ENDOWMENT SPENDING POLICY

The Spending Policy Assumptions

- This Spending Policy recognizes the definition of income as the **Total Return** concept. Income will include not only interest and dividends, but also include increases and/or decreases in the value of the endowment assets. Market value fluctuations are measured for what they are, an integral part of investment returns.
- This Spending Policy also separates or de-links the investment decisions regarding asset allocation of the portfolio from the identified cash flow needs.
- Distribution from the Endowment Fund will not commence prior to obtain a minimum of $100,000 in assets in the Fund.
- Spending rates may be adjusted or distributions ceased in poor investment years.

Endowment Fund Development Process

The Spending Policy is developed to implement the Endowment Policy.

- The level of cash needed, the need for cash flow stability, and the need for the cash flow to grow to offset inflation is examined.
- Various asset classes are examined to determine what asset classes are needed to achieve the total return objective.
- Historic and projected outcomes are examined on a portfolio basis, to determine how the asset classes work together.

- The Endowment Fund trustees then must decide how to balance the different possible combinations of current cash flow, stability, growth, investment risk and total return.

Example

Let’s assume, using the asset classes of stocks and bonds that the Board of Trustees of Suivera™ have decided the following:

- The cash flow should be relatively stable, but some modest year-to-year variation can be tolerated.
- The Trustees’ initial projection is that inflation will be 3.0% but the real measure going forward will be the Consumer Price Index (CPI).
- The “income” generated by this portfolio is not sufficient to meet the cash flow needs. The source of the investment returns (income or capital gains) is irrelevant to the spending policy concept. Spending policy focuses on total return, not the income component.
- Since the market value of a portfolio with 60% in equities will vary from year-to-year in value, and one of the objectives is stability of cash flow, a straight 5% of each year’s market value will result in a variable cash flow.
- The trustees, therefore, need to adopt a smoothing technique by basing distribution on a 3- year average of the market value of the fund. This evens out the cash flow and also focuses on long-term results, not single year performance results. If more stable cash flow is desired, a longer-period average can be used.
- Once the objectives and expected outcomes have been balanced the church’s Spending Policy can then be stated as:

SPENDING POLICY

Goal

The Endowment Fund will annually distribute up to 4.7% of a 36 month rolling average of the market value of the fund. Based on expectations for long-term returns and inflation, the general guideline investment of Endowment Fund assets will be an asset allocation of 60% in equities and 36% in fixed income and 4% in cash.

Objectives

- Provide equal endowment fund benefits to present and future generations.
- Education and information are the keys to moving an Endowment Fund into a more productive structure. Implementing a Spending Policy requires a knowledgeable Endowment Committee, with a long-term approach, an understanding of proper governing authority, an understanding of properly measuring investment returns, and portfolio construction. This written policy statement and investment statement memorializes these concepts and helps to enforce the long-term approach.

Analysis

Because total return focuses on both income and appreciation, the spending policy recognizes that income and appreciation are equally valuable, particularly to the church investor that is exempt from income and capital gains taxes.

A typical spending goal under a total return model is to have a spending rate that will produce constant real spending; i.e., endowment spending that will grow at a rate equal to the rate of increases in the Consumer Price Index (CPI).

Measuring Total Return:

The calculation of total return is quite straightforward:

- Total return = income received (interest and dividends)
    - Plus
- Realized and unrealized gains and loses
    - Divided by
- Beginning market value

Motion

In order to provide a sustainable level of income to support the church operating budget while preserving the real (inflation adjusted) purchasing power of the endowment funds: It is moved that Suivera™ establish a Spending Policy with regard to the use of available endowment funds as follows:

- Up to 4.7% of a 36 month rolling average of the market value of the fund shall be available annually and that this percentage shall be reviewed annually by the Endowment Committee and adjusted as appropriate. Should the Endowment Committee desire to go over the 4.7% limit, it must be approved by three-fourths (3/4) of the members of the Charge Conference.

- The Spending Policy shall be effective beginning: June 14, 2019

_______________________________________ **Chairperson, Endowment Committee**

_______________________________________ **Chairperson, Board of Trustees**

_______________________________________ **Chairperson, Administrative Council**

_______________________________________ **Presiding Officer, Charge Conference**