

*Opening a Window of Opportunities
by Establishing a Permanent Endowment
with the UM Foundation*



THE UNIVERSITY of
MISSISSIPPI
FOUNDATION

PERMANENT ENDOWMENTS

A named endowment fund is a gift to the Foundation in which the principal is to remain intact in perpetuity and the annual earnings are used to support scholarships, faculty and other forms of academic excellence for the University.

Investments

- Funds in the Foundation's endowment pool are invested under the guidance of the Joint Committee on University Investments. This committee recommends the asset allocation targets to the Foundation's Board of Directors along with endowment spending policies and works within those parameters in its oversight of the investments.
- Endowment funds are invested and managed to produce the greatest annual return while balancing principal safety.
- The Joint Committee employs an outside consultant (currently Fund Evaluation Group) to assist with its responsibilities.
- The Joint Committee's long-term objective is to generate an endowment return equal to or greater than the distribution (or spending) rate plus inflation as measured by the Consumer Price Index (CPI).
- The approved spending rate is set by the Foundation's Board of Directors and may range from 4 to 4.5 percent as current market conditions dictate.

Establishing an Endowment

- An endowment gift may be made via a one-time donation or over a number of years.
- A Memorandum of Agreement (MOA) is produced between the Donor(s) and the Foundation outlining the terms of the endowment and the criteria for distributions.
- The Foundation may not change or alter the MOA without the express written consent of the Donor(s).
- Endowed funds may only be utilized pursuant to the terms of the MOA and are not available for any other purpose.

Benefits of an Endowment

- Endowments play a critical role in the long-term financial stability of the University.
- State appropriations continue to decline as a percentage of the University's operating budget. Endowment distributions aid by adding financial strength to the University's future and to the future of students for generations to come.

For more information about our investment and spending policies or information about our current endowment results and allocations, please see the Endowment Information section of the University of Mississippi Foundation's website: <http://umfoundation.com/endowment>.

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FREQUENTLY ASKED QUESTIONS

1. What is the minimum gift to create an endowment?

The minimum level is \$25,000 to participate in the investment pool.

This amount can be donated over multiple years or via a one-time gift.

Gifts less than \$25,000 are held in a restricted account until reaching the \$25,000 level. At that time, they are moved to the endowment pool and participate in the pool's investment returns.

2. When are endowments transferred into the investment pool?

Upon reaching the \$25,000 level, endowment funds are transferred into the investment pool on the first day of the month following receipt of the gift.

3. After entering the investment pool, when will a new endowment award its first distribution?

Endowments begin earning income the month after they are fully funded and should be allowed to build for 24 months to ensure sufficient earnings prior to distributions. This time period provides ample time for the endowment to grow and reduces the potential for volatility of distribution amounts in the early years of a new fund. Many donors wish to fund needs such as scholarships and faculty positions earlier than this 24-month period and set aside additional funds in restricted accounts to help accelerate the awarding process.

4. What is the difference between an endowment account and a restricted account?

Funds donated to endowments are to be held in perpetuity as named and are invested in an effort to maintain an equal and consistent flow of funds in perpetuity. The investment intent is to create a spendable distribution that will maintain its purchasing power for decades to

come. The long-term investment return goal is Consumer Price Index (CPI) plus the current distribution rate of 4 to 4.5 percent.

Restricted accounts are not invested in the endowment pool as the spending is fully expected in the near term. These funds are held by the Foundation for the purpose intended by the donor and resemble a demand deposit account with a financial institution.

5. How is the endowment spending distribution calculated?

The Foundation uses a smoothing formula based on a rolling 36-month average of the ending fair market value of the account each calendar year. This calculated value multiplied by the current spending rate (4 to 4.5 percent) determines the distribution for the next fiscal year. Distributions are made quarterly during the following fiscal year.

6. When is the University made aware of the distribution?

The Foundation finalizes projections and disseminates that information to the University administration in March. This information assists with the upcoming fiscal year scholarship awarding and budgeting process.

7. Can the distribution for an endowment ever go down from one year to the next?

Yes. While the market value reported each month can be quite volatile, the distributions, which are based on a 36-month moving average, typically change very gradually.

8. What fees are charged to the endowment?

The total fee charged to endowments is 0.9%, which remains below the average of such fees charged by all other SEC public institutions. The UM Foundation charges 0.5% as its annual fee for managing the endowment, and an additional 0.4% development fee is charged to provide support to the University's fundraising activities. This management/development fee is calculated on the 36-month average ending fair market value as of December 31st, and is allocated in monthly installments over the succeeding fiscal year. Any fees charged by individual fund managers are netted against their monthly returns.

9. What happens when endowment earnings exceed the amount needed for spending and fees?

Each endowment receives its proportionate share of the investment pool's total return. Earnings in excess of the spending distribution and the fees are added to the balance of the endowment and are available to provide funding for spending during future periods, including periods of poor investment performance.

10. What effects do negative or very low returns have on the Foundation's endowments?

When the investment return is less than the spending rate, the balance of the endowment is reduced accordingly. Due to the distributions and

fees, the value of the endowment can go down even when investment returns are slightly positive. The Foundation's spending policy is based on its projection that, in the long term, the average investment rate of return will equal or exceed the sum of the rates for spending and inflation.

11. What happens if the market value of an endowment drops below the sum of the principle of the gifts made into the endowment?

This situation is referred to as an "underwater endowment" and was prevalent in many endowment portfolios following the last recession. In this situation, the endowment distributions are reduced to cash earnings projected for each endowment (interest, dividends, and realized gains/losses) such that the corpus of the endowment is not reduced. Distributions return to normal spending rates when the market value returns to levels above the corpus that support the current distribution spending rate.

12. Where do I find current information on recent endowment returns and endowment investment allocations?

The Foundation's website updates this information on a quarterly basis and can be found at <http://umfoundation.com/endowment>.

13. Where can I find a sample agreement that is needed to create an endowment?

The Donor(s) and the Foundation enter into a formal Memorandum of Agreement (MOA) upon the establishment of each endowment. This agreement is essential to ensure that donors' intent for these funds is adhered to in future periods. Since these funds are to be held in perpetuity, the MOA helps to ensure the future administrators of the endowment clearly understand the purpose of the endowment allowing for compliance with its stipulations. Donors often request to add specialized criteria and qualifications for an award, but the remaining portions are relatively standard. The sample agreement is included here or available at <http://umfoundation.com/endowment>.

14. Does paragraph 7 of the sample MOA mean the criteria can be changed?

No. This paragraph is in no way intended to replace donor intent. It is only added to allow future administrators of the endowment working with the University to alter the award in the event on an unforeseen operational change. As endowments are held in perpetuity, and the future unpredictable, it is important to maintain some flexibility should changes in University structure or operations occur decades from now. For example, if a particular department or school were to be merged or altered in some way, it would be beneficial to have existing language allowing the Foundation to follow donor intent as closely as possible within the written agreement.



MEMORANDUM OF AGREEMENT made this the _____ day of _____, 20__ between _____, of _____ as Donor (hereinafter called the Donor), and the University of Mississippi Foundation, a corporation of the State of Mississippi as donee (hereinafter called the Foundation) regarding the establishment of the _____ ENDOWMENT, an endowed fund at the University of Mississippi Foundation for the benefit of the University of Mississippi.

WHEREAS, the Donor desires to establish this endowment fund with a gift of \$ _____, and the Foundation is willing to accept such gift on said terms;

NOW, THEREFORE, THIS MEMORANDUM OF AGREEMENT WITNESSETH: that, in consideration of the premises and mutual agreements hereinafter set forth, the Donor does give, grant, assign, transfer, and convey to the Foundation, its successors and assigns, irrevocably, the property mentioned above upon the following terms and conditions:

1. The Foundation will designate and identify the endowment fund as the _____ ENDOWMENT at the University of Mississippi Foundation, the purpose of the endowment being to honor in perpetuity _____ and to provide income for _____ at the University of Mississippi.
2. The _____ ENDOWMENT will be open to and will accept gifts from persons, estates, organizations, and any others who may desire to make a gift, and each gift, when made through the University of Mississippi Foundation, will be fully tax-deductible and all contributions when received by the Foundation will be used in accordance with this Memorandum of Agreement unless otherwise specified by the Donor.
3. This fund shall constitute a permanent endowment fund and shall be managed in accordance with the Mississippi Uniform Prudent Management of Institutional Funds Act (presently section 79-11-701, et seq., Mississippi Code Annotated 1972) as amended from time to time or its then effective counterparts. The earnings shall be distributed in accordance with the spending policy established by the Joint Committee on University Investments as approved by the University of Mississippi Foundation Board of Directors. The endowment fund will be managed under the "total return" concept for managing endowment funds, and total returns (which include interest and dividends) in excess of the adopted spending policy and fund operating expenses will result in capital growth of the fund. Should distributions in any year exceed the amount needed to fund

the purpose, the excess distributions shall be returned to the corpus of the endowment.

4. All distributions are to be made following a distribution of a portion of the income to the University of Mississippi Foundation for administrative fund management. The amount of income distributed for this purpose is to be consistent with policies established by the Board of Directors of the University of Mississippi Foundation.
5. In administering the endowment, the University of Mississippi Foundation shall have all the powers in Title 91 of the Mississippi Code Annotated 1972 as amended from time to time or its then effective counterparts and will be governed under the laws of Mississippi.
6. The _____ ENDOWMENT will be administered in the best constituted practices used in institutions of higher learning.
7. If, in the opinion of the officers of the Foundation, all or part of the fund cannot appropriately be used in a manner consistent with the purposes of said fund, any portion of the income may be designated for other purposes at the University of Mississippi to be as nearly aligned to the original intent as good conscience and need dictate. The said new fund will be determined by the officers of the Foundation after consultation with the Donor (if available).
8. Publicity will be given to the _____ ENDOWMENT as deemed appropriate by the University of Mississippi Foundation and the Donor.
9. The Foundation will invest and reinvest all property of the fund in such assets as would be acquired by prudent persons of discretion and intelligence in such matters who are seeking a reasonable income and preservation of capital.

IN WITNESS WHEREOF, the University of Mississippi Foundation has caused this Memorandum of Agreement to be duly executed and its seal to be hereunto affixed, and the Donor has hereunto affixed his/her signature as of the day and year first above written.

Donor

ACCEPTED FOR THE UNIVERSITY OF MISSISSIPPI FOUNDATION

Wendell W. Weakley
President/CEO

Sandra M. Guest
Vice President/Secretary

MISSION STATEMENT

The University of Mississippi Foundation is a nonprofit corporation chartered in 1973 by the state of Mississippi to operate for the benefit of the University of Mississippi. The Foundation is responsible for receiving, receipting, investing and distributing all gifts for the benefit of the University. It pursues this mission in an environment of productive teamwork, effective communications and relentless service to our donors, university administrators, faculty, staff and students. Communicating university needs and priorities along with encouraging investment in the future of Ole Miss are integral to our success. Integrity, honor, civility, service and respect for our donors and their wishes serve as the Foundation's guiding principles.



THE UNIVERSITY of
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