

Tips for good endowment stewardship

1. Spend the payout.

Departments should spend the payout. That's why donors make gifts—to be used. Please recommend to your chairs that you spend the payout—or much of it—but with this requirement:

Spend it according to language in the gift agreement. The Arts and Sciences Foundation works with the dean's office, the senior associate deans and department chairs to craft a gift agreement that the donor likes and can benefit the department. If there's a good reason the fund cannot be used because the gift agreement language is too restrictive, tell us. Gift agreements can be difficult, if not impossible, to amend. Ask us anyway.

2. Reinvest the unused income.

While most departments should spend their payouts, it can be reasonable to keep up to two years of payout in the department's endowment income/expendable account to cover uneven expenses. If the balances go beyond this level and payouts sit in the department account, it loses value relative to inflation. Alternatively, when you reinvest unused income, the endowment principal increases, the funds are invested for growth, and together these increase the payouts received in future years.

Your department may worry about needs for a rainy day if you reinvest. First, look at long-term spending trends on your source and realistically assess if your needs are ever likely to exceed twice your payout amount. This is almost never the case. Second, after a reinvestment, the funds will no longer be directly accessible to you to spend. If an extraordinary and unforeseen event arises requiring funds in excess of the current or future payouts, we can assist you with requesting a one-time withdrawal from the principal of a university endowment (7XXXX) should that be necessary. Please note that we cannot guarantee the outcome of the withdrawal request. Foundation endowments (CXXXX and UXXXX sources) are not allowed to withdraw from the principal, but University endowments (7XXXX) may have more flexibility. Keeping too much in your income/expendable balances risks losing real value of your funds, does not fulfill donor intent, and forgoes greater sustained payouts in the future.

Endowments will be invested for decades and will benefit faculty and students long after we're gone, so good stewardship—including reinvesting unused income—is critical at every stage.

3. How can I reinvest unused income?

- For endowment funds held in the Arts and Sciences Foundation and the UNC-Chapel Hill Foundation (principal funds are in fund 29910 and sources C0xxx & U0xxx, respectively), you must indicate that the Foundation reinvest funds using the payout tool at srcs.oasis.unc.edu. It is highly recommended to reinvest 10% of each fund's payout.
- For endowment funds held in the University Endowment (principal funds are in fund code 29800 and sources start with "7"), you must indicate the reinvestment amount of each University endowment within the payout tool using the link above. Although you can reinvest University endowment funds at any time of the fiscal year, it is best practice to reinvest at the beginning of the year to take advantage of any market gains.

If you have questions about any of these tips on the best strategies to use in the management of one or more of your endowments, please contact your assigned budget analyst or the Arts and Sciences Foundation accountant, Kristen Rogister.