

Endowment Committee Report

Committee: Jennifer Forsyth, Laura Frank, Corey Johnson, Norberto Santana and Jodi Upton (chair).

All meetings attended by Executive Director Doug Haddix and Budget Director Heather Feldmann Henry except the June 11 meeting

Date: June 18, 2020

The COVID-19 pandemic has added uncertainty to the economy and IRE's budget; it also inserts a degree of unknown for many of our members. The good news: IRE is in much better shape going into this recession than either 9/11 or the 2008 recession thanks to \$4.36 million in endowment funds. In spite of the turbulence, that's up compared to its \$4.17 million value in April 2019.

The endowment committee met in the fall, then three times after the pandemic started (April 30, May 14 and June 11). Discussions in the spring centered on investment strategy for the funds and included a meeting with IRE's investment advisor Garry Banks.

Investment strategy:

Below is the current market value of the three endowment funds which, per board policy, are invested in a balanced income/conservative risk profile. So far this year (through May 31) the funds collectively lost about \$300,000 or around 4.18% in value, though the fund is up over the year.

As per board policy, committee (and Board) members are blind to specific company funds. Currently the funds are invested primarily in fixed income with a small amount in cash and equities. Collectively the funds are expected to generate annual income of about \$181,000 per year, though only about \$140,000 is available for the annual operating budget because the Knight fund is currently below its required principle.

Our investment advisor expects the current economic strain to continue for several years. Our bond investments were previously able to get a 5% return but are now at a 2.5-3.5% return. He has moved some money to blue chip stocks, but points out that finding a conservative income stream is getting increasingly difficult. Additional economic fallout or a change in federal reserve policy could further reduce income. While he did not recommend an immediate change, he noted that IRE's investments may need to take on more risk or settle for less income until interest rates rise in the next two to five years.

Available funds:

For the past several years, IRE has been able to increase its budget security by 1) reinvesting income earned on the endowment funds and 2) adding half of the annual budgetary surplus to the reserve fund, which is currently valued at \$642,000 (as of April 30) and invested largely in

short-term treasury bills. (The Board voted in fall 2018 to move the reserve funds from a money market account, with the transition completed by July 2019). Spending these funds requires Board approval.

In addition to the reserve fund, there are caveats to the individual endowment funds (as of May 31):

Pulliam Fund: valued at \$547,000 this fund is earmarked for the resource center. The fund is expected to generate about \$23,000 this year.

- Asset Allocation: 15% Cash – 72% Fixed Income – 13% Equity

General Endowment: valued at \$2.9 million, this fund is expected to generate about \$124,000 in income this year.

- Asset Allocation: 12% Cash – 60% Fixed Income – 28% Equity.

Knight Foundation: valued at \$828,000, the fund should be at \$855,000 (based on inflation adjustments to the original \$600,000 principle). Until that value is regained, we can't touch that fund and the \$42,000 in expected generated income is restored to the fund.

- Asset Allocation: 9% Cash – 74% Fixed Income – 17% Equity

One year comparison, 2019 vs. 2020

Nickname	Account Value 05/31/19	Interest	Deposit	Withdraws	Market Change	Account Value 05/31/2020	Percent chg
General	\$2,739,635	\$124,164	\$125,900	\$0	(\$44,207)	\$2,945,492	7.51%
Knight	\$820,932	\$41,689	\$0	\$0	(\$34,248)	\$828,373	0.91%
Pulliam	\$543,112	\$23,722	\$0	\$0	(\$20,204)	\$546,630	0.65%
Total	\$4,103,679					\$4,320,495	5.28%

Finally, here's a look at the [full endowment picture](#), including the restricted funds and the smaller 'orphan' funds the committee previously advised the board to consolidate or eliminate.

Spending:

IRE's Endowment Fund is also guided by the Uniform Prudent Management of Institutional Funds Act (UPMIFA) under Missouri law effective Aug. 28, 2009. That includes a spending policy when the endowment was created:

The Endowment Committee of the Board of Trustees is responsible for the establishment of a balanced endowment spending policy to: (a) ensure that over the medium-to-long term, sufficient investment return shall be retained in the endowment to preserve and grow its economic value as a first priority; and, (b) to provide funds for the annual operating budget in an amount which is not subject to large fluctuations from year to year to the extent possible.

Banks also said that if additional monies are needed for IRE operations, up to 4% of the endowment fund could be tapped with minimal long-term risk. For the 2019-20 budget year, we are using about 3.6%, which is our max projected return (2.5-3.5% based on Banks' projections).

To provide some perspective, here's how IRE has spent its endowment earnings over the past 12 years. To date, IRE has never drawn principle from the funds:

Year	Knight	Pulliam	General Endowment	Total
2007-08	\$ 5,000	\$ 30,000	\$ 110,000	\$ 145,000
2008-09	\$ 5,000	\$ 6,000	\$ 80,000	\$ 91,000
2009-10	\$ 74,000	\$ 30,000	\$ 98,000	\$ 202,000
2010-11	\$ 40,000	\$ 30,000	\$ 90,000	\$ 160,000
2011-12	\$ 80,000	\$ 25,000	\$ 90,000	\$ 195,000
2012-13	\$ 30,000	\$ 25,000	\$ 90,000	\$ 145,000
2013-14	\$ 40,000	\$ 30,000	\$ 80,000	\$ 150,000
2014-15	\$ 30,000	\$ 30,000	\$ 90,000	\$ 150,000
2015-16	\$ -	\$ -	\$ -	\$ -
2016-17	\$ 10,000	\$ 10,000	\$ -	\$ 20,000
2017-18	\$ -	\$ -	\$ -	\$ -
2018-19	\$ -	\$ -	\$ -	\$ -
2019-20*	\$ -	\$ 45,000	\$ 110,000	\$ 155,000
	\$ 314,000	\$ 261,000	\$ 838,000	\$ 1,413,000

*estimated amounts, will finalize by June 15 and withdraw upon executive director's approval

Recommendations:

1. Continue the current investment strategy with a re-evaluation in six months.
2. Move \$637 in 'orphaned' donations to Pulliam to either the endowment or investment fund to support the resource center
3. Investigate internally with university officials, or speak to the Knight Foundation, about the inflation adjustment requirement which prevents us -- year over year -- from using the fund.
4. The Committee is tasked with protecting IRE's Endowment, but the definition of the endowment and the spending protocol between the reserve fund and the previously earned income is unclear. The Committee requests the board clarify the following:
 - a. What is the endowment fund? Is it only the original principle, or does it include reinvested income from previous years?
 - b. What is the spending protocol between the Reserve Fund and the earned income from previous years (reinvested in the endowment)? That is, if the earned income is not part of the endowment, which fund is used first?