REFINING YOUR ENDOWMENT POLICY

---

Long Beach, CA

8 November 2014



Rev. Nelson Murphy  
*United Church Funds*

Matt Wagner  
*United Church Funds*

# Our Mission

*Our mission —*

## Invest responsibly. Strengthen ministry.

United Church Funds lives its mission by —

- Investing wisely to help our investors achieve their financial goals for their ministries
- Using the power of ownership to effect positive change, believing a responsibly managed company makes a better long-term investment
- Offering our investors a range of options and resources to strengthen their portfolios, their endowment management, and the ministries they value

# Workshop Agenda

- Why do we need an Endowment Policy?
- How do we build up an endowment fund?
- What makes up an Endowment Policy?
- Questions & answers

# Governance & Fiduciary Risk

- What committee is tasked with managing the endowment or the long-term investable assets of your church or ministry?
  - Endowment Committee
  - Stewardship Committee
  - Investment Committee
  - Church Council
- What skills do you look for in church members (or others) who comprise this committee?
- How are people elected/appointed to this committee?  
What is their term of service?
- **Any person serving on the governing committee has a fiduciary responsibility under UPMIFA**

# Elements of UPMIFA

- Uniform Management of Institutional Funds Act — [upmifa.org](http://upmifa.org)
- Adopted by 49 states, though each state has its own version
- Applies to restricted funds, primarily permanently restricted
- Restrictions on investment and/or spending imposed by donors supersede UPMIFA — *Donor intent reigns!*
- Prudent investor conduct & delegation responsibilities
- Release or modification of restrictions
- Expenditure of funds

# Three Types of Funds Governed by Your Policy

- Unrestricted Funds
  - Operating
  - Reserves
  - Board-designated

*Membership or board makes decisions limited only by legal requirements of 501c3 status*

- Temporarily Restricted
- Permanently Restricted

*Donor imposes restrictions — on timeframe, spending or manner of investment*

- Donor restrictions may be in written instructions accompanying the gift, or in the solicitation materials used to raise money (eg, campership or building fund campaigns)

# Release of Restrictions

- Some restrictions may become outdated
- Donor can consent to modifications
- A court can modify certain restrictions —
  - Fund management  
*If restrictions become impractical or wasteful*
  - Purpose  
If restrictions become unlawful, impractical, impossible or wasteful
- A charity may modify restrictions for the same reasons *without* court action in certain circumstances (*depending on the state*) —
  - The fund has been established for at least 20 years
  - The amount of the fund is less than \$25,000
  - Notice is sent to the state Attorney General and the donor's last known address

# UPMIFA & Investor Conduct

- Duty of Loyalty
  - acting solely for the organization's benefit
- Fees — obligation to manage costs, but not necessarily to rely on the least expensive management option
- Delegation — responsibility to select and monitor investment advisors and managers, including strategy and performance
- Whole portfolio management
  - Standard of performance
  - Diversification requirement
  - Portfolio balancing requirement
  - Utilizing investments that suit the portfolio
- *An institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances...*

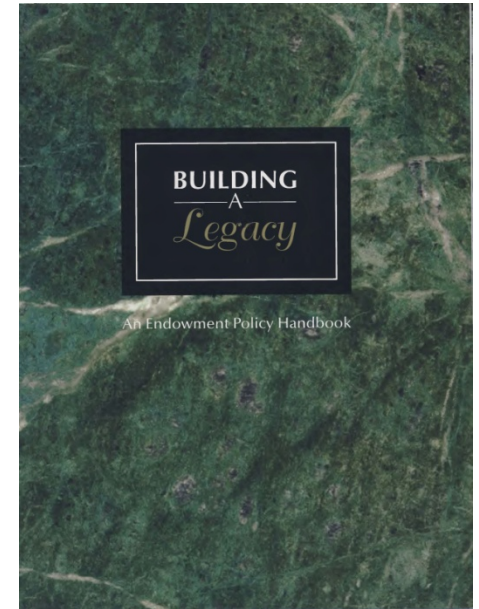


# Building an Endowment Fund

- Prepare the way
- Building and charge committees
- Draft the policy components
- Present a draft to the congregation
- Refine the final document
- Vote on the policy
- Promote the endowment
- Review the policy at regular intervals

# Resources

- Visit [ucfunds.org](http://ucfunds.org)
- *Endowment Policy Handbook*
- Planned giving (beginning 2015)



# Endowment Policy Components

- **Gift Acceptance Policy**
  - Outlines the parameters by which a church or ministry will accept or reject gifts and/or gift restrictions
  - Important for all types of gifts a ministry may receive
- **Investment Policy**
  - Details the manner in which assets will be invested
- **Spending Policy**
  - Governs the way distributions are made to fund mission and ministry

# Endowment Policy Components

- **Gift Acceptance Policy**
  - Outlines the parameters by which a church or ministry will accept or reject gifts and/or gift restrictions
  - Important for all types of gifts a ministry may receive
- **Investment Policy**
  - Details the manner in which assets will be invested
- **Spending Policy**
  - Governs the way distributions are made to fund mission and ministry

We joyfully and thankfully accept your gifts —  
but we reserve the right to manage the type of gifts  
we receive and the methods by which we receive them.

# Gift Acceptance Policy

- **Purpose**  
Sets parameters by which gifts may be accepted or rejected.
- **Donor communication**  
A clearly written policy expresses to potential donors the types of gifts most useful to the organization, and creates opportunities to fund specific missions and ministries.
- **Naming rights**  
Sets rules for amounts to qualify for naming or restrictions.
- **Protection on non-cash gifts**  
Gifts of non-liquid assets — like real property — may require excessive resources to liquidate or transition.
- **Protection on size, scope and restrictions**  
Some gifts require too much effort to manage relative to the value, or place restriction not suitable to the core mission.

# Investment Policy

- **Investment objectives**
  - Identifies the risk/return goals of the portfolio
  - May differ by fund
- **Target return & target risk tolerance**
  - Performance benchmarks
  - Risk metrics and expectations
- **Asset allocation & diversification**
  - Acceptable and non-acceptable investments
  - Frequency of portfolio rebalancing
- **Personnel & expertise**
  - Committee members with experience & expertise
  - Selection and monitoring of outside advisors
- **Socially responsible investing**
  - Investing based on your values

# Investment Policy

## WHAT IS RISK?

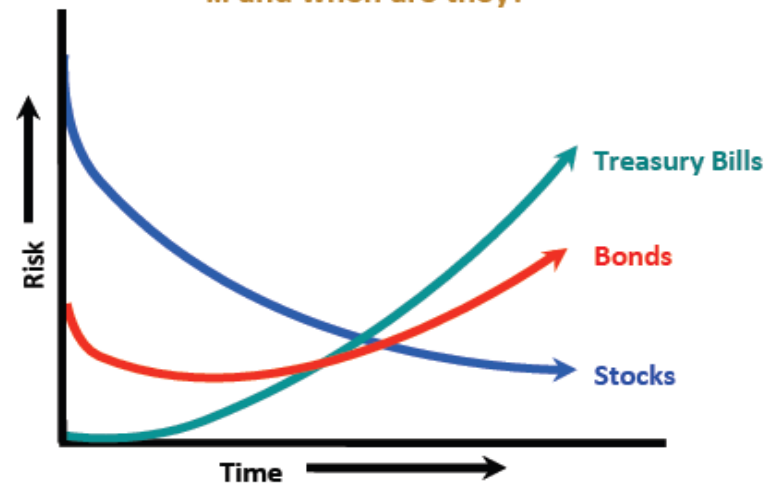
### ➤ Short-Term Risk

- Financial theory regarding risk and return relationships usually focuses on standard deviation.
  - Measures the amount of variation in returns around the average.

### ➤ Long-Term Risk

- Endowment does not ensure the future of the ministry.
- Opportunity cost.
- Failure to keep pace with inflation.

Which Assets are Risky?  
... and when are they?



# UCC Investment Options

- **United Church Funds' family of funds**
  - Fixed income and four asset class funds
  - Three traditional balanced funds
  - Alternatives funds
  - Beyond Fossil Fuels funds
  
- **Cornerstone Fund**
  - Ideal for investment horizons under five years
  - Fixed rate of return investments, from six to 60 months
  - Funds create a pool for loans to UCC organizations
  - Not FDIC-insured



# Spending Policy

- **Definition**  
A spending policy outlines the parameters by which funds are distributed to mission, ministry or other purposes.
- **Fiduciary risk**  
Disbursements are made in accordance with the spending policy, not the wishes of the governing committee.
- **Donor communication**  
A well written spending policy educates potential donors on how their gift will be spent.
- **Fund duration & purpose**  
Sets parameters for spending patterns and distribution uses.
- **Economic conditions & anticipated return**  
Policies must be reasonable relative to the market and consistent with the Investment Policy's anticipated return.



## Questions & Answers