

UPMIFA and Practices for Evaluation of Endowments

The following practices for the evaluation of UW System Trust Funds endowment accounts were approved by the Board of Regents at their meeting of October 16, 2009. In designing these practices, the provisions of the Uniform Prudent Management of Institutional Funds Act, as it was adopted under Wisconsin State law effective August 4, 2009, were kept in mind.

Practices

- The practices outlined here will apply to both donor-designated (“true”) endowments and to Board or otherwise internally-designated endowments.
- All endowment funds/accounts are participants in the Long Term Fund (where the original gift principal is always invested). The Long Term Fund is valued and allows transactions (buys and sells) on a quarterly basis, and makes an annual distribution of 4.0% of its three-year moving average market value in quarterly installments of 1.0%. Therefore, all participants in the Fund must either receive this distribution level in cash as of a given quarter end, or, if cash distributions for spending are suspended, receive the distribution in the form of a reinvestment into additional shares of the Fund. (It should also be noted that under current practice, new participants in the Long Term Fund receive their first quarterly spending distribution in cash, if eligible, one quarter after first investing in the Fund.)
- Annually, as of the end of each fiscal year (i.e., as of each June 30), the market value of each endowment’s holdings in the Long Term Fund will be compared to both the *original endowment gift value* (its “historic dollar value” or HDV) and an *inflated original gift value* (an inflated HDV). The inflated HDV provides an estimation of that value which would have maintained the purchasing power of the endowment from inception to the present time. The inflation rate applied will be a long-term average of the annual change in the Consumer Price Index (CPI) and/or the Higher Education Price Index (HEPI).
- In analyzing the above data so as to determine when and where to “appropriate for expenditure or accumulate” (UPMIFA), the UW Trust Funds and the Board of Regents will *generally operate to restrict spending where the maintenance of purchasing power into perpetuity is deemed to be in jeopardy*.
- Where a determination is made to suspend spending distributions for an endowment account, the endowment will not receive cash distributions from the Long Term Fund for the next full fiscal year; rather, distributions will be reinvested for this period. Campuses/units (Chief Business Officers, Deans, etc.) will be notified as and when distributions are to be suspended.
- Benefiting campuses/units may, however, appeal a suspension of distributions based on extenuating facts and circumstances; any reversal granted will not take effect until the September 30th quarterly distribution at the earliest. Generally, the Trust Fund officers (the Vice President for Finance, the General Counsel, and the Trust Funds Director) will jointly make decisions regarding such appeals, with the understanding that any reversals granted will be reported to the Board.
- Unspent income distributions residing in the Income and Intermediate Term Funds, if any, will continue to be available for spending purposes and will be disregarded in comparing an endowment’s market value to its HDV or inflated HDV.
- Benefiting campuses/units may also voluntarily restore the market value of an endowment account’s Long Term Fund holdings to equal or exceed its HDV or inflated HDV, to the extent that unspent income is available for this.
- In the event that the market value of the Long Term Fund falls significantly (e.g., a 10% decline) during an intra-evaluation period, UW System Trust Funds and the Board may reconsider the timing of the next evaluation date.