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University Endowment Fund Policy
Revisions to University Board of Governors Common Trust Fund Statute, Section 2.73.05

Recommendation

The Wayne State University Administration recommends the approval of the revisions to the Wayne State University Code Annotated statute 2.73.05, the Common Trust Fund (CTF), as presented in the attached document Exhibit I. The effective date for these changes is October 1, 2024. The recommendation prohibits distributions from endowments when the market value is less than the gift value unless an exception is granted by the University's CFO and updates the language to provide both endowment and budgeting stability.

Background

Endowments are typically established by donors with the intention to provide support in perpetuity. The University's policy for the distribution of endowment fund earnings manages this expectation with prudent management to preserve intergenerational equity. If an endowment's market value falls below the gift amount, it is considered underwater and could put its ability to be a sustainable, ongoing revenue stream at risk. Prohibiting spending from underwater endowments, unless an exception is granted by the University's CFO, mitigates this risk.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides the framework for the management of the Common Trust Fund (CTF). One of the factors that UPMIFA requires institutions to consider is the duration and preservation of the endowment fund. Limiting spending from underwater endowments aligns with UPMIFA by decreasing the risk of impairment and increasing the likelihood that the fund will remain in perpetuity.

One of the goals of the CTF is to provide a predictable, stable stream of distributions over time. The administration plans to provide additional clarity on endowment distributions by setting the per-unit distribution rate annually. This will improve institutional and departmental planning and provide the insight necessary to provide budget stability, facilitate the utilization of endowed funds to support the donor's intended purpose, and reduce pressure on the university's general fund.

Finally, large unspent annual balances in endowment beneficiary accounts discourage donors from making further contributions, forego investment opportunities, and shift budgetary pressure to the general fund. The recommendation would allow unspent funds in a beneficiary account to be added back to the principal, subject to the University CFO's approval. Reinvested balances will grow the endowment and increase its ability to provide support in the future. Spending account balances will be reviewed annually during the budget process and each School, College, and Division will be asked to present three-year spending plans.

Wayne State University Board of Governors – Code Annotated
2.73.05 Common Trust Fund

2.73.05.010
The University will maintain a pooled fund through its endowment fund held by the Wayne State University Foundation. This fund will be known as the Common Trust Fund, and it will be for the purpose of pooling all liquid assets of endowment funds (true endowments, funds functioning as endowments, term endowments, living trusts, and similar assets) for investment purposes, unless a donor of an endowment specifies that such assets be maintained and invested separately and the President or his/her designee agrees to such special arrangement.

2.73.05.020
The investment objective of Wayne State University is to generate an annual total rate of return for the fund sufficient to produce the following results on average, over long periods of time:
(1) Provide ~~periodic~~ distributions from an endowment to the beneficiary account or accounts associated with that endowment as set forth in 2.73.05.070 ~~determined by the Wayne State University Board of Governors.~~
(2) Inclusive of the above, grow the value of the corpus of the Common Trust Fund over longer periods of time equal to the rate of inflation (CPI); and
(3) Inclusive of (1) and (2), preserve the corpus of the Common Trust Fund with the goal of growing the real value of the Common Trust Fund.

2.73.05.030
The above financial results should be sought without incurring a level of rate-of-return volatility materially greater than that generally associated with peer institution assets. Since the University has transferred its endowment funds to the Wayne State University Foundation, the University expects that the Foundation will adopt an investment policy that incorporates these objectives.

2.73.05.040
Generally, new endowment fund cash and/or securities will be placed in the Common Trust Fund as of the last day of the quarter unless a significantly large endowment is received. Then the assets will be placed in the Common Trust at the earliest possible date. The value of the Common Trust Fund will be appraised as of the last day of the quarter, or an earlier date in the case of significantly large endowments (equivalent to no less than 5% of the total endowment fund), and units of participation will be assigned to the new endowment fund(s) on the basis of the total market value of the Common Trust Fund and the total outstanding units of participation before the inclusion of the new fund.

2.73.05.050
Subtractions from the principal, when necessary and allowable, will be made on the last day of the calendar quarter, at which time a reappraisal is to be made as described above.

2.73.05.060
Income and capital gains from the Common Trust Fund will be allocated ~~distributed~~ quarterly to each participating endowment fund on the basis of the number of units of participation in accordance with section 2.73.05.070, unless there are different requirements based upon exceptions in existing memorandums of agreement.

2.73.05.070

The annual ~~amount~~ rate of the distribution will be 5.0% of the three-year ~~moving~~ rolling average ~~of the~~ market value of the endowment fund; ~~Of this annual distribution, 4.0%~~ 80% of which will be transferred to the beneficiary or spending account and 20% ~~1.0%~~ will be transferred to an administrative account as a fee to support the Division of Development and Alumni Affairs fund raising activities. ~~The quarterly distribution amount of the market value of the endowment fund to be distributed to each individual endowment fund will be 1.0%, and the administrative fee to support the Division of Development and Alumni Affairs fund-raising activities will be 0.25% of the market value of the endowment fund.~~

2.73.05.080

~~The moving average is to be determined by dividing the twelve most recent quarterly market valuations by twelve.~~ If there is no beneficiary or spending account, the distribution will be added to the principal. Should an endowment's market value fall below its gift value, that endowment's beneficiary account or accounts will not receive a distribution unless granted an exception by the University's CFO. ~~For quasi endowment funds, upon the request of the University official who has signature authority over the beneficiary or spending account,~~ Unspent funds in ~~these~~ a beneficiary account may be added back to the principal, provided the donor agreement does not prohibit this action.

Legislative History Adopted Official Proceedings 32:4353 (10 June 1988) Amended Official Proceedings (2 March 2005), (30 July 2008) Amended Official Proceedings 26 June 2013 Prior Acts: Official Proceedings 4:756