



# **Your Guide to Philanthropic Foundation: Endowments**

February 28, 2020

# Agenda



Key terms



Overview of Endowments



Understanding Your Endowment Report



Endowment Investments and Distributions -  
Test



Questions

# Key Terms

## Corpus or Principal (or Book Value)

*The principal or corpus is commonly referred to the original gift amount sum of money allocated for the investment.*

## Market Value

*All-encompassing value of the endowment fund. Includes historical income and appreciation net of any appropriated spending, expense, and distributions.*

## Invading Corpus

*Withdrawing from the principal or corpus of an endowment when the income is insufficient for distributions.*

## Basis Point

*A basis point (bp) is a unit that is equal to 1/100th of 1% and is often used instead of percentages when discussing interest rates, rates of return, and other percentage-based metrics that can occur as fractions of a percent.*

### EXAMPLES:

*1% = 100 basis point  
0.75% = 75 basis points  
0.01% = 1 basis point*

## Inflation

*The general increase in prices and fall in the purchasing value of money.*

## Quarter

*4 quarters in a year or every three months. Time frame used to measure overall performance of endowments.*

## Investment types:

### Fixed Income:

*The Fixed Income portfolio consists mainly of direct or indirect investments in investment-grade marketable bonds as well as short-term liquid investments and cash equivalents. The Fixed Income portfolio is designed to meet near-term operating distributions to colleges, provide capital for rebalancing, fund capital calls to private market investment vehicles, reduce the Endowment's overall volatility, provide a measure of deflation protection, and, if possible, generate current income.*

### Equities:

*Investment instruments, such as shares of stocks. Equities can strengthen a portfolio's asset allocation by adding diversification but can also increase exposure to the risk that money may be lost in the event of a market decline.*

# What is an endowment?

## Endowment

A restricted donation made to the University where the original gift value is invested, and the annual investment income supports, in whole or in part, a specified purpose.

Funds are usually held in perpetuity unless the Gift Agreement designates a specific period or occurrence of a specific event or circumstance.

# What is the endowment management policy?



Endowment  
Investment Policy

The investment objective of the Cal Poly Pomona Philanthropic Foundation is to invest funds to the fullest extent possible. The Foundation attempts to obtain the highest return available, while meeting the long-term criteria established for safety (preservation of capital) return and liquidity.

The Foundation's endowment investment portfolio is designed to attain or exceed a target rate of return throughout economic cycles consistent with risk limitations and prudent investment principles. Historical and cash flow needs are analyzed continuously. Endowment funds entrusted to the Foundation are pooled in an actively managed portfolio.

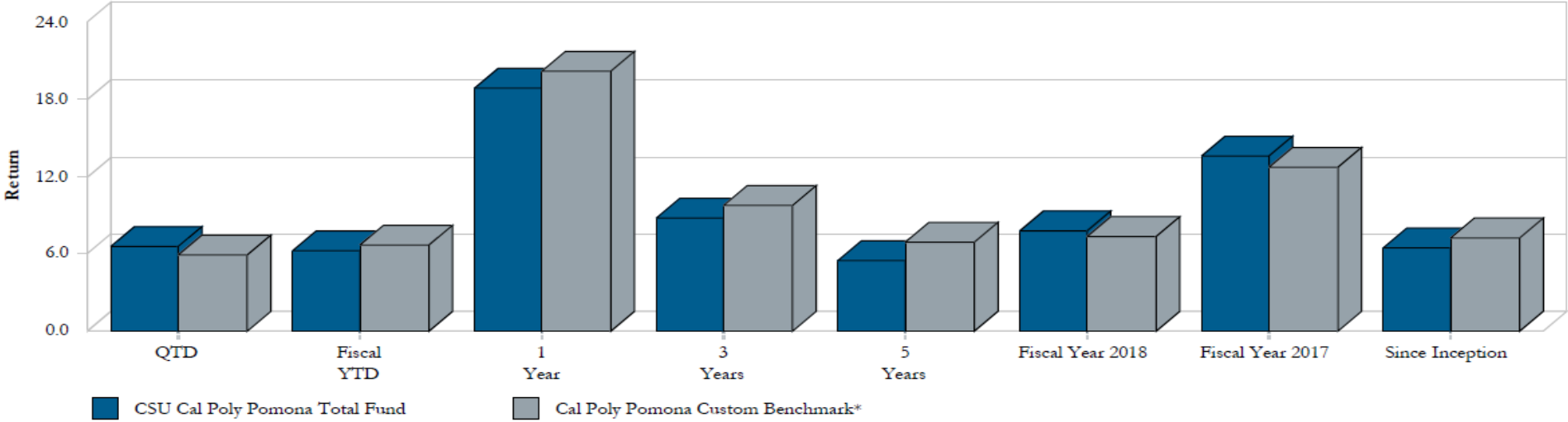


# Endowment Value and Return

## Market Valuation

	Quarter To Date	Fiscal YTD	Since Inception	Inception Date
Total Fund Composite				10/01/2008
Beginning Market Value	\$98,496,212	\$101,728,891	\$31,161,294	
Net Contributions	\$232,623	(\$2,709,132)	\$26,758,031	
Gain/Loss	\$6,529,969	\$6,239,045	\$47,339,480	
Ending Market Value	\$105,258,805	\$105,258,805	\$105,258,805	

## Total Portfolio Performance (%)



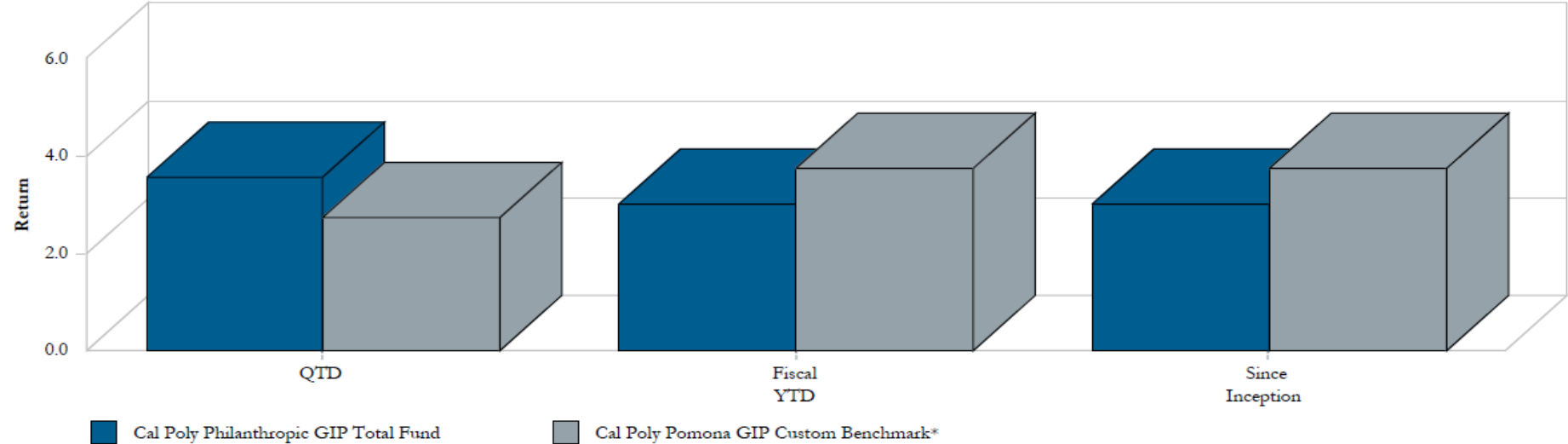
	QTD	Fiscal YTD	1 Year	3 Years	5 Years	Fiscal Year 2018	Fiscal Year 2017	Since Inception	Inception Date
CSU Cal Poly Pomona Total Fund	6.62	6.31	18.95	8.76	5.50	7.78	13.68	6.48	10/01/2008
Cal Poly Pomona Custom Benchmark*	5.94	6.74	20.30	9.80	6.99	7.43	12.72	7.24	10/01/2008

# Endowment Value and Return

## Market Valuation

	Quarter To Date	Fiscal YTD	Since Inception	Inception Date
Total Fund Composite				07/03/2019
Beginning Market Value	\$25,918,099	\$18,189,796	\$18,189,796	
Net Contributions	\$1,708,434	\$9,549,296	\$9,549,296	
Gain/Loss	\$952,038	\$839,479	\$839,479	
Ending Market Value	\$28,578,571	\$28,578,571	\$28,578,571	

## Total Portfolio Performance (%)



	QTD	Fiscal YTD	Since Inception	Inception Date
Cal Poly Philanthropic GIP Total Fund	3.56	3.03	3.03	07/03/2019
Cal Poly Pomona GIP Custom Benchmark*	2.73	3.76	3.76	07/03/2019



# When does an endowment have to be invested to get a distribution?

There is no minimum required timeline to invest prior to distribution. The only requirement is that the fund is invested prior to September 30. Each fund in the portfolio will receive a distribution annually given the distribution does not take the value of the fund to less than 90% of the original gift amount (corpus).

# When is the distribution? What is the payout percentage?

## Distribution

The distribution is made based on the average market value for each fund over the last 12 quarters; September 30 quarter end account values. The calculation is made in October, the Investment Committee approves in November and the distribution is made in January for the following Academic Year.

## Payout Percentage

The Absolute Objective of the Endowment Fund is to seek an average total annual return of 4.0% plus the percentage change in the greater Los Angeles area CPI. The intent of this objective is to measure, over time, the return on the portfolio as measured in, inflation adjusted terms.

*\*CPI – consumer price index*

# Is there still a distribution if the endowment is “underwater”?

## **Underwater Endowment**

Underwater endowments funds are endowments in which the market has decreased below the value of the original gift (principal/corpus) to the fund, due to market fluctuations or other reasons.

## **Distributions on Corpus Valued at Less than 90%**

At the time of valuation, no distribution will be made from an individual endowment if its market value is equal to or less than 90% of its corpus. Partial distributions will be made as long as a distribution shall not cause the market value to drop below 90% of the corpus (e.g. if an endowment’s market value is 92% of the corpus, a partial distribution of 2% of the corpus will be made).

# What reports do donors receive on their endowments? When?

## **Reportable Endowment Funds**

There are 280 endowments who have a person or organization receiving an annual report.

## **Endowment Fund Activity Reports**

Donors receive Endowment Fund Activity Reports, detailing the prior fiscal year’s market and operating values, in October of each year.





# What is a quasi vs. term vs. permanent endowment?

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## Quasi Endowment

The principal/corpus of a quasi-endowment is established by the needs of the institution. Quasi-endowments function as an endowment, but without legal restrictions established by a donor agreement to hold the fund permanently.

## True (Permanent) Endowment

Are funds established in accordance with donor criteria and restrictions. Fund must exist in perpetuity.

## Term Endowment

Funds are similar to true (permanent) endowments, except that, upon the passage of a stated period (or time) or the occurrence of a particular event, all or part of the donation may be expended. True and term endowments are collectively referred to as 'donor restricted' transactions.

***\*All endowments are invested in an activity managed portfolio***

# Why does the endowment not have a better return?

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The goal of Cal Poly Pomona's endowment portfolio investment is to preserve the endowments' value in perpetuity. The Cal Poly Pomona Philanthropic Foundation works with a consulting firm, who determines the asset allocation (within target ranges) and selects the individual managers within various asset classes.

Their target rate of return is 4% per year plus inflation and the administrative fee.

Returns above the target rate are maintained in the portfolio for future distributions.

# Understanding your Endowment Fund Report

## Endowment Fund Report for BRONCO ENDOWMENT (Uxxxxxx) Financial Summary Ending 6/30/2019

➔ 1	<b>Beginning Endowment Market Value as of 7/1/2018 (Uxxxxxx)</b>	\$	<b>126,865.41</b>
2	New Gifts/Transfers	\$	-
3	Reinvestments	\$	2,572.84
4	Distributions	\$	(4,624.86)
	<b>Ending Endowment Market Value as of 6/30/2019</b>	\$	<b>124,813.39</b>

### Endowment Market Value

Market Value As of 6/30/18	\$	126,865.41
Market Value As of 6/30/17	\$	123,001.60
Market Value As of 6/30/16	\$	113,138.31
Market Value As of 6/30/15	\$	124,004.72
Market Value As of 6/30/14	\$	133,974.66

➔ 5	<b>Beginning Operating Account Value as of 7/1/2018 (1xxxxx)</b>	\$	<b>231,130.67</b>
	Distributions from Endowment	\$	4,624.86
6	Other Income	\$	73,038.64
7	Expenses/Expenditures for Fund Purpose	\$	(62,722.92)
	Other Balance Sheet Transactions	\$	16,016.63
	<b>Ending Endowment Operating Value as of 6/30/2019</b>	\$	<b>262,087.88</b>

## KEY TERMS

### 1 Endowment Market Value

This is the value of all activity recorded in your endowment. Total account value includes historical contributions, investment activity and distributions to operating

### 2 New Gifts/Transfers

This includes all contributions and other adjustments credited to the fund during the fiscal year

### 3 Reinvestments

Your endowment's market performance net of fees (an annual administrative investment fee of 0.75%)

### 4 Distributions

The Cal Poly Pomona Philanthropic Foundation has a smoothing formula that it utilizes to address market variability; annual distributions target up to 4% of a fund's market value are directed to eligible endowment operating accounts in the January of each year for use in the next academic year. The distribution is based on the fund's prior twelve quarter market values as of September 30.

### 5 Operating Account

This account holds all distributions from your principal account and represents all spendable funds currently available to your specific university program

### 6 Other Income

Contributions or transfers to operating account

### 7 Expenses/Expenditures for Fund Purpose

Total amount spent by the university for the purposes of your endowment

# Endowment Investments and Distributions

## Test

<b>Problem #1</b> <i>Endowment Invested for 12 Quarters</i>	
<i>Corpus</i>	<i>\$ 95,000.00</i>
Quarter	Market Value
1	\$ 96,321.00
2	\$ 123,486.00
3	\$ 88,045.00
4	\$ 92,123.00
5	\$ 89,654.00
6	\$ 103,541.00
7	\$ 116,201.00
8	\$ 102,321.00
9	\$ 113,489.00
10	\$ 108,456.00
11	\$ 78,951.00
12	\$ 116,541.00
<i>12 quarter average</i>	
<i>Payout %</i>	
<i>Actual Distribution</i>	

<b>Problem #2</b> <i>Endowment Invested for Less than 12 Quarters</i>	
<i>Corpus</i>	<i>\$ 102,456.00</i>
Quarter	Market Value
1	\$ 104,456.00
2	\$ 104,159.00
3	\$ 103,127.00
<i>3 quarter average</i>	
<i>Payout %</i>	
<i>Actual Distribution</i>	

<b>Problem #3</b> <i>Endowment whose average value is LESS THAN originally-contributed amount</i>	
<i>Corpus</i>	<i>\$ 94,843.00</i>
Quarter	Market Value
1	\$ 95,343.00
2	\$ 87,481.00
3	\$ 91,347.00
4	\$ 98,714.00
<i>4 quarter average</i>	
<i>Payout %</i>	
<i>Actual Distribution</i>	

<b>Problem #4</b> <i>Endowment whose average value is LESS THAN originally-contributed amount</i>	
<i>Corpus</i>	<i>\$ 95,000.00</i>
Quarter	Market Value
1	\$ 94,000.00
2	\$ 87,416.00
3	\$ 82,146.00
4	\$ 88,461.00
<i>4 quarter average</i>	
<i>Payout %</i>	
<i>Actual Distribution</i>	

<b>Problem #5</b> <i>Endowment whose average value is LESS THAN originally-contributed amount</i>	
<i>Corpus</i>	<i>\$ 95,000.00</i>
Quarter	Market Value
1	\$ 94,312.00
2	\$ 84,651.00
3	\$ 82,146.00
4	\$ 79,146.00
<i>4 quarter average</i>	
<i>Payout %</i>	
<i>Actual Distribution</i>	



**Ask  
Questions**