THE UNIVERSITY OF MICHIGAN
STANDARD PRACTICE GUIDE

SECTION:	Business and Financial Services	**Number:**	501.11
		Revised:	9/1/06
SUBJECT:	University Investments and Endowment Funds	**Date Issued:**	8/6/05
		Review Date:	9/1/10
APPLIES TO:	All Departments and Units of the University	**Attachment(s)**	0
ISSUED BY:	Financial Operations		

Authorizations:
The University of Michigan investment policies are governed by the Board of Regents. Principal sources of authorization are the University Bylaws and the Uniform Management of Institutional Funds Act (UMIFA) enacted by the State of Michigan in 1976.

Centralized Management:
The University maintains centralized management for substantially all of its cash and investments. Units are not allowed to invest their own funds directly.

Types of Funds:
The University has four basic types of funds to invest:

1) working capital
2) endowment and quasi-endowment funds
3) life income agreements (deferred gifts)
4) insurance and staff benefits reserves

WORKING CAPITAL FUNDS

Working capital or cash balances, whether positive or negative, are automatically accumulated in total, by each fund and department identification for investment in the University Investment Pool. These are balances that are used for operating expenses or for funding capital projects.

University Investment Pool
The University Investment Pool (UIP) provides depositors daily access to their funds without risk of loss, with a corresponding rate of return. Under the UIP distribution policy approved by the Board of Regents, the rate of return is based on the 90-Day U.S. Treasury Bill rate.

Depositors receive distributions calculated on the basis of their month-end cash balances, whether positive or negative. Depositors are defined as University school, college, department or unit cash balances in total by fund-department identification (ID). Distributions are credited or debited to each fund-department ID chartfield automatically at month end. A special request can be made to have distributions applied to a parent department ID chartfield. UIP distributions to a more detailed chartfield combination (i.e. project/grant) would be the responsibility of the individual unit. Monthly UIP distributions are not distributed to Sponsored Programs, Agency or Endowment Funds. Current monthly and prior annual rates are available on the Financial Operations website, http://finops.umich.edu/ under title UIP Rate Information.

Financial Operations is responsible for the administration of the University Investment Pool.

ENDOWMENT AND QUASI-ENDOWMENT FUNDS

In general, endowment funds are intended to be invested over the long-term, with a prudent portion of investment returns used to support University programs.

True Endowment Funds include contributions from bequests, trust distributions or outright gifts to the University and are from external donors. University funds may not, by law (UMIFA), create or add to a True Endowment. They are invested in perpetuity based on donor wishes. Distributions are utilized for restricted or general purposes based on donor intent. Establishing a new true endowment fund requires **external** funding equal to or greater than $10,000. The General Counsel office reviews all true endowment requests. True endowment funds are restricted for financial statement reporting purposes.

Quasi-Endowments Funds are either (1) established by donors and may include contributions from bequests, trust distributions or outright gifts to the University that were not designated as an endowment or (2) invested by the University utilizing surplus departmental operating capital. Quasi-endowment funds have the same investment strategy as true endowments. The principal differences are that quasi-endowments may be established using internal department funds and the principal balance may be withdrawn and expended, based upon University policy, generally after a minimum five-year investment period or lock-up. The same lock-up period applies to quarterly distributions that are re-invested into the quasi-endowment. The minimum amount needed to establish a quasi-endowment fund is $50,000 of University internal funds or $10,000 of donor-directed external funds. The working capital from the General Fund cannot be considered when determining surplus departmental operating capital. Quasi-endowment funds can be considered either restricted or unrestricted for financial statement reporting purposes.

University Endowment Fund

True endowments and quasi-endowments are invested in the University Endowment Fund. Contributions to the University Endowment Fund buy shares at the share value as of the end of the quarter (September, December, March and June). Share values are determined quarterly based on the market value of the overall pool. The market value of an endowment can be determined by multiplying the number of shares an endowment owns by the current quarter's share value. Market value and owners' shares are available via query in M-Pathways. The University Controller is the approving authority for the establishment of all new endowments.

University Endowment Fund Contributions

New contributions consist of all cash additions to the pool during a quarter. New contributions received buy additional shares of participation in the University Endowment Fund at quarter end, based on the quarter ending share value. The share value is recalculated quarterly based on the market value of the pool. This is accomplished by taking the pool's current market value, subtracting any new contributions, and then dividing by the pre-existing shares in the pool. Once the share value has been determined, the new contribution is divided by the share value to determine how many new shares will be purchased and added to the pool. Distributions on shares associated with a new contribution will begin at the end of the next quarter, after the contribution has purchased shares in the University Endowment Fund, in accordance with the chart below:

New Contribution Received	Shares Purchased	Share Value Used	First Distribution
January – March	March 31	March 31	June 30
April – June	June 30	June 30	September 30
July – September	September 30	September 30	December 31
October – December	December 31	December 31	March 31

University Endowment Fund Distributions

The endowment distribution policy, set by the Board of Regents, insulates the University's budget from market volatility. The endowment spending rule provides for a quarterly distribution per share at a 5 percent annual rate. In June 2006, the Board of Regents approved a change to the University's endowment spending rate policy and extended the moving average period from three years to seven years, with implementation to be phased in over the next three years. Effective July 1, 2006, the spending rate moving average period will increase to four years and then increase by one quarter each subsequent quarter until the moving average period reaches seven years (28 quarters). The below table illustrates the quarterly change.

Quarter End Date	Number of Quarters in Average Period
June 30, 2006	12 Quarters
September 30, 2006	16 Quarters
December 31, 2006	17 Quarters
March 31, 2007	18 Quarters
June 30, 2007	19 Quarters
September 30, 2007	20 Quarters
December 31, 2007	21 Quarters
March 31, 2008	22 Quarters
June 30, 2008	23 Quarters
September 30, 2008	24 Quarters
December 31, 2008	25 Quarters
March 31, 2009	26 Quarters
June 30, 2009	27 Quarters
September 30, 2009	28 Quarters
December 31, 2009	28 Quarters

Distributions are limited to 5.3 percent of the current market value of the endowment shares. The limit on endowment distributions will be applied using the current one-quarter lagged market value of endowment shares.

University Endowment Fund Withdrawals

True endowment funds cannot be withdrawn.

Withdrawals may only be made from Quasi Endowment Funds based upon University policy, generally after a five year investment period or lock-up. Withdrawals must satisfy any restrictions that may have been placed on the fund's use by either donor or the department. Generally, the amount available for withdrawal is calculated as follows:

- Determine the number of shares owned by an individual fund.
- Subtract the number of shares purchased during the past five years.
- The resulting shares are shares which have been on deposit for the required five years.
- The value of these shares is based on the quarter ending share value at the time of the withdrawal.

Withdrawals are completed at the beginning of each quarter. These dates are April 1st, July 1st, October 1st and January 1st. All withdrawals will be processed at the preceding quarter's share value at the time of the

withdrawal. **All requests must be received by Financial Operations at least one month prior to the end of the quarter**. Please refer to the chart below for more clarification.

Requests Received	Withdrawal Date	Share Value Used	Final Distribution On withdrawn shares
December – February	April 1	March 31	March 31
March – May	July 1	June 30	June 30
June – August	October 1	September 30	September 30
September – November	January 1	December 31	December 31

Additional information on endowments and quasi-endowments is available at Financial Operations website http://finops.umich.edu/Funds under title - Endowment**.**

Financial Operations is responsible for the administration of the University Endowment Fund and for Endowment Specific Funds.

Endowment Specific Funds

Endowment Specific Funds may be created in exceptional circumstances; for example, when a donor gives a gift for the purpose of establishing a perpetual Endowment with property that cannot be readily sold or a donor stipulates that their funds may not be commingled with other invested Endowments. These gifts may be non-publicly traded securities, life insurance policies, real estate, or other items. These gifts do not have the ability to buy shares in the University Endowment Fund, thus they are separately managed in their own Endowment Specific Fund.

LIFE INCOME AGREEMENTS

The Development Office is responsible for the administration of life income agreements, also referred to as deferred gifts. Currently the University administers three types of life income agreements: Charitable Gift Annuities, Charitable Remainder Trusts and the Donor Pooled Income Fund. Life income agreements provide a stream of income to the donor or others for life or for a term of years. Distributions are made quarterly while the principal cannot be withdrawn for University use until termination of the non-charitable interest. The following are general descriptions of the three types of life income agreements currently administered by the University.

Charitable Gift Annuity is a simple contract between the donor(s) and the University of Michigan. In exchange for the donor's contribution, the University promises to make fixed quarterly payments for life to one or two annuitants (usually but not necessarily, the donor(s)). Establishing the charitable gift annuity requires a minimum gift of $10,000 in cash or readily marketable securities, which is deposited in the University's segregated Gift Annuity Fund. Each annuitant must be at least 50 years of age when annuity payments commence. A contribution to a charitable gift annuity is an irrevocable gift. Upon the death of the last annuitant, the value associated with the annuity in the Gift Annuity Fund is transferred to the receiving University department as directed by the donor(s). Departments must use the money according to the donor's intent and University policy. Additional helpful information regarding types of charitable gift annuities and benefits are available at the Office of Development website www.giving.umich.edu.

Charitable Remainder Trust (CRT) allows a donor to make a charitable gift, which will also provide annual payments to one or more beneficiaries for their lifetimes, or for a specific term of years. Upon the death of the income beneficiaries or expiration of the specified number of years, the trust will terminate and the principal will

be distributed to the University (and other charitable organizations if so directed by the donor), for purposes specified by the donor. Establishing the trust with the University as trustee requires a minimum $100,000 irrevocable gift of cash, readily marketable securities or other property acceptable to the University. Additional helpful information regarding types of trusts and benefits are available at the Office of Development website www.giving.umich.edu.

The Donor Pooled Income Fund is a fund established by the University to receive irrevocable contributions of property, cash and readily marketable securities, from donors. The fund pools the contributions for investment and management purposes. The donor or other designated beneficiaries receive an annual lifetime income that represents the donor's pro rata share of income of the fund. Upon the death of all individuals named as beneficiaries by the donor, the donor's participation in the Fund will terminate, and the value of this participation will be distributed for use by the University as the donor has directed. An initial gift of $10,000 or more is required for participation. A gift buys shares of participation in the University's Donor Pooled Income Fund based on a share value. Share values are recalculated monthly. Income distributions are made quarterly and are equal to the prorated share of the amount of all income earned for that period by the fund. Additional helpful information regarding Donor Pooled Income Fund is available at the Office of Development website www.giving.umich.edu.

The University may also have an interest in a Charitable Lead Trust, as described below.

Charitable Lead Trust (CLT) provides annual gift income to the University for a specified number of years or for a period measured by the life or lives of an individual or individuals, after which the trust assets again become available to the donor, the donor's family or others. Currently the University will not act as trustee for a CLT. Additional helpful information regarding types of trusts and benefits are available at the Office of Development website www.giving.umich.edu.

For additional information on deferred giving, visit the Office of Development website www.giving.umich.edu.

INSURANCE AND STAFF BENEFITS RESERVES

The University of Michigan is self-insured for medical malpractice, workers' compensation, directors and officer's liability, property damage, auto liability and general liability through Veritas Insurance Corporation, a wholly-owned captive insurance company. The University is also self-insurer for various employee benefits through internally maintained funds. Insurance and Benefit Reserves are unique in the fact that their investment strategy is subject to the applicable laws, actuarial requirements, and regulations pertinent to their industry. Certain reserves are invested within the University's various investment portfolios.