

**Revisions to University Board of Governors Common Trust Fund statute section
2.73.05.040 – Investment Income for Large New Gifts**

Recommendation

The Administration recommends that the Board of Governors approve the attached revised Wayne State University Code Annotated statute 2.73.05, the Common Trust Fund, as presented in the attached Exhibits (Exhibit I – Tracked Changes, Exhibit II – Untracked Changes), effective immediately. These changes redefine large gifts and provide for allocation of investment income to these gifts before being transferred to the Common Trust Fund.

Background

The WSU Foundation endowment consists of about 1,300 individual endowment funds pooled within the Common Trust Fund. The valuation and income allocation to these funds is governed by the Common Trust Fund statute. The fund valuation updates and income distributions are recorded quarterly. The existing statute provides that only new gifts with a value of 5% or more of the total endowment fund (presently approximately \$15 million) can buy into the Common Trust Fund between quarters and thereby become eligible for an endowment fund income distribution for that time period. Information availability, resource and system limitations preclude fund unit valuation on a monthly basis.

The attached statute change redefines large gifts as \$1 million, instead of 5% of the total endowment fund and mandates that investment income equivalent to the cash pool yield (currently budgeted at 2.5% annually) be allocated to the large gift amount until it is transferred into the Common Trust Fund at the beginning of the next quarter.

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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 as 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. The value of the Common Trust Fund will be appraised as of the last day of the quarter 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.” If a significantly large endowment gift (\$1 million or more) is received during the quarter, then it should be allocated investment income from the cash pool, until it is placed in the Common Trust at the end of that quarter. The amount of the investment income

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will be based upon the amount of the endowment, the length of time the funds remain in the cash pool and the cash pool interest rate yield.

- 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 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 of the distribution will be 4.5% of a moving average of the market value of the endowment fund. Of this annual distribution, 4.05% will be transferred to the beneficiary or spending account and .45% 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 1.0125% and the administrative fee to support the Division of Development and Alumni Affairs fund raising activities will be .1125% of the market value of the endowment fund.
- 2.73.05.090 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. 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 accounts may be added back to the principal, provided the donor agreement does not prohibit this action.

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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 as 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. If a significantly large endowment gift (\$1 million or more) is received during the quarter, then it should be allocated investment income from the cash pool, until it is placed in the Common Trust at the end of that quarter. The amount of the investment income will be based upon the amount of the endowment, the length of time the funds remain in the cash pool and the cash pool interest rate yield.

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- 2.73.05.060 Income and capital gains from the Common Trust Fund will be distributed quarterly to each participating endowment fund on the basis of the number of units of participation.
- 2.73.05.065 There will be quarterly distributions from each endowment fund in accordance with sections 2.73.05.070, unless there are different requirements based upon exceptions in existing memorandums of agreement,
- 2.73.05.070 The annual distribution rate will be reduced to 4.5%. This will be implemented over a transition period, which will end in the fiscal year following that fiscal year where the Common Trust Fund's actual calculated annual distribution dollar amount per unit of participation based upon a 4.5% distribution rate equals or exceeds the total dollar amount distributed to each unit of participation during fiscal year 2013
After the transition period ends, the quarterly distribution amount of the market value of the endowment fund to be distributed to each individual endowment fund will be 1% and the administrative fee to support the Division of Development and Alumni Affairs fund raising activities will be .125% of the market value of the endowment fund.
- 2.73.05.090 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. If funds are not needed in the beneficiary or spending account, for quasis endowment funds where the donor agreement does not prohibit such an action, upon the request of the University official who has signature authority on the beneficiary or spending account, these funds can be added back to the principal.