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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 Foundation Board and 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, as presented in the attached document Exhibit I, with the effective date for these changes October 1, 2021. The recommendation is to increase the annual distribution rate from 4.50% to 5.00%. Of this annual distribution, 4.00% will be transferred to the beneficiary or spending account and 1.00% will be transferred to an administrative fee account set up to support the Development and Alumni Affairs capital campaign and fundraising activities

Background

The Common Trust Fund (CTF) statute establishes the University's policy for the distribution of endowment fund earnings to various individual endowment fund beneficiary spending accounts and an administrative fee account to support the Development and Alumni Affairs capital campaign and fundraising activities. The present University endowment annual spending distribution rate is 4.50% of a moving average of the market value of the endowment. Of this annual distribution, 4.05% is transferred to the beneficiary spending accounts and 0.45% is transferred to the administrative fee account.

Wayne State University is launching a new capital campaign which will require an increase in expenditures. Development and Alumni Affairs is proposing to increase the administrative fee from 0.45% to 1.00% as a source of funding for the campaign. Development and Alumni Affairs is also proposing lowering beneficiary spending from 4.05% to 4.00%. This would result in a total spending rate of 5.00%.

EAB benchmarking has demonstrated that a 4.00% beneficiary spending rate and a 1.00% administrative fee is well in line with peer universities. In addition, Strategic Investment Group has indicated that a 4.00% beneficiary spending rate and a 1.00% administrative fee is the most common set of spending rate variables at foundations associated with public universities Institutionally Related Foundations.

The investment objective of the CTF is to generate an annual total rate of return sufficient to provide periodic distributions to the University as determined by the Wayne State University Board of Governors, grow the value of the corpus of the endowment at a minimum by the rate of inflation, and preserve the corpus of the endowment, with the goal of growing the real value of the assets, net of costs over long periods of time, to the extent allowed by returns in the broad markets. Based on current long-term projections of investment returns for various asset classes in the endowment portfolio, it is likely that the endowment's average annual investment returns will support the increased spending rate and achieve its other goals over a long period of time.

The estimated annual impact of spending policy change is a total increase of approximately \$2.1 million, which is comprised of an increased administrative fee of approximately \$2.3 million and decreased beneficiary spending of approximately \$0.2 million.

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 Common Trust Fund

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 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 4.5.0% 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 .451.0% 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

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market value of the endowment fund to be distributed to each individual endowment fund will be 1.0~~125~~%, and the administrative fee to support the Division of Development and Alumni Affairs fundraising activities will be 0.4~~125~~% 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. 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.

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