

<b>System-wide Policy: FI0340 - Endowment</b>	
<b>Version: 1</b>	<b>Effective Date: 04/10/2018</b>

**Topics:**

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**Objective:**

This policy establishes the necessary guidelines and requirements for University units wishing to create Endowments and Quasi-endowments. The objective is to ensure University funds are invested in assets appropriate for their intended duration and purpose, and that the University can properly manage the liquidity of its Consolidated Investment Pool (CIP).

**Policy:**

[Administrative Framework](#)

1. Effective July 1, 1954, the University adopted the policy of investing Endowment assets over which it had full discretion in a Consolidated Investment Pool (CIP). This pooling of funds allows for closer supervision of the portfolio and the advantages of a full diversification. All contributing Endowments and Quasi-endowments participate in the total return of the pool and own a pro-rata share of each portfolio position, including cash.

Because the CIP invests across a range of securities, both liquid and illiquid, care must be taken to match the liquidity of the underlying holdings with the expected cash flows of Endowments and Quasi-endowments. In addition, new funds must be examined to ensure the CIP is the proper vehicle for their investment. This policy seeks to establish basic guidelines for the vetting and creating of Endowments and Quasi-endowments relative to the CIP portfolio.

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### [Guidelines for Endowment Gifts](#)

2. **Gifts for Endowments Agreements** - The Office of the Treasurer has adopted the following requirements for establishing Endowments:

- a. Endowments should not be established in amounts less than \$25,000.
- b. Endowments to be funded by installment payments must be fully funded within a period of ten years from the date of the initial gift.
- c. Endowment Agreements to be funded by installment payments must specify that if, for any reason, the donor does not fully fund the minimum Endowment of \$25,000 within the period stated in the agreement, the University/Foundation has the authority to move the principal into another Endowment of similar purpose and scope. It is important to note, however, that Endowment funds cannot be converted to spendable funds but must remain in an Endowment.
- d. Endowments funded by installment payments must specify that the quarterly distributions earned on Endowment investments shall be added to the Endowment principal until it reaches \$25,000. Once the principal reaches \$25,000, distributions will commence and be made available for expenditure.
- e. If the donor's commitment is to fund an Endowment in excess of \$25,000, the quarterly distributions may be added to the principal until such time as the principal reaches the targeted amount (which must be stated in the agreement). Such period of re-investment is not to exceed ten years, and the time limit must also be stated in agreement.
- f. Quarterly distributions that cannot be spent can be redirected back to the principal of the Endowment and reinvested at the request of an internal University unit.
- g. Quarterly distributions from new Endowments must be reinvested for the first year. This delay allows the Endowment to begin earning prior to the initial distribution and helps preserve the long-term purchasing power of the gift.

Because all Endowments make distributions on the same quarterly schedule, a new Endowment's first distribution will be made after the earliest calendar quarter-end on, or following, the one-year anniversary of the Endowment's inception. For example, an Endowment created on January 31, 2018, February 28, 2018 or March 31, 2018 would make its first distribution following March 31, 2019.

- h. Any exception to this policy must have the written approval of the Treasurer (or designee) and the Vice President for Development and Alumni Affairs and Programs.

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#### [Procedural Guidelines for Endowments](#)

3. The establishment of each new Endowment must be based on a written agreement between the Foundation(s) or University and the donor. The agreement should be drafted by the campus, the campus/unit development officer, or the donor's attorney and must follow the general format of sample agreements furnished by the Foundation. Prior to final signatures, the agreement must be reviewed by both UTFI Advancement Services and the Office of the Treasurer. After that review is complete and final signatures have been obtained, the scanned final agreement should be sent to the Treasurer to be scanned into the permanent document files. Please note that no Endowment accounts will be established and no gift funds will be invested into the CIP until the Office of the Treasurer receives and reviews the required executed agreement.
4. After execution by the Foundation(s) or University and the donor, subsequent changes to the agreement can be made by executing an amendment to the original agreement. The amendment must be reviewed by the same parties as the original agreement. Again, please note that Endowment funds cannot be converted to spendable funds but must remain in an Endowment.
5. For individual gifts greater than or equal to \$250,000, the Treasurer's Office will require verification by either Advancement Services or the appropriate development officer that the gift funds have been designated for the correct Endowment. Until such verification, no funds will be invested in the CIP.

#### [Guidelines for Quasi-endowments](#)

6. Because of the unique nature of Quasi-endowments, additional factors must be considered regarding how these funds are invested. This policy establishes the necessary guidelines for University units wishing to create Quasi-endowments. The objective is to ensure University funds are invested in assets appropriate for their intended duration and purpose.
7. Per the 1995 Board of Trustees resolution on Quasi-endowments, all new Quasi-endowments require the approval of the University President and Treasurer. Quasi-endowments must be initiated within the University, typically as a request at the campus/unit level. Donors cannot direct gifts to establish a Quasi-endowment. Quasi-endowments can be funded with unrestricted gift funds, institutional funds, and in some cases, restricted gift funds. Restricted gift funds can be designated as Quasi-endowments as long as donor-imposed restrictions applicable to the original restricted gifts apply to the Quasi-endowment. Finally, due to their unique nature, Quasi-endowments cannot be established in amounts less than \$25,000.

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8. Effective with this Policy’s enactment, all new Quasi-endowments must be designated as one of two types of Quasi-endowment and invested in the CIP according to the parameters provided below. Redemption requests from Quasi-endowments in existence prior to this Policy’s enactment will be governed by the parameters contained herein.

a. **Permanent Quasi-endowments** will be treated like standard Endowments, in that they will remain invested in perpetuity, generating income for a specified purpose. The principal cannot be spent or redeemed. University units wishing to designate funds as Permanent Quasi-endowments can do so at inception, subject to the same restrictions as Endowments (see above). The University will consider these Quasi-endowments to be permanent and will not entertain requests for full or partial redemption of the principal. These funds will be invested in perpetuity in the CIP.

b. **Redeemable Quasi-endowments** permit withdrawals from the principal according to policy parameters provided herein. Funds that qualify as Redeemable Quasi-endowments will be invested in the CIP along with Endowments and Permanent Quasi-endowments. Please note, however, that Redeemable Quasi-endowments are subject to the following requirements:

i. Initial Lock-up Period

Funds designated as Redeemable Quasi-endowments will be subject to a 7-year lock-up during which time no redemptions can be made. Redemptions must satisfy any restrictions that may have been placed on the fund’s use by the donor, Board of Trustees, or University unit.

ii. Annual Withdrawal Limits

Once the Lock-up Period is met, any withdrawal request is subject to a 15% limit of the most recent quarter-end market value of the Quasi-endowment after having taken into consideration any amount of the principal still subject to the Lock-up Period described above.

Calculation Method

Generally, the amount available for withdrawal is calculated as follows:

- Determine the number of shares owned by the fund at the time of the request
- Subtract the number of units purchased during the last seven years to calculate the number of shares owned for the entire Lock-up Period.

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- Value the eligible shares as of the last quarter-end to determine the portion of the Quasi-endowment to which the Annual Withdrawal Limit would be applied.
- c. One Withdrawal Request per Calendar Year
- University units wishing to withdraw funds will be subject to one withdrawal per calendar-year period. A request will be deemed to have been made on the date the initial request is transmitted to the Treasurer for inclusion in the Board of Trustees meeting.
- d. Redemption Approvals
- All redemption requests must be submitted to the Office of the Treasurer in writing and are subject to the Board of Trustees approval.
- e. Notification
- University units wishing to make a withdrawal should endeavor to provide 60 days' notice. It should be noted that the limited liquidity of some of the CIP assets may require additional time to monetize, delaying the disbursements of the funds requested. Furthermore, in the unlikely event that numerous Quasi-endowment redemptions are requested in a short time span and/or the capital markets are experiencing economic distress, the Treasurer may delay providing the funds requested or even deny a request. This would be done to avoid selling assets at depressed values.

#### [Procedural Guidelines for Quasi-endowments](#)

9. Quasi-endowments must be initiated within the University and are typically funded with unrestricted gift funds, institutional funds, and in some cases, restricted gift funds. As stated earlier, donors cannot request/establish Quasi-endowments.
10. The approval process begins with the required documents (listed below) being submitted to the Office of the Treasurer for review. Unlike Endowments, Quasi-endowments can only be created and approved by University of Tennessee officials. Consequently, the final review must be conducted by the Office of the Treasurer. Upon successful review, the Quasi-endowment will be forwarded to the University President and Treasurer for final signatures.
11. Please note that the Questionnaire (see below) must be completed and submitted as part of the approval process. If assistance is required, inquiries should be directed to the Office of the Treasurer.

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12. Required Documents:

- “Administrative Provisions” stating the amount and source of funds, and a copy of the will/trust page, if a bequest
- Completed “[Quasi-endowment Questionnaire](#)”

**PROCEDURES:**

Knoxville:	<a href="http://web.utk.edu/~dfinance/fiscal-policy.shtml">http://web.utk.edu/~dfinance/fiscal-policy.shtml</a>
Health Science Center:	<a href="https://uthsc.policymedical.net/policymed/home/index?ID=de47aa28-16aa-408b-9c96-cb04f232964f&amp;">https://uthsc.policymedical.net/policymed/home/index?ID=de47aa28-16aa-408b-9c96-cb04f232964f&amp;</a>
Institute of Agriculture:	<a href="https://ag.tennessee.edu/Pages/UTIApolicies.aspx">https://ag.tennessee.edu/Pages/UTIApolicies.aspx</a>
Martin:	<a href="http://www.utm.edu/departments/finadmin/procedures.php">http://www.utm.edu/departments/finadmin/procedures.php</a>
Chattanooga:	<a href="http://www.utc.edu/business-financial-affairs/fiscalpolicies.php">http://www.utc.edu/business-financial-affairs/fiscalpolicies.php</a>

**FOR MORE INFORMATION**

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