

The University of North Texas at Dallas Policy Manual	Chapter 10.000
10.006 Endowment Funds	Fiscal Management

Policy Statement. Endowment funds will be managed in a fiscally responsible manner to ensure compliance with legal, ethical, and contractual obligations. This policy establishes rules and guidance for the acceptance, establishment, investment, and distribution of endowment funds.

Application of Policy. Total University, including all University employees with financial, administrative, or reporting responsibilities related to endowment funds.

Definitions.

“Endowments” are investment funds established with a gift or other University funds designed to keep the core endowment principal intact to produce future income or capital gain to fund a specified purpose, including a special project, need, or ongoing operations. Endowments include the following three categories:

“Permanent endowments,” as true or pure endowments, are established and designated by a donor to be held in perpetuity. The corpus of these endowments may never be spent; however, the corpus may decline during unfavorable market conditions. Earnings and capital gains must be expended in accordance with the terms and conditions established by the donor.

“Term endowments” are established and designated by a donor to be held for a period of time and to terminate following a particular date or event. The corpus of these endowments may be expended in accordance with the terms and conditions specified by the donor. Until the designated date passes or event occurs, term endowments operate essentially like permanent endowments with expenditures made in accordance with the conditions established by the donor.

“Quasi-endowments” are established and designated by the University to be held and managed as endowments. The University administration will specify the use of the corpus and income, and set other terms and conditions relating to the fund. The University administration may change the terms and conditions of the endowment or terminate the endowment.

Procedures and Responsibilities.

Preface

Gifts are critical to UNT Dallas' mission to develop and maintain quality in faculty, students, and facilities. The UNT System Board of Regents recognizes the importance of establishing policies and procedures to meet the development needs of UNT Dallas and to promote and support efforts to attract private fund support. This policy establishes rules and guidelines to accept and administer endowment funds in compliance with legal, ethical, and contractual obligations to meet fiduciary and fiscal responsibilities. When this policy does not indicate the appropriate course of action, or is incomplete to cover all aspects of a specific situation, the Vice President for Finance and Administration shall work with the Board of Regents Finance Committee to establish the recommended course of action.

Review and Approval

This policy shall be reviewed and approved by the Board of Regents annually.

Fiduciary Responsibility

All endowments shall be managed in a manner that supports the Board of Regents' fiduciary responsibility to comply with restrictions imposed by donors of endowment funds. All endowments shall be managed in compliance with Regents Rules 09.300 and 10.100, UNT System Regulation 08.2000, Texas Education Code, Chapter 51, Subchapter A, Sections 51.001 – 009, and, to the extent applicable, Texas Property Code, Chapter 163 (Uniform Prudent Management of Institutional Funds Act) and Chapter 117 (Uniform Prudent Investor Act).

The primary and constant standard for making investment decisions for endowment is the "Prudent Person Standard" which states that the investment manager may manage investments with "that standard of judgment and care that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment."

Written Instruments to Establish Endowments

A written donative instrument should be provided for establishing new endowment funds. This instrument should provide:

A statement that additions to the endowment from any other person or entity, unless prohibited, will be made subject to the provisions of the donative instrument; and

A statement that if, in the opinion of the Board of Regents, future circumstances change so that the purpose of the endowment becomes illegal, impractical, or no longer meets the needs of UNT Dallas, the Board of Regents may designate an alternative use for the endowment payout to further the objectives and purposes of UNT Dallas, giving consideration to the donor's special interest as evidenced by the original purpose of the endowment.

In cases where an endowment is established pursuant to a solicitation or campaign, the solicitation letter or document sent to the donor or donors may be used as the donative instrument to evidence the donative intent and purposes.

Minimum Contributions

Gifts to establish new, separate endowments must equal or exceed minimum contribution amounts and time periods set by the Board of Regents in Regents Rule 09.300.

Gifts to establish endowments for academic positions (i.e. chairs, professorships, lectureships, and fellowships) must meet the requirements of Regents Rule 09.200. In no case will an endowment for an academic position be established without prior approval of the President.

Investment Control

No endowment shall be accepted in which the donor directs the investment transactions or holdings or approves investment policy or strategy. The endowment fund shall be under the sole control of the UNT System Board of Regents.

It is the specific and strong preference of the Board of Regents that all endowment gifts be eligible for commingling for investment purposes with other endowment funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time.

The financial goal for management of endowment funds is to preserve the real (i.e. inflation-adjusted) purchasing power of principal and income after accounting for endowment spending, inflation, and costs of investment management. Performance of the endowment fund against this objective is to be measured over rolling 5-year periods.

Unitization of Endowments

Commingled endowment funds, excluding endowments not permitted to be invested in equities, shall be unitized and each new endowment gift added to the fund shall receive units in the fund based upon the market value of the gift and the next-determined unit value of the fund following the gift. The unit value of the endowment fund shall be determined at least quarterly. Income determined under the "Spending Policy for Unitized Endowments" section below should be calculated on a unit basis for distribution purposes.

Spending Policy for Unitized Endowments

UNT Dallas recognizes the need for spendable income by the beneficiaries of endowment funds. The following spending policy reflects an objective to distribute as much total return as is consistent with overall investment objectives defined herein while protecting the real value of the endowment principal.

An endowment should be excluded from the target distribution until the endowment has been established for one complete quarter.

The target distribution of spendable income to each unit of the endowment fund will be between 3 to 6 percent of the average market value of a unit of the endowment fund for the preceding 12 quarters. Unless otherwise determined by the Board of Regents Finance Committee, the target annual distribution rate shall be 4 percent of the average unit market value. Distribution shall be made quarterly, as soon as practicable, after the last calendar day of November, February, May, and August. This distribution amount shall be recalculated each quarter based on a 12 quarter rolling average. If the endowment fund is placed with a managing entity for investment under UNT System Regulation 08.2000, the calculation for distribution will mirror the managing entity's model unless required otherwise to meet the terms of an endowment gift agreement.

Investment of Endowment Funds

Investment management of endowment funds shall be delegated by written investment management agreement to either University of North Texas at Dallas Foundation or the University of North Texas Foundation, Inc. The investment management agreement shall require the managing entity to invest and manage the endowment funds in accordance with the prudent person standard, and the investment of endowment funds shall mirror the managing entity's policy for investment of that managing entity's endowments within the asset allocation set forth below.

Asset Allocation for Unitized Endowments

In investing unitized endowments, UNT Dallas shall require any managing entity to monitor the asset allocation on an ongoing basis, maintain the asset allocation within the tactical range shown below, review the allocation with UNT Dallas no less than annually, and provide a quarterly report in sufficient form to allow UNT Dallas to include the information in its quarterly investment report to the Board of Regents.

	<u>Strategic Target Policy Allocation</u>	<u>Tactical Range</u>
Growth Assets	53%	43 – 63%
Risk Reduction Assets	37%	30 – 44%
Inflation Protection Assets	<u>10%</u>	5 – 15%
Total	100%	

Endowments Not Unitized

Endowments that do not provide for investments in equities will not be unitized and they will receive interest and dividends on investments in fixed income securities.

Management Fees

Management fees for investment management services of endowments must be reasonable and established by written agreement.

Reporting

The performance of endowment investments will be included in and reported with the investment reports submitted each quarter to the Board of Regents. The report shall contain a summary of:

- Book value, by asset class;
- Market value, by asset class;
- Performance measures;
- Benchmarks against which to measure performance; and
- Beginning and ending market values for the quarter, with changes in market values.

References and Cross-references.

Approved: 4/9/2013

Effective: 4/9/2013

Revised: 8/2010; 4/2013; 8/2013