Spending Policy for Permanent Funds

PURPOSE

The purpose of this Policy is to set forth the principles and guidelines for spending the Foundation's permanent funds (true endowments, board-restricted, i.e., "quasi," endowments, and other similar funds designated with long-term time horizons; hereinafter, collectively: "Funds") and to achieve the following goals:

- Safeguard the Funds for future generations
- Enable the maximum amount of spending that can be maintained in perpetuity
- Ensure that income is as stable and enduring as possible
- Ensure that the stated wishes of donors are honored

SPENDING OBJECTIVES

A. Generational Neutrality

The Funds should benefit future generations equal to their benefit to the current generation. The amount spent annually should remain as close to constant as possible, when measured over time on an inflation-adjusted ("real") return basis. Investments and spending are to be coordinated so that distributable income from the Funds will maintain real purchasing power over time.

B. Maximum Sustainable Spending

Distributable income from the Funds is to be spent. It is the Foundation's policy to use the distributable income of the Funds, on a generation-neutral basis, to help meet the needs of the Foundation and other beneficiaries of the Funds to fulfill their mission.

C. Minimize Volatility of Spendable Amount

Because many of the needs and uses of the income from the Funds are recurring or ongoing in nature, the asset management policies of the Funds and spending strategy are structured to minimize the year-to-year volatility of the amount available for spending.

D. Donor-Imposed Restrictions

The Foundation recognizes and honors the trust and responsibility placed in the Foundation by both the donors and the beneficiaries. When the Foundation accepts endowment gifts that are restricted by the donor (either time restrictions and/or use restrictions), those restrictions will be honored to the extent permitted by law.

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SPENDING STRATEGY

A. Total Return

Income available for distribution will be determined by using a total return principle, i.e., return derived from dividends and interest as well as realized and unrealized capital gains in accordance with the Uniform Prudent Management of Institutional Funds Act.

B. Distributable Income

The income available for distribution during any one year will be a prudent percentage of the market value of the Funds, based on a 3-year rolling average of the market values of the Funds with measures taken at the end of each of the preceding 12 quarters. The guidance for the maximum distributable percentage shall be the "real return" of the Funds, i.e., the previous 3-year annualized return of the Funds (at the investment pool level, net of fees) minus the previous 3-year annualized rate of inflation. For example:

(3-year average return) – (3-year average inflation) = maximum distributable %

When establishing the distributable percentage, the Investment Committee shall never increase or decrease the percentage more than 0.50% year-to-year, and the distributable percentage shall never be less than 3%.

C. Unexpended Distributable Income

Unexpended income available each year will be accrued and will continue to be considered available for distribution in subsequent years unless otherwise designated by action of the Investment Committee. The management and administrative expenses of the Funds will be deducted from the amount available for distribution.

D. Honoring Donor-Imposed Restrictions

To monitor ongoing adherence to donor-imposed restrictions, the Investment Committee is to periodically review a report of disbursements from the Funds. This Policy recognizes that there may be cases where a restricted use becomes obsolete or over-fulfilled or becomes inconsistent with the Foundation's or beneficiaries' needs or mission.