AGENDA ITEM SUMMARY

1. NAME OF ITEM: FY2015 Endowment Distribution Rate per Share

2. INITIATED BY: James H. Page, Chancellor

3. BOARD INFORMATION: BOARD ACTION: X

4. BACKGROUND:

The endowment distribution rate was presented to the Investment Committee for review and approval at its February 27, 2014 meeting. Lacking a quorum, this item is being forwarded for Board of Trustee approval in March.

Distribution Rate Philosophy: The UMS endowment distribution formula is designed to smooth the impact of volatile investment returns as campus budgets depend on these endowment revenue streams to fund scholarships and other endowed spending.

Distribution Rate Calculation: The distribution formula uses a 3-year endowment pool market value average to which a percentage spending rate is applied. The resulting distribution amount is then divided by the total number of shares in the endowment pool\(^1\) to arrive at the distribution rate per share.\(^2\) The UMS Accounting Department uses the approved rate per share\(^3\) in their monthly allocation process whereby each endowment receives a distribution based on the respective number of shares held.

Underwater Endowments: For the purpose of determining the underwater\(^4\) status of endowments, each year the Accounting Department compares each endowment’s market value with its initial investment value. To allow underwater endowments to regain market value, UMS does not distribute funds for underwater endowments during the following fiscal year. As of November 30, 2013, no endowments were underwater, an improvement from the 1% that was underwater in the prior year.

Fiscal Year 2015 (FY15) Proposed Distribution Rate: At its January 10, 2014 meeting, the UMS Shared Services Advisory Council discussed the endowment spending rate and supported a rate of 4.5% for FY15 which is consistent with the prior year. A summary of the endowment rate information is enclosed for reference. A 4.5% spending rate (which includes the management fee, where charged) equates to a rate per share of $13.53261. Using this rate, an estimated $5.2 million will be available for endowed spending and $235 thousand allocated for management costs in FY15.
5. TEXT OF PROPOSED RESOLUTION:

That the Board of Trustees approve an endowment distribution rate for FY15 of $13.53261 per share.

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1 Adjusted for any endowments with specific spending policies determined by the donor.
2 Shares (e.g., units) are the internal tracking mechanism for each respective endowment’s portion of the total endowment pool.
3 The Accounting Department uses the approved rate per share in the monthly allocation process whereby each endowment receives a distribution based on the respective number of shares held as of the annual measurement point adjusted for additional shares acquired during the remainder of the fiscal year. Effective with the FY15 rate calculation, the measurement point was moved from December 31 to November 30 so that estimated distribution amounts would be available earlier allowing for earlier determination of scholarship awards.
4 Underwater is the term used to describe an endowment when its market value is less than its corpus (e.g., initial investment).