NORTHERN ILLINOIS UNIVERSITY FOUNDATION

Endowment Management Policy

Introduction

"The Trustees of an endowment institution are the guardians of the future against the claims of the present. Their task is to preserve equity among generations." ~ James Tobin, Yale University

Building a robust endowment has been a strategic priority for the NIU Foundation ("Foundation"). This concerted effort combines attracting new endowment gifts with thoughtful investment and spending practices.

Statement of Policy

This endowment management policy addresses four primary components of the management and administration of endowment funds for the benefit of NIU students, faculty and programs: the gift level required to establish a separate, named endowment; the spending determination; the administrative fee; and asset allocation. Each of these components shall be reviewed annually by the Investment Committee and this policy, in its entirety, shall be approved annually by the Foundation Board of Directors.

Establishing a New Endowment Fund

The minimum threshold to establish a new, named endowment fund is:

- $25,000 for endowments with earnings for unrestricted use for general scholarship; and,
- $50,000 for endowments with earnings for other purposes.

An individual endowment agreement shall be signed by the donor and the Foundation President/CEO.

A *'Growing to Endowment Fund'* may be established to allow donors time to reach the endowment fund threshold. A signed donor pledge, with a schedule of gifts to be received within three years, is necessary to establish a *'Growing to Endowment Fund'*. These gifts will be invested and managed as restricted, expendable gifts until such time as the fund reaches endowment level. If the fund does not reach the necessary level for endowment, the balance will be utilized for the donor's stated purpose.

Conforming with State Law

On June 30, 2009, Illinois Governor Quinn signed the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA is intended to clarify previously existing standards for the investment and expenditure of charity endowment funds.

The goals of UPMIFA are to:

Invest "in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances, considering the purposes, terms, distribution requirements, and other circumstances of the institutional fund" and at a rate that will preserve the purchasing power of the principal over the long term;

Spend at a rate that, over the long term, will reflect the donor's intentions.

UPMIFA specifies that boards consider the following factors in determining whether an expenditure from an endowment fund is prudent:

- Duration and preservation of the endowment fund;
- Purposes of the institution and the endowment fund;
- General economic conditions;
- Effects of inflation or deflation;
- Expected total return from investments;
- Other resources of the institution; and
- The investment policy of the institution.

Under the new rule of prudence, a distinction no longer exists between income and principal. This allows an institution to spend any amount from an endowment fund (whether it was historically categorized as income or principal or whether the fund is above historic dollar value), provided that the spending decision is prudent under the circumstances.

Additional information on UPMIFA can be found at: www.upmifa.org

<u>NIU Foundation's Spending Determination</u>

An expendable allocation may be made available each year on July 1 for the fund's stated purpose. After establishing a new endowment agreement, the first expendable allocation possible can be on the first July 1 after a complete fiscal year. This is set to best coordinate with student financial aid cycles and other campus budgeting practices and to maximize the impact of expendable allocations.

Unless specifically directed by the donor in their individual endowment agreement, the present expendable policy allows for 4% of the three year moving average of the fund's market value at June 30 of the three preceding years to be expendable.

$$\text{New Expendable Allocation July 1, Y4} = 4\% \text{ of } \frac{\text{Market Value @ } 6/30/Y3 + 6/30/Y2 + 6/30/Y1}{3}$$

Although state law allows prudent spending from funds below historic gift value (HGV), the NIU Foundation Board of Directors must specifically approve any expenditure that will cause an endowment fund to drop below HGV.

For purposes of this spending calculation, the term "historic gift value" shall mean only the value of the original gift and any subsequent gifts. Only when specifically directed by the donor in their individual endowment agreement, accumulations of (1) amounts that were available for expenditure that remain unspent, or (2) earnings (whether constituting ordinary income or capital appreciation) in excess of the expendable amount shall remain in the fund, but not be added to "historic dollar value" as that term is defined under current Illinois Law. The Foundation may continue to track such accumulated amounts for accounting purposes, and may provide the timing of how such amounts may be spent (or not spent) except to the extent specifically provided by the individual endowment agreement. All such expenditures shall be for the donor's specified purpose(s).

Administrative Fee

The present administrative fee is 1.5% of the endowment's market value and shall be assessed each year on a quarterly basis.

Asset Allocation

A key to the longevity of an endowment fund is the balancing of the spending practices with the investing practices. The asset allocation shall be reviewed regularly by the Investment Committee and approved by the Foundation Board of Directors as a part of the Foundation Investment Management Policy.

Notes:

1. Endowment level from $25,000 to $50,000 effective January 1, 2018 approved September 1, 2017)
2. Per May 2018, Board approved $25k endowment be removed from policy.
3. August 2019, Board approved: With the effort to less restricted giving, a lower minimum of $25k was added to help incentivize less restricted endowment gifts.

Adopted June 26, 2009
Reaffirmed 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018
Board Approved August 2019
Committee approved April 13, 2021
Board Approved May 2021