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Endowment FAQs

What is an endowment?

An endowment is a donor-established fund that provides a steady payout forever to support a specific purpose.

Why should donors consider making an endowed gift?

Endowments are the cornerstone for innovative breakthroughs and worldwide impact. Each individual endowment provides a margin of excellence and offers an irreplaceable source of quality, stability, productivity and creativity – leaving a lasting impact forever. Investing in an endowment is investing in a better future for Florida, the nation and the world. As a comprehensive research land-grant institution, UF is uniquely positioned to address society's most pressing concerns.

How can a donor establish an endowment?

There are many ways donors can create an endowment, including giving cash, pledges, securities, retirement plan assets, real estate, deferred gifts and gifts-in-kind.

What purposes can a donor establish an endowment?

Endowments can be established for one or more specific purposes or for unrestricted general support. UF's endowment is comprised of funds that support many purposes, including faculty, staff, students, research, facilities and general support.

What can the endowment be used for?

The endowment payout can only be used for the purposes designated by the donor. As of June 30, 2019, 99.5% of the endowment was designated by donors for restricted purposes.

What is the timeline for new endowments?

New endowed gifts are invested quarterly, with the first spendable transfer occurring at the end of its first invested quarter.

GIFT RECEIVED	GIFT INVESTED	FIRST TRANSFER TO SPENDABLE
DECEMBER-FEBRUARY	APRIL 1	JUNE 30
MARCH-MAY	JULY 1	SEPTEMBER 30
JUNE-AUGUST	OCTOBER 1	DECEMBER 31
SEPTEMBER-NOVEMBER	JANUARY 1	MARCH 31

Is the UF endowment monolithic?

No, the endowment is comprised of over several thousand individual donor funds. As of June 30, 2019, the endowment was comprised of 3,665 funds.

What is the minimum gift amount to establish an endowment?

Generally, institutions establish minimum gift levels for endowments. At UF, the minimum gifts to establish endowments are as follows:

Named endowed fund	$30K
Term professorship	$300K
Professorship	$1M
Chair	$2M
Dean/Directorship	$5M

It is important to note that each college may establish higher minimums.

Oversight and Administration FAQs

What governance and oversight is in place for the endowment?

Governance and oversight of the endowment are paramount to the university's mission to advance education, service, discovery and economic development. The UF Foundation Executive Board, and its audit and finance committees, are vigilant in providing continuous and rigorous oversight of policies, procedures, controls and investment management. The finance committee performs quarterly reviews of investment performance and annual approvals of endowment administrative policies, investment benchmarks and asset allocations. Endowment expenditures are regularly audited by both foundation staff and the university's Office of Internal Audit, with audit reports reviewed and approved by the audit committee.

How is the endowment administered?

The foundation administers the endowment in accordance with FUPMIFA and the policies set forth by the executive board of the foundation. Endowed funds are carefully established by gift agreements clearly documenting donor intent. Each endowment is structured with a principal fund and a spendable fund. The principal fund is invested with the University of Florida Investment Corporation (UFICO) in the endowment pool and generates spending transfers that are made available in the spendable fund to support the intent of the donor.

What is FUPMIFA?

FUPMIFA is an acronym for the Florida Uniform Prudent Management of Institutional Funds Act, which set the standard of conduct in managing, investing and establishing spending policies for endowments and institutional funds. The finance committee of the foundation has interpreted FUPMIFA as requiring the consideration of the following factors using reasonable care and caution, as would be exercised by a prudent investor:

- The purpose of the foundation
- The intent of the donor of the endowment fund
- The terms of the applicable instrument
- The long and short-term needs of the foundation and UF in carrying out their intended purposes
- General economic conditions
- The possible effect of inflation or deflation
- The other resources of the foundation and UF
- Perpetuation of the endowment

Before making any determinations on the investment management or spending policies, the finance committee reviews a FUPMIFA worksheet to ensure appropriate factors are considered.

What is reported to the donor?

Each year, the foundation provides donors with detailed endowment reports and letters from faculty and deans/directors. These annual endowment reports (AER) include:

- Financial report
- Dean/Director message
- College highlights
- Endowment brochure
- Endowment survey

Annual endowment reports are mailed in October and November. Generally, donors with new endowments can expect to receive their first AER packet 12 to 18 months after establishing the fund.

Can endowment reports be sent to others?

Yes, the foundation will send annual endowment reports to individuals of the donor's choosing.

Can donors pick scholarship recipients?

Scholarship recipients are determined by a university or college/unit selection committee. Per foundation policy, "the donor may advise but may not participate in the selection or evaluation of students or faculty members who would benefit from the gift." Donors are informed about the recipients, but are not involved in the selection process.

Investment FAQs

Who manages the investments of the endowment?

The endowment is invested by the University of Florida Investment Corporation (UFICO). UFICO is governed by a volunteer board of experienced investment professionals who are independent from the university and foundation. The finance committee of the foundation provides oversight and approval of the investment strategy executed by UFICO.

What is the investment objective of the endowment?

The endowment is invested over generations to maximize risk-adjusted returns and provide a sufficient income stream that supports the university and amplifies donor impact — forever.

How is investment performance measured?

Investment returns are compared against two benchmarks:

1. CPI + 5% - The consumer price index plus 5% is the long-term growth benchmark that seeks to measure the purchasing power of the endowment over time.
2. 60/40 - A composite including 60% MSCI All Country World Index and 40% Barclays Global Aggregate Bond Index represents the investable alternative and a short-term measure of performance.

How do reported investment returns reported differ from accounting returns?

To be comparable with peer universities, UFICO includes "lagged" investment returns on private investments in their reported investment returns (e.g., investment return reported in the endowment brochure). It takes approximately one quarter for UFICO to receive all of the marks on private investments.

While these lagged returns are included in reported investment returns, the lagged portion of the return does not affect the accounting of an endowment until the following quarter. Essentially, the accounting return (e.g., return reflected in the Annual Endowment Report) is always one quarter behind the actual investment return, which creates a cross-fiscal-year impact for the first and fourth quarter of each fiscal year.

The orange text boxes in the infographic below show the quarters included in the Fiscal Year 2020 accounting and reported investment returns.

FY2020 Accounting Return

Private Investments	Apr - Jun 2019	Jul - Sep 2019	Oct - Dec 2019	Jan - Mar 2020	Apr - Jun 2020
All other	Jul - Sep 2019	Oct - Dec 2019	Jan - Mar 2020	Apr - Jun 2020	Jul - Sep 2020

FY2020 Reporting Return

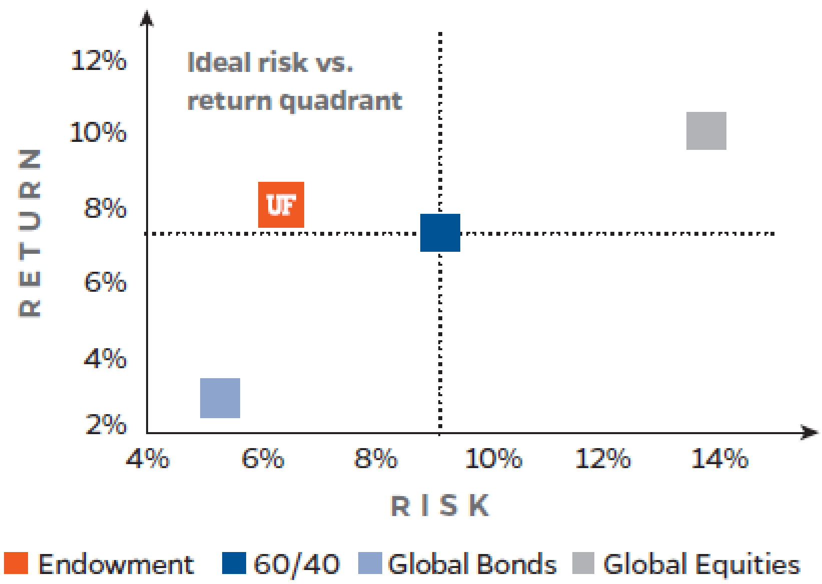
Private Investments	Apr - Jun 2019	Jul - Sep 2019	Oct - Dec 2019	Jan - Mar 2020	Apr - Jun 2020
All other	Jul - Sep 2019	Oct - Dec 2019	Jan - Mar 2020	Apr - Jun 2020	Jul - Sep 2020

What happens to investment earnings in excess of the payout?

Investment earnings in excess of the payout and the administrative fee are added to the balance of the endowment.

How has the endowment's investments performed over the last 10 years?

The 10-year investment returns were 7.9% — outperforming the 60/40 benchmark returns of 7.4% with 30% less risk. The endowment investment pool is positioned for ideal risk vs. return. The chart below depicts the ideal risk vs. return quadrant and plots the endowment along with the 60/40 investable alternative, a global bond portfolio and a global equity portfolio over the last 10 years.

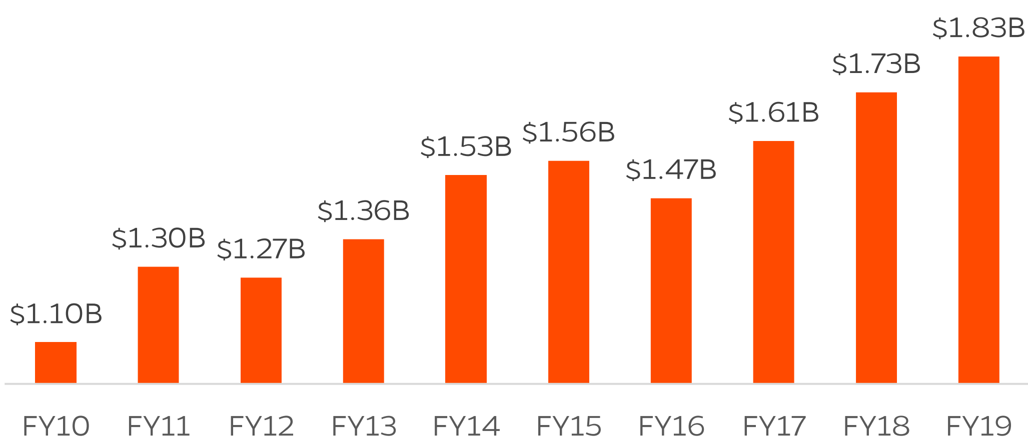


Why my personal investment returns are not comparable to the investment returns of the endowment?

The endowment is not comparable to personal investment accounts because of the liquidity requirements to support the payout and generational time horizon.

How has the endowment grown over the last 10 years?

The endowment has grown from $1.1B as of June 30, 2010 to $1.83B as of June 30, 2019.



Spending Policy FAQs

What are the considerations for an endowment spending policy?

There are three primary considerations:

- Intergenerational equity – it should equally value current and future fund administrators and spending

- Inflation – it should account for inflation
- Stable spending – it should see to smooth spending over time

In addition, there are factors that regularly arise as a spending policy is implemented:

- Complexity – how complex is the policy to implement? How complex is it to explain and understand?
- Intervention – how involved is the board or staff in executing the policy or making course corrections?
- Timeliness – how quickly does the policy react to changes in the market?

What type of endowment spending policy does UF have?

UF uses a unique market value approach that focuses on the current market value, regardless of how it came to be. It protects the principal and purchasing power of the endowment, and values current and future fund administrators equally. Generally, there are three types of spending policies used by universities:

- Market value based – links spending to a % of a rolling market value, generally using a 3 to 7 year smoothing period. Market value based policies favor intergenerational equity over stable spending.
- Constant growth – increases spending each year by a measure of inflation or a %. This approach favors stable spending over intergenerational equity.
- Hybrid – generally uses a weighted combination of both market value based and constant growth approaches.

What is the history of the UF endowment spending policy?

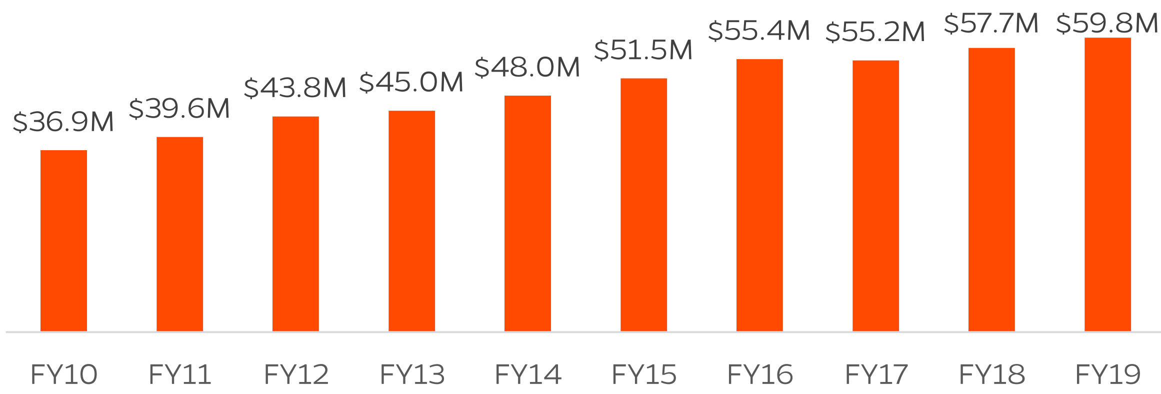
UF's endowment spending was developed in 1999 by Mark J. Flannery PhD, Bank of America Eminent Scholar Chair at UF. The previous policy was a constant growth based approach. Both the previous policy and the current policy were tested using Monte Carlo simulations to project thousands of future outcomes. Simulations revealed a probability of 10%+ that without manual intervention, the market value would decrease to $0 within 20 years using the previous constant growth policy. After testing both policies, the current policy was adopted with support from UF leadership, including vice-presidents and deans/directors.

How is the payout calculated?

Each endowment generates an annual payout based on the spending rate established by the foundation finance committee and executive board. The payout rate is 4% of each endowment's spending base, which is a policy calculation that floats between the range of 85% to 95% of the endowment market value. The spending base for new endowments is set at 90% and fluctuates within this range based on investment returns.

How has the payout grown over the last 10 years?

The payout has grown from $36.9M in fiscal year 2010 to $59.8M in fiscal year 2019.



What is an underwater endowment?

If an endowment's market value becomes less than the original book value, it is considered an underwater endowment. These funds continue to pay out unless the market value drops below 70% of the original book value. If that occurs, all spending transfers and fees are suspended until the market value rises above 70% of the book value.

How are the value, spending base and payout impacted by declining investment markets?

The spending base range of 85% to 95% acts as a buffer that reduces the impact of market declines of up to approximately 10%. Declines in excess of 10% will decrease the payout in correlation with the decline in the investment performance. The chart below illustrates the impact of declining investment returns on a $100K endowment. For this illustration, the $100K has grown to $110K, with a spending base ratio of 85%, before the decline began. The payout to UF is distributed quarterly as 1% of the spending base.