

REVIEWING & REFINING YOUR ENDOWMENT POLICY

Salem, Massachusetts

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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
- Adopted by 49 states - 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- Some restrictions may become outdated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

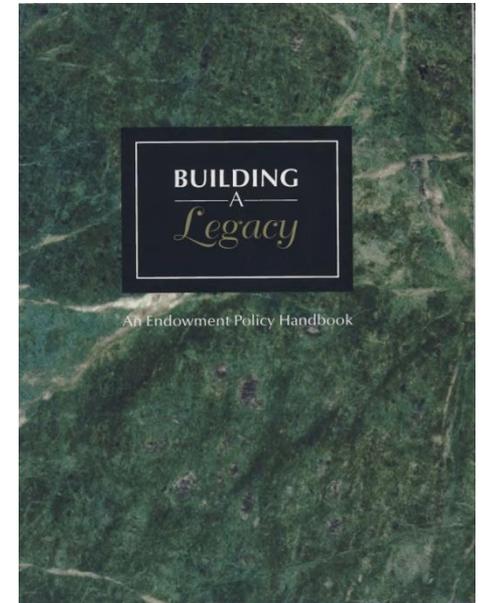
- Duty of Loyalty
 - acting solely for the organization's benefit
- Fees — obligation to manage costs, but not necessarily to rely on the least expensive management option
- Delegation — responsibility to select and monitor investment advisors and managers, including strategy and performance
- Whole 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

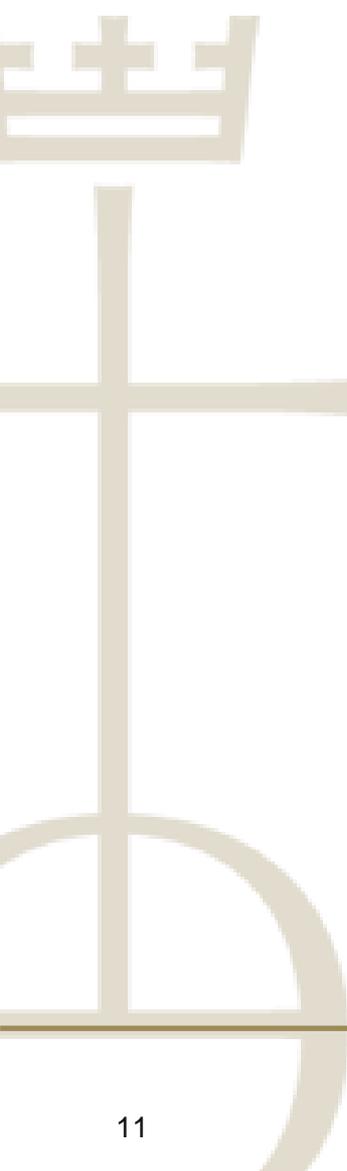
- Prepare the way
- Building and charge committees
- Draft the policy components
- Present a draft to the congregation
- Refine the final document
- Vote on the policy
- Promote the endowment
- Review the policy at regular intervals

Resources

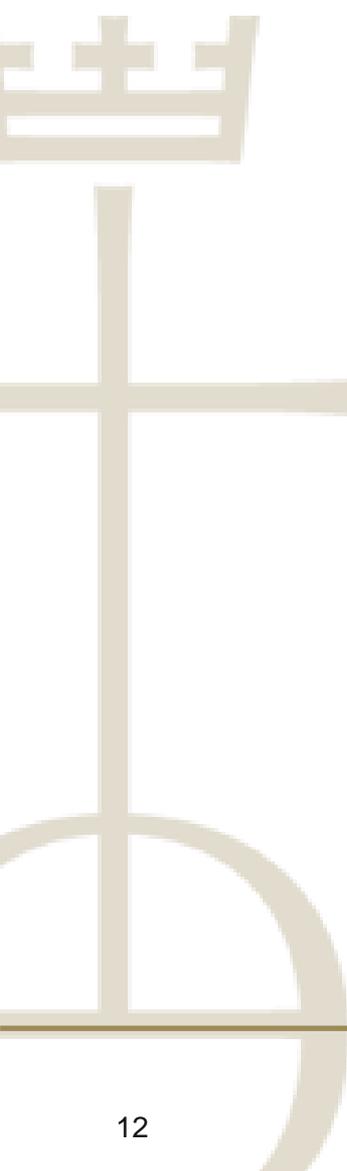
- Visit ucfunds.org
- *Endowment Policy Handbook*
- Planned giving (beginning 2015)



Endowment Policy Components

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- **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

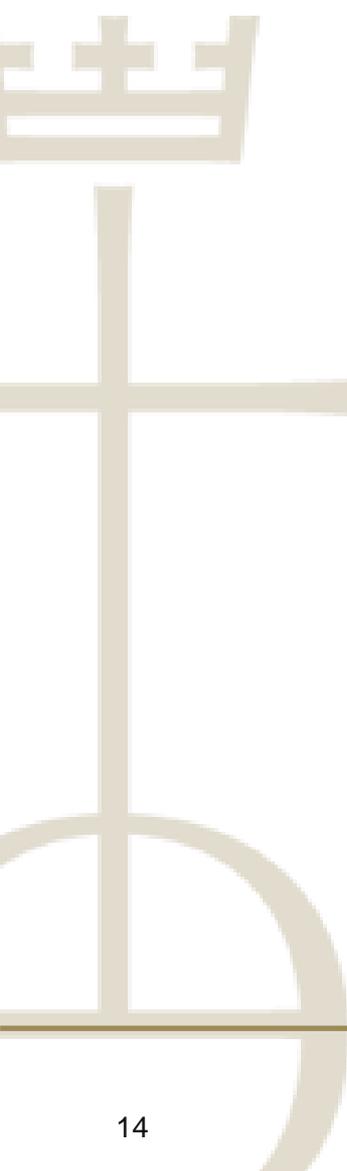
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We joyfully and thankfully accept your gifts —
but we reserve the right to manage the type of gifts
we receive and the methods by which we receive them.

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?

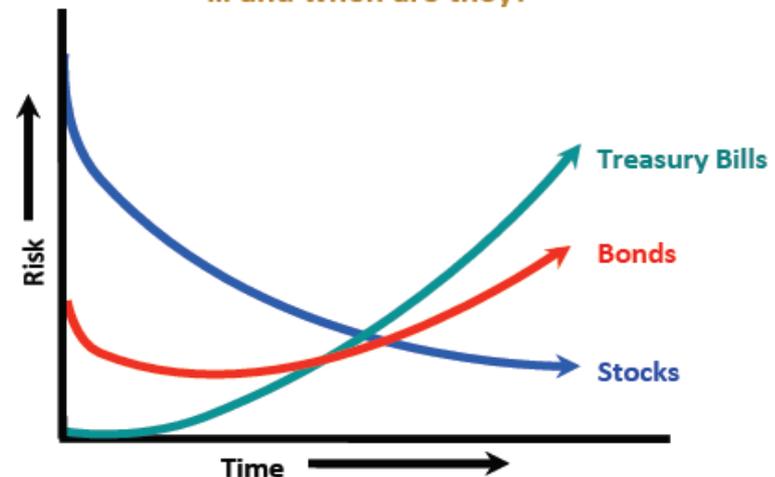
➤ Short-Term Risk

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

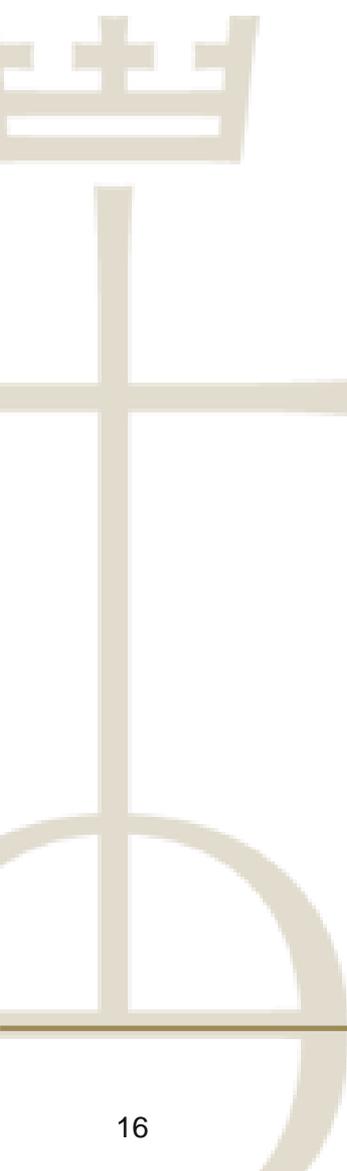
➤ Long-Term Risk

- 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?



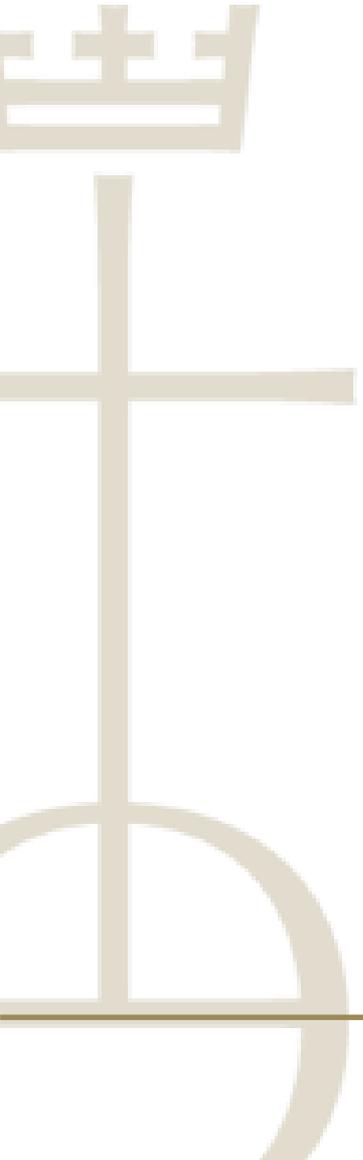
UCC Investment Options

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- **United Church Funds' family of funds**
 - 13 Professionally- and actively- managed funds
 - Five traditional balanced “fund of funds”
 - Alternatives Funds
 - Beyond Fossil Fuels Fund

 - **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