

**Forever is a Long Time...
Endowment Thoughts for a
Far Horizon**

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What is an Endowment?

- An investment fund set aside for the long-term support of a charitable organization and its initiatives
- A fund with the principal restricted
- A fund from which a portion or all income is expended
- A fund that is controlled either by donor restrictions or an organization's governing board




Endowment Funds Generally

- A conditional gift
- If condition accepted – binding upon the charity
- Gift is invested
- Earnings provide annual support
 - May be for a term (e.g. 25 years)
 - May be “in perpetuity”
 - What does the trust deed say???




Is an Endowment a Trust?

- Yes
- A written, signed endowment agreement creates a trust
- The charity is the trustee




Why create an Endowment?

- To create a stable funding base for an organization, specific initiative or core position
- To enable long-range planning
- In the case of Land Trusts, to maintain donated land in perpetuity




Challenge

- keep support meaningful over the very long term
 - Consider the \$100 scholarship
 - Consider the piece of land and what it will take to maintain it, now and in the future.




Endowments are not for everyone

- Do you need every available dollar now?
- What happens if your organization ceases to exist?
- Do you need a reserve fund, an endowed fund or both?




Creating an Endowment

- Endowments can be created directly by donors or through an allocation from an organization
- Relationship, relationship, relationship
- Many donors want to achieve both immediate and long-term impact with their gifting – a blend of annual and endowed gifting accommodates this.



Endowments – are you ready?

- How will your organization administer endowment(s)?
- Who will negotiate and sign the agreement(s)?
- What is your organization’s policy on endowment investment and management?
- How will you report on the management of the fund(s) to the donor, the board, the CEO?



Endowments – are you ready?

- How will the “institutional memory” of the endowment be maintained?
- How are you going to prevent inadvertent expenditure of the principal?
- Are you aware of the legal, provincial and federal criteria that apply to endowments?



Endowment Agreements


Planned Giving for Canadians
by Frank Minton & Lorna Somers
Available through the Canadian Association of Gift Planners
<http://www.cagp-acpdp.org/en/default.aspx>

...a great source for templates
and critical information




Endowment Agreements in practice

- Create a good working template
- Have this template checked over by a qualified lawyer
- Have your board approve the template




Endowment Expenditure

- How do you determine the amount to expend in a given year?
- How much should you reinvest?
- What happens if you have a negative return on investment?




Investment Policy

- Two ways to erode the spending power of an endowment
 - Earn too little
 - Spend too much
- Asset mix and management
- What do you invest in?
- How do you assess performance?




Spending Policy

- Two ways to erode the spending power of an endowment
 - Earn too little
 - **Spend too much**
- Meaningful annual disbursements require the value of the fund to grow




Common Percentages

- Between 3.5% and 6%
- Based on assumptions that investment returns will allow some earnings to be retained in the fund each year
 - (in most years)



Differences of % Opinion

- Balance between spending now and spending later
- Not a feast or famine approach
 - i.e. don't spend "all income" in a year




Mandatory Spending Rules

- Charities have a “disbursement quota”
- Mandated to put donated \$ to work
- These rules are in addition to the endowment fund terms



The 10 Year Rule

- Some misunderstandings
 - Don't assume you can spend an endowment gift once it is 10 years old
 - Must look further to what the gift/endowment fund/trust agreement says



Community Foundations

- Niche is endowment building
- For any charity or cause
- Provides safeguards to donor intent
- Assists with corporate memory
- Deals with some balance sheet issues
- One stop shopping.... What does that mean?

Types of Endowments


- Jargon!
 - Designated
 - Field of Interest
 - Donor Advised
 - More discretion.....

Practical Philosophical Questions

- Some considerations that must be contemplated
 - Donor intent
 - Different "camps" -
 - Don't spend
 - Spend consistently
 - "Beneficiary" charity expectations and needs:
 - Dependable cash flow to charitable purpose
 - Inverse relationship between declining markets and rising charity needs

Spending at the Bottom of the Market

- Harder to recover
- Are you able to spend and maintain the permanent endowment intent?
 - At what level?
 - Obviously not 50%
 - Consider the DQ - perhaps 3.5% creates a "prudent spending rule" in Canada




No Crystal Ball – Planning for the Long Term

- Plan for the unexpected
 - What do the specific donors prefer (they won't always be there to tell you)
 - Contemplate miracles and disasters - generally



No Crystal Ball – Planning for the Long Term

- Draft terms very broadly – where possible
 - Flexibility needs room
 - Applies to purpose
 - E.g. Maintain all land vs. a specific section
 - Also applies to other management issues too
 - Board to set/review disbursement level (annually?)
 - Board may choose to spend in a manner that both preserves the permanent endowment intent and complies with the regulatory rules that govern



Consultation and Communication

- Contemplate mutual amendment clauses
 - Living donors
 - Allows for important conversations
 - Revitalize interest
 - Assures donor of interest in their goals
 - Clarification
 - Specifically contemplating periodic review may be useful

Planning for the Short Term

- Contemplate splitting a gift into two components
 - Example
 - Year 1 and 2 grants (subject to 80% DQ rule)
 - Endowment fund (subject to 3.5% DQ rule)
 - Allows granting to always happen in the new relationship
 - Allows the fund some time to grow

Questions?

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