

University of Bath Endowment Fund Policy

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Section 1: Purpose of Policy

This paper discloses the University's Endowment Fund policy so that the process through which new funds are established and existing funds are managed is clear and transparent, both internally and for donors who may be considering establishing such funds.

An endowment is a capital fund that is invested for the long-term, although not necessarily in perpetuity, with the aim of the return on the capital providing a regular income stream to support the University's objectives. These funds will mostly be established following the receipt of philanthropic gifts from private individuals, corporations, foundations, associations, and other organisations. The University of Bath would like to increase the size of the philanthropically-funded endowment fund that supports its aims and objectives.

Endowed funds may be designated to benefit academic or non-academic posts, students, programmes, physical space (buildings, facilities, grounds or portions thereof), or specific academic or non-academic departments, centres etc. They are typically named after the donor or a person the donor wishes to recognise. Endowed funds may be established by a one-time gift, a series of gifts, wills, trusts, gifts of assets, or by a combination of these. Gifts can be accepted to build on established endowed funds (subject to the timings specified in Section 8). All endowments should be evidenced by a signed gift agreement. When specified in the gift agreement, a specific amount of the gift must be received prior to the actual naming of the fund or activity funded by it.

Please note that this policy covers the establishment or management of new endowed funds i.e. those that will be invested in the University's endowment investment pool. This policy will not affect the establishment of prize funds unless the funds are to be invested as an endowment.

Section 2: Scope of Policy

The main implications of the University's Endowment Fund Policy are as follows:

1. To set a minimum gift level for new endowed funds of £50,000 in order to avoid establishing funds with unacceptable levels of administrative costs.
2. To ensure that a Gift Agreement is always drawn up between the University and the donor so that both parties fully understand the expectations of the other and have the assurance and trust of a written record for reference. The gift agreement should explicitly state that the donation is being endowed.
3. To provide a clear framework for the Finance & Procurement Office (F&PO) and Department of Development and Alumni Relations (DDAR) to work within, which clarifies those responsible for approving the establishment of new endowed funds and decision-making in cases where conditions attached to gifts may prove unacceptable to the University.

4. To allow the creation of pooled endowed funds. These funds will enable and encourage gifts of less than £50,000 to be made to the University's endowment. There will be a central expendable unrestricted endowment to pool gifts for purposes such as providing scholarships or prizes.

Section 3: Definitions of Endowment

The current FE/HE Statement of Recommended Practice (SORP), issued in August 2014 following the introduction of Financial Reporting Standard 102 classifies donations and endowments as follows (17.36 – 17.42);

An endowment fund is a form of charitable trust which is held on trust to be retained for the benefit of the institution. Endowment funds may be sub-divided into their capital element and an accumulated income fund.

A gift of endowment, where there is no power to convert the capital into income, is known as a permanent endowment fund. A permanent endowment fund must generally be held indefinitely. Where an institution has the power to convert endowment funds into income, such funds are known as expendable endowments. A gift of expendable endowment provides the institution with a power to convert all or part of it into income.

The SORP identifies the following categories of endowments and the University provides the narrative to support these;

Restricted endowments with expendable income (expendable endowment).

This is where the income can only be applied for the particular purpose specified by the donor and where the governing body, as trustees, has the power of discretion to convert the endowed capital to income.

Permanently restricted endowments with unrestricted income, (permanent endowment).

This is where the income is expendable at the discretion of the institution in furtherance of the institution's objectives but the fund capital (the principal) must be permanently maintained.

and

Permanently restricted endowments with restricted income

This is where the income can only be applied for the particular purpose specified by the donor and the principal must be permanently maintained.

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The table below shows the classifications nature and restriction of gift.

	Gift made perpetuity	Gift made with finite (generational) life
Gift with restriction	Permanent Restricted Endowment with restricted income	Restricted Expendable Endowment
Gift without restriction	Permanent Restricted Endowment with unrestricted income	Designated fund

Endowment funds are permanent, when the donor has stipulated permanent restrictions in use of the capital of the endowment fund. The investment return from such funds may be restricted in use, or unrestricted in use depending on the requirements specified by the donor. Separate disclosure is required for each type of endowment with the University's Financial Statements along with a disclosure of purpose or other analysis.

Additionally the University recognises unrestricted endowment with expendable income where both income and capital are expendable at the discretion of the institution in furtherance of the institution's objectives. From an accounting reporting basis this would be recognised as donation income, as it is unrestricted in use, when awarded but noted internally as an expendable endowment, this is further referenced below, see designated funds.

In this paper, wherever possible, the term endowment has been used to mean the sum of all funds invested by the University in its endowment investment pool. The term 'endowed fund' has been used to indicate individual named funds, the majority of which will be invested in the University's endowment investment pool.

In addition under the FE/HE SORP there are:

Designated Funds – *These are not endowments but are created when institutions designate elements of their reserves to specific purposes. Within the University of Bath designated funds will be credited with interest (using the cash return method) rather than invested in the University's endowment investment pool.*

Under the FE/HE SORP, if the University receives expendable charitable donations which are unrestricted or have limited restrictions so that the restrictions have no material impact, then the funds should not be classified as an endowment. Although they could be designated and the funds invested in the University's pooled investment, to provide support in the long-term if the University so chose.

Section 4: Minimum size of endowed funds

The minimum value of gift(s) that the University should accept to create a new named endowed fund should be £50,000. Smaller gifts can be accepted to be invested in endowed funds but only if they are made to 'top up' an existing fund. If a donor wishes to establish a fund with a gift of less than £50,000 then a non-permanent fund will be created and the funds held in an interest-bearing account, using the cash return method (which is likely to be a lower but more stable and predictable rate of return). This would typically be a designated fund.

Should a donor not be willing to accept these terms then the gift will be refused as the costs of administering the fund will exceed the benefits of the income realised. In exceptional circumstances, and on the recommendation of the Vice-Chancellor & President, the Finance Committee may agree to the establishment of an endowed fund with a gift of less than £50,000.

Section 5: Requirement for Gift Agreements

A Gift Agreement should be prepared for all endowed funds established with philanthropic gifts. This should define the objectives of the fund, the nature of the awards, address naming issues (where appropriate) and set out the fund's operating terms. It is important that the donor is clear about the terms under which the fund is established to avoid any potential disputes over the purpose of the fund in future years.

For gifts with a restricted purpose, the University will seek to include an alternative use clause within the Gift Agreement enabling the University to use the endowed fund to support other activities should changing circumstances prevent the use of the income as the donor originally intended.

It is the University's intention to minimise the risk of having to refer to The Charity Commission for any repurposing of gifts received.

Section 6: Creation of pooled endowed funds

In order to encourage new gifts to build the University's endowment, generic or pooled endowed funds may be created where the sum of the gifts received exceeds £50,000 (although individual gifts may not in themselves exceed this amount). These will operate in the same way as other endowed funds with donors receiving an annual report for the entire fund, not just for the proportion of the fund created through their individual gift i.e. individual elements of the pooled fund will not be separated out for any reporting purpose.

Section 7: Rate of return available from investment funds.

Investments are designed to provide regular income and capital appreciation and for planning purposes the DDAR use a rate of return of 5% of the endowment value to determine an amount of expenditure that could be maintained from an endowment. For expendable endowments where the fund is to be used over generations the University would need to manage the rate of expenditure against the investment but target a 5% return.

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For permanent endowments triennially the F&PO will need to review investment returns and expenditure and as appropriate alter the level of expected return discussed with donors in respect of annual commitment to expenditure. In certain instances expenditure would need to be “rested” to allow the fund to return to its permanent value if investment returns failed to generate sufficient income to cover expenditure. The realised income will be put in spending accounts and be available for distribution to fund the awards or specified areas supported by the endowed funds.

The current expectation is that the long-term targeted return on the University’s pooled investments will enable endowed funds to keep their value in real terms after a 5% expenditure allocation although fluctuations in the markets could mean that the value of funds fall in the short-term, this should be recovered through the triennial review. See Appendix 1.

Appendix 2 provides details of the expected levels of expenditure from funds using the 5% rate of return.

Section 8: Timing of transfer of funds into the University endowment

All monies used to establish endowed funds (including Gift Aid or any matched funding that may be eligible) will be invested in the University’s pooled investment units. Due to the administration involved in recalculating the values of the portfolio of endowed funds each time additional funds are added or withdrawn, the following timeframes will be applied.;

<i>Value of endowment</i>	<i>Timeframe to invest in investment pool</i>
<i>Gift £50k - £99k</i>	<i>Within three months of receipt of gift</i>
<i>Gift £100k+</i>	<i>Within one month of receipt of gift</i>
<i>Drawdown (expenditure) and gifts of less than £50k.</i>	<i>In October following the year end.</i>

Donors will be informed that any new gifts will be transferred into an endowed fund on the fund transfer date, in the interim the gift will be put into a specific, interest-bearing holding account using the cash return method.

Section 9: Lifespan of endowed funds

The current expectation is that the long-term targeted return on the University’s pooled investments will enable endowed funds to keep their value in real terms to use over generations.

Further, the expectation of the University is that all endowed funds will be established to operate in the very long term, provided that the purpose of the fund remains valid and the value of the fund does not fall below a minimum threshold (see below). The only exception to this will be if the fund has been specifically established to operate for a specific time period, in which case this should be stated in the Gift Agreement.

However, the FE/HE SORP/Charity law requires that permanent endowments treat any capital gains or appreciation as part of the endowment’s capital that has to be

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maintained rather being used to supplement income generated by the fund i.e. only income from the fund could be distributed. This could prevent permanently endowed funds achieving the optimal long-term rate of return as income would become an investment priority rather than overall return (from both capital gains and income).

For this reason, unless specifically directed otherwise by the donor, all new endowed funds should be created as expendable, rather than permanent. Donors will be made aware of this policy before they sign their Gift Agreement and the endowed fund is created.

If the capital value of an endowed fund falls to the point where it can no longer support the level of activity the fund was established to support then:

- If the fund is providing an award or scholarship, the size or frequency of the award will decrease for a period of time so that the fund can rebuild its core capital value to a sustainable level; or,
- If the fund is supporting an academic post, at the next available opportunity when the post becomes vacant, a new holder will not be appointed until the fund has rebuilt its core capital value to a sustainable level.

In either of these cases the University may decide to supplement the income from the fund to enable the award and/or post to continue. Alternatively, for expendable endowments, the University may use capital to supplement the income of the fund and this will form part of the triennial review of funds to ensure that it can continue to be used over generations given the level of investment return received over the previous three years.

If the value of the endowed fund continues to decline to the extent that its capital is below 25% of its original real value or £10k whichever is the lower then the endowed fund will be closed and the remaining fund used to support the relevant area of activity.

If the purpose for which an endowed fund is established becomes no longer valid, and there has been no alternative use agreed with the donor, then the University will seek the permission of the original donor to reclassify the endowed fund as expendable and use the remaining fund used to support the relevant area of activity or transfer the remaining funds to the most appropriate existing fund.

If all reasonable attempts to trace the original donor fail then the fund would have to remain as permanent, unless permission to change classification could be obtained from the Charity Commission. If the original donor was a body corporate then this body, in its current legal entity would need to provide such permission to reclassify.

Section 10: Accepting donor-specified criteria for endowed funds

Donors will be encouraged to be as non-specific as possible when making a gift to establish a new endowed fund. However, unless there are legal, ethical or practical reasons to the contrary, the University will accept a donor's specific preferences for the area of activity supported. For example, funds may be established to support scholarships with a preference for recipients from lower income backgrounds or from a certain country.

Donations will be refused if they require the University to undertake illegal acts, bring the University into disrepute, are contrary to its charitable aims, operate outside its ethical framework or are likely to incur costs in excess of the value of the gift i.e. it can be proven that accepting the donation would not be in the best interests of the University.

Section 11: Approval of new endowed funds

Before a gift is accepted to create a new endowed fund, the new fund must have the approval of the Treasurer, the President & Vice-Chancellor and the Director of Finance.

Where the funds are to be used for a new Prize, this initial approval will be subject to Senate approving the establishment of that Prize.

The creation of new endowments, and receipt of gifts to existing endowment funds, will be reported to both Finance Committee and Council as part of the annual DDAR Report.

All such donations will be subject to the DDAR procedure on due diligence and the Ethical Fundraising Policy.

<http://www.bath.ac.uk/university-secretary/guidance-policies/ethicalfundraisingpractice.pdf>

Section 12: Annual reports on the status of the endowed funds

Donors who establish endowed funds will receive annual reports on the performance of the funds they have endowed stating the current value of the fund. This will be in addition to feedback they receive on the use of the income from their fund, names of new scholarship recipients, update reports from academic posts funded etc. The source of this financial information will be the Annual report prepared for DDAR by F&PO as part of the year end process, such reports should be provided to investors by the end of the calendar year in which the financial year ended.

Interim endowment investment fund performance will be provided by the F&PO to DDAR on a quarterly basis.

Section 13: Roles and Responsibilities

This policy is jointly owned by the Director of Development & Alumni Relations & Director of Finance should be submitted triennially to Finance Committee for review/approval.

Historic rate of Investment performance.

Table summarising the Historic Investment performance from Endowment investments					
Year end	Investec Endowment Fund £k	Total Investec Endowment Fund return %	University Cash return		
2017	4,574	16.1%	0.6%		
2016	4,188	6.0%	0.7%		
2015	4,047	8.2%	0.7%		
2014	3,812	7.0%	0.8%		
Investec Endowment original investment £3,539k made in 20/08/2013					
2013		1.7%	1.7%		
2012		1.8%	2.1%		
2011		1.6%	1.5%		
2010		1.2%	1.0%		
Endowment funds part of University cash balances following Investment Group decision to sell separate Endowment Investment fund in 2007					
Average return, excludes the best & worst performing years and averages the remaining over the same number of years. This is a total return including both capital appreciation and income.					
For period ending 31 July 2017			7.6%		
Minimum anticipated income only return for donor discussions			5.0%		
Historic performance is no guarantee of future performance and therefore for donor information and planning the above rate of return should be used.					

Finance & Procurement Office - sourced May 2018.

APPENDIX 2

Expected levels of expenditure from endowment funds assuming a 5% return.

Gifts should not be accepted to establish endowed funds to establish academic posts, or other activities, that are not beneficial to the University.

	Minimum value of gift required to endow an existing post	Minimum value of gift required to create & endow a new post/award	Current expected level of annual income produced by the fund *
Endowed Chair or Professorship	£1m	£1.5m	£75k/annum
Lectureship or Research Fellowship post	£650k	£1m	£50k/annum
Post-doc Fellowship	n/a	£750k	£37.5k/annum
PhD Studentship	n/a	£350k	£17.5k/annum
Visiting Academic Fellowship	n/a	£250k	£12.5k/annum
Master's Student Scholarship	n/a	£60k	£3k/annum
Overseas Undergraduate Scholarship	n/a	£50k	£2.5k/annum
Home/EU Undergraduate Scholarship	n/a	£60k	£3k/annum
Prize or other award fund	n/a	£10k*	£500/annum

Where endowed funds support an annual award e.g. scholarship or prize the level of the award will be reviewed periodically (normally on an annual basis), to ensure that the awards are maintained at an appropriate level.

* This policy will not limit the creation of prize funds unless the funds are to be invested as an endowment. The minimum annual gift currently required to establish a named prize is £250. This could be supported through a prize fund of £5,000 (at a 5% rate of return). If a prize fund is established for less than £50,000 then it will not be created as an endowed fund but allocated to an interest-bearing account, or added to a pooled Prize Fund endowment if there is in excess of £50,000 from a number of sources. These funds will have a limited lifespan if the size of the prize exceeds the level of return.