Endowment Distribution and Investment Policy

**Approving authority**
Finance, Resources and Risk Committee

**Approval date**
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**Advisor**
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**Description**
The policy outlines the University's approach to the investment and distribution of endowment funds and amortising donations.

**Related documents**
Griffith University Philanthropy and Fundraising Policy

1. **INTRODUCTION**

This policy outlines the University's policy with respect to endowment funds and amortising donations. It is not intended to capture gifts or donations made with the purpose of distributing the initial capital sum in the short-term.

The preferred strategy for endowments is to limit the number of funds established, leveraging existing funds to gain scale and efficiency. Where a new fund is proposed it must be supported by the Deputy Vice Chancellor (Engagement). The preferred minimum gift for establishing an endowment fund is $100,000.

2. **DEFINITIONS**

2.1 **Endowment Fund**

is an investment fund established by the University for receiving third party donations as well as contributions from the University’s own reserves specifically with the purpose of generating operating income for specific or general purposes, whilst preserving the capital base. They are usually managed into perpetuity by ensuring distributions are not greater than a Consumer Price Index (CPI) or assessed capital maintenance percentage.

2.2 **Amortising Donation**

is a donation which pays out both the principal and interest as a fixed sum over a predetermined period of time so that the balance is nil by the end of the negotiated term. For example, if $1 million was donated for a period of 20 years, distributions of approximately $91,000 each year at an interest rate of 6.5% would be available.

2.3 **Consumer Price Index (CPI)**

is the Australian All Groups CPI (weighted average for 8 capital cities) for any 12 month period, published by the Australian Bureau of Statistics.
2.4 **Real value**

is the value of an initial sum of money which has been adjusted for inflation CPI so that purchasing power remains constant.

2.5 **Distribution Rate**

is the annual distribution from an endowment fund and reflects the long term targeted return on invested funds. This rate is set annually by the Finance, Resources and Risk Committee.

### 3. ROLES AND RESPONSIBILITIES

Finance is responsible for:

- Ensuring appropriate records are kept;
- Ensuring compliance with relevant legislation and University Policy;
- Calculating distributions to be made on 1 July each year;
- Ensuring distributions are allocated to the correct departments across the University;
- Ensuring investment practices comply with the University's Investment Policy.
- Reporting to Finance, Resources and Risk Committee on distributions made from the endowment fund and on investment performance.
- Recommending annual asset allocations to Finance, Resources and Risk Committee
- Investing funds in accordance with asset allocation thresholds approved by Finance, Resources and Risk Committee.

Finance, Resources and Risk Committee is responsible for approval of the annual Distribution Rate, the asset allocation and assessment of investment performance and strategy to support the objectives of the University.

### 4. COMPLIANCE

Before a donation can be accepted, the University must ensure that the intention of the donation is compatible with the aims and objectives of the University. In addition, the University must ensure that the donation does not compromise its status as a deductible gift recipient.

Use of donations and bequests is subject to the provisions of:

- the Griffith University Act;
- the Statutory Bodies Financial Arrangement Act;
- donor(s) specifications;
- University policies, including but not limited to the [Griffith University Philanthropy and Fundraising Policy](#).
5. **ANNUAL DISTRIBUTIONS FROM ENDOMENT FUNDS**

The spending policy is set to balance the competing objectives of preserving the real value of endowments over time and providing a stable flow of income for the activities specified by the initial donation. This is achieved by the selection of a conservative but stable distribution rate which, over time, is offset by investment returns. The challenge is to balance a steady distribution rate with volatile investment returns.

The Distribution Rate is set annually by the Finance, Resources and Risk Committee, unless a different rate has been agreed with the donor. The rate is set prior to 30 June each year to take into account investment returns and the preservation of the CPI adjusted value of the initial donation. This links the annual distributions of the fund to the long-term investment objective.

If donations are made on or before 31 December each year, then a pro-rata distribution will be made on the next 1 July. If the donation is received after 31 December the first distribution will be made on 1 July in the following year on a pro-rata basis.

Any unspent funding at the end of each year will be returned and reinvested to be redrawn in future years as required.

6. **ANNUAL DISTRIBUTIONS FROM AMORTISING DONATIONS**

The spending policy for amortising donations is set so that the initial donation is amortised to nil at the end of the agreed term. The interest rate used to calculate distributions is set annually by the Finance, Resources and Risk Committee, unless a different rate has been agreed with the donor. The interest rate is set annually to ensure that distributions do not exceed the initial donation plus investment returns over the term of the donation. The first distribution will be made on 1 July following the first full year of investment.

A simple example is shown in Table 1 of the distributions which would be made under this policy if $1 million had been donated on 1 July 2014 as an amortising donation for a period of 20 years and the interest rate is maintained at 6.5%.
### Table 1: Example of distributions made on $1 million amortising donation

<table>
<thead>
<tr>
<th>Period ending</th>
<th>Payment</th>
<th>Principal</th>
<th>Interest</th>
<th>Balance</th>
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<td></td>
<td></td>
<td></td>
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</table>

Any unspent funding at the end of each year will be returned and reinvested to be redrawn in future years as required.

### 7. DEFICIT PROJECTS

Donations that go into deficit will continue to receive distributions in line with this policy. If the endowment fund as a whole goes into deficit, the annual distribution rates will be set to ensure that there are sufficient investments to pay distributions into perpetuity and investments are not depleted in real terms.