

Endowment Spending Policies Since the Passage of UPMIFA

- ▶ As total-return investing took hold in the endowment community in the late 1960s and early 1970s, spending policies shifted from income-based to market value-related—the dominant model used today.
- ▶ However, there is a growing trend among endowments of all sizes toward hybrid models, accelerated by the early adoption of industry leaders such as Yale University.
- ▶ Endowments have increasingly allocated larger percentages of their assets to alternative investments over the last decade, giving rise to liquidity concerns.
- ▶ Callan assesses how the endowment spending landscape has changed in light of the passage of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in July 2006, the increasing use of alternative investments by endowments and the market collapse of 2008.

Introduction

A well-designed endowment spending policy balances the need for current spending with the goal of supporting future expenditures into perpetuity. As institutions periodically review their asset allocation policies, it is equally important that they review their spending policies because the two are interdependent and critical to the long-term success of any endowment.

This paper provides a brief overview of best practices in the design and implementation of endowment spending policies. We explore and evaluate the mechanics of various policies in terms of their ability to satisfy the competing objectives of stable current spending and real, long-term preservation of the corpus. Within this framework, Callan assesses how the endowment spending landscape has changed in light of the passage of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in July 2006, the increasing use of alternative investments by endowments of all sizes and the 2008 market collapse.

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Introduction (continued)

In 1972, the National Conference of Commissions on Uniform State Laws (the Uniform Law Commission) passed the Uniform Management of Institutional Funds Act (UMIFA), which was ultimately adopted in 47 states and the District of Columbia. One of the major goals of the legislation was to encourage endowments to invest for the long run by adopting a total-return approach rather than seeking out investments with high current yields. UMIFA permitted endowments to spend a portion of realized and unrealized appreciation in addition to current income (dividends and interest), allowing institutions to focus their investment policies on maximizing total return per unit of risk rather than maximizing current income per unit of risk. This concentration on total return led to sweeping changes in best practices for both the investment and spending policies employed by most major endowments.

The Uniform Law Commission approved a revised version of UMIFA on July 13, 2006, providing a stronger, more unified framework for charitable fund management known as the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA, which applies retroactively, has been enacted in 43 states and the District of Columbia as of January 29, 2010.

The most important change UPMIFA made concerns endowment spending: doing away with the “historic dollar value” (HDV) concept, which had restricted spending to amounts above the original dollar value of the contributions that created the trust. Under UPMIFA, a fund is permitted to spend an amount it deems prudent after taking into consideration the donor’s intent that the fund continue permanently, the purposes of the fund and relevant economic factors. The new legislation also defines a more precise set of rules for the prudent management of charitable funds and the governing of donor restrictions. UPMIFA helps charitable institutions better manage their investments and spending to provide more money for their beneficiaries.

The original 1972 UMIFA paved the way for endowments to uncouple their investment and spending policies, leading to the widespread adoption of total return-oriented investment policies. However, it did not result in the same level of uniformity in spending policy design.

Evolution of Endowment Spending Policies

The concept of an endowment dates back to at least the 12th century in Europe, when plots of land were used to support religious organizations. Plots generated rent that was made available to the beneficiary institutions. Land values and rents generally increased over time, which allowed the institutions to deal with rising costs and increased activities. These land-based endowments had a significant influence on the spending practices of modern endowments.

In the United States, land was initially the main source of endowment income, but by the early 1900s most assets were invested in fixed income (bonds and mortgages) and inflows shifted from rent to interest. Endowments sacrificed the potential for appreciation for the safety of principal and income, and the built-in inflation protection which the land had provided disappeared.

When the stock market boomed in the 1950s and 1960s, pressure increased to allow endowment funds to participate in these equity returns. Rising inflation in the 1960s also became an issue, particularly for college and university endowments, which were predominantly exposed to fixed income investments. The problem was rooted in traditional spending rules which dictated that endowments could spend only dividends and interest, while the majority of the equity market returns came from capital gains.

At this time, institutions with longer-term perspectives and less reliance on current spending

were able to shift money into stocks. The higher associated growth rates ultimately led to a larger corpus and a substantial increase in both dividends and interest. However, institutions with shorter time horizons were forced to focus on high yield debt and high dividend-paying stocks, which prevented them from enjoying the full benefits of the bull market. This combination of circumstances threw the traditional income-based spending approach, and the investment approach that it engendered, into question.

Ultimately this led to a number of the largest endowments in the country advocating a “total return” investment approach—arguing it was in the best long-term interest of institutions to obtain the highest possible rate of total return (yield plus appreciation) consistent with a reasonable level of risk. However, without the ability to spend a portion of the capital gains, it was difficult to convince sponsoring institutions to adopt this new philosophy.

In addition to some moral arguments, the main debate centered on the legal definition of the term “income.” Until the mid-1960s, the prevailing legal opinion was that income did not include capital appreciation, realized or otherwise. The law for private trusts clearly ascribed appreciation to principal rather than income, however, no court decision applied specifically to charitable endowment funds. The question became whether or not endowment funds should be treated in the same manner as private trusts.

Separating principal and income for private trusts allowed the allocation of property between income beneficiaries and “remaindermen.” Income beneficiaries are entitled to the income that a private trust generates during its lifetime. Remaindermen are entitled to the corpus of the trust at the demise of the income

beneficiary. In the case of charitable or educational endowment funds, the institution is both the income beneficiary and the remainderman. This fact was used to support a definition of income that includes appreciation for endowment funds, which became the legal definition near the end of the 1960s.

Competing Objectives in Managing Endowments

A well-designed spending policy reflects the unique philosophy of the sponsor. There are a number of competing objectives in managing an endowment, and the sponsor must deal with the different levels of emphasis to place on each objective.

The primary objective governing the management of most endowments is the pursuit of intergenerational equity: that the real (inflation-adjusted) purchasing power of the corpus is maintained over time. Endowments that experience year-to-year market-related fluctuations in their corpus value may fall short of this goal. For this reason many endowments evaluate their success by looking at the average value of the corpus over many years. Ultimately, successfully maintaining the purchasing power of the corpus depends on choosing an average level of spending that can be supported by the investment policy. If this goal is achieved, it should enable another objective: a relatively constant level of real spending.

This second objective of stable and predictable spending also governs endowment management. The beneficiaries of endowments are generally unable to adjust their budgets to react to large and unpredictable swings in year-to-year spending. They are also subject to the same inflationary pressures as any other entity operating in the general economy. Spending rules are designed, at least in part, to accommodate the need for a stable and predictable level of spending that grows at the rate of inflation.

While stable real spending is a baseline objective for most endowments, many institutions come under significant pressure to grow spending by more than the underlying rate of inflation. This has been particularly true during weak periods in the economy when other sources of funding—such as tax revenue for public institutions or gifts to private institutions—decline considerably. Funding decreases tend to coincide with downturns in the stock market, which places endowments with an equity-oriented investment strategy under additional stress at the exact time they are least equipped to handle it.

A final objective is to grow the corpus by more than the underlying rate of inflation. While this goal is often discussed, it is seldom given the highest priority relative to the other three listed above. Occasionally an institution—usually in a secure financial condition with other reliable sources of funding—will forego current spending in an effort to accelerate the corpus’ long-term real growth. Other institutions may pursue this strategy for a short period in anticipation of funding some major project in the near future.

A quick review of these four objectives reveals a plethora of conflicts. Growing the corpus by the rate of inflation and supporting any level of spending requires an endowment to take on at least some measure of investment risk:

- Pursuing a policy of maintaining a stable real corpus in the face of investment risk results in a volatile spending pattern;

- Pursuing a policy of stable real spending sacrifices the stability of the real value of the corpus, and can result in long periods where it actually declines;
- Pursuing a high growth strategy in current spending diminishes the growth rate of the corpus, favoring current beneficiaries over future beneficiaries;
- Pursuing a high growth rate in the corpus reduces current spending, favoring future beneficiaries over current beneficiaries, and may introduce more volatility in spending.

Finding the spending and investment policy combination that best balances this set of competing objectives is an important challenge faced by every endowment.

The Appropriate Average Spending Level

Before addressing the mechanics of a spending policy, an endowment must first decide on the appropriate target spending level over time. This spending level is typically expressed as a percentage of the endowment’s market value. Most endowments pursue spending targets between 4% and 6%. In the absence of contributions, studies have shown that a spending rate in excess of 5% has virtually guaranteed the erosion of a fund’s corpus in constant (inflation-protected) dollars over the long term.

In the 2009 NACUBO–Commonfund Study of Endowments, most institutions used an average market value-related approach to spending. Over the past 10 years, average spending rates ranged between 3.9% and 5.3% of the endowment’s value annually. **Exhibit 1** shows an average annual 2009 spending rate of 4.4% for all reporting institutions, with private endowment spending rates exceeding those of their public counterparts. The 10-year average annual spending rate ranges between 4.6% and 4.9%, regardless of endowment size (assets) or type (public versus private).

Exhibit 1 Average Annual Spending Rates as a Percentage of Endowment's Value for Fiscal Years 2000–2009

Endowment Assets	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10-Year
Number of Respondents	668	693	700	718	738	756	769	776	772	842	Average
> \$1.0 bil	4.2%	4.2%	4.9%	5.3%	5.2%	4.7%	4.6%	4.4%	4.2%	4.6%	4.6%
\$500 mil to < \$1.0 bil	4.5	4.5	5.1	5.3	5.2	4.8	4.5	4.4	4.5	4.9	4.8
\$100 mil to < \$500 mil	4.6	4.9	5.1	5.2	4.9	4.7	4.7	4.5	4.2	4.4	4.7
\$50 mil to < \$100 mil	5.1	5.3	5.3	5.2	4.9	4.7	4.7	4.8	4.6	4.7	4.9
\$25 mil to < \$50 mil	4.7	4.9	4.9	5.0	4.8	4.7	4.8	4.8	4.3	4.3	4.7
< \$25 mil	4.6	4.9	4.7	4.8	4.6	4.8	4.6	4.6	4.1	3.9	4.6
Public	4.6	4.8	4.9	4.9	4.5	4.6	4.5	4.5	4.2	4.2	4.6
Private	4.7	4.9	5.1	5.2	5.1	4.8	4.7	4.7	4.4	4.5	4.8
Total Institutions	4.6	4.9	5.0	5.1	4.9	4.7	4.7	4.6	4.3	4.4	4.7

Table data are equal-weighted; numbers in percent.
 Source: Fiscal Years 2000–2007, NACUBO Endowment Study 2008; Fiscal Years 2008–2009, NACUBO-Commonfund Study of Endowments 2009.

Historical analyses and current best practices support the argument that a targeted annual spending level in the range of 4.5% to 5% of market value is appropriate. The 2000 to 2002 equity bear market—combined with average market value-related spending policies—elevated

the average level of spending as a percentage of assets above the normal 5% target for many institutions from 2002 through 2004. As the equity markets recovered, the average spending level for most endowments dropped back down to 5% or lower.

The Mechanics of Spending Policies

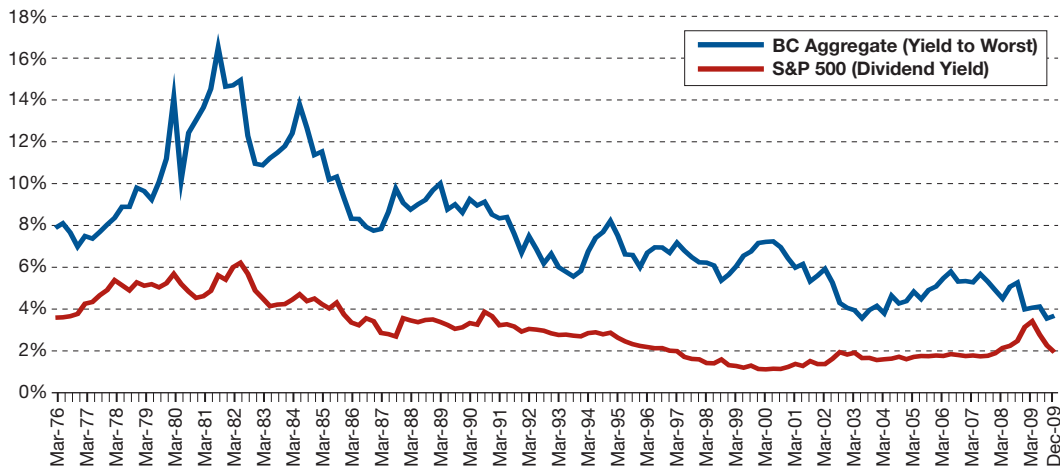
We categorize the mechanics of spending policies into four general groups that cover the majority of current models. We discuss each group in the following text, providing a general description of the underlying spending model, as well as the rationalization for and argument against its use.

Income-Only Spending Model

The income-only model is the original spending model for endowments, where only coupon and dividend payments can be spent. This type of policy offers two advantages. First, it provides for the preservation of the purchasing power of the trust over time. Since principal, by definition, cannot be spent, it requires a fairly creative investment policy to reduce the corpus of the trust over time. The second advantage is that it provides for relatively stable spending from year to year.

The disadvantage of an income-only spending model is that it can create pressure to pursue an investment policy that is income generation-oriented rather than total return. For example, in order to spend 5% of the endowment's value each year, an income-only policy might require a large allocation to fixed income, which thereby forces the exclusion of high-return but low-yielding equity asset classes. This may move the endowment toward a high yield investment management style for both equities and fixed income. These restrictions can affect the long-term growth of the corpus, and ultimately the probability of the endowment preserving its purchasing power over time.

Exhibit 2 Declining Yields



Sources: LehmanLive (BC Aggregate Yield to Worst), Standard & Poor's Index Services (S&P 500 Dividend Yield) and Callan Associates Inc.

Income-only spending policies are also highly sensitive to interest rate changes. With the secular decline in both interest rates and dividends since the early 1980s, income-only spending policies have resulted in declining spending levels as a percentage of the corpus over time. In many instances this has forced institutions to gradually alter their asset allocation policies to avoid a decline in real spending. While a 60%/40% stock/bond mix would have yielded well over 5% until the early 1990s, today it yields less than 3% (Exhibit 2). In the last several years, endowments with income-based spending models have struggled to reach a 5% spending rate irrespective of how they structured the stock/bond mix.

Market Value-Related Spending Model

Market value-related spending policies are today's predominant model for endowments. Under this model, endowments spend some fixed percentage of their market value each year. Typically spending is calculated as a percentage of the beginning market value, the ending market value or an average market value over some

period of years. Market value-related spending policies developed as a response to the fundamental shortcomings of income-only models. By disconnecting spending from income generation, market-value models encourage the adoption of total return-oriented investment policies.

Market value-based spending rules tend to favor the long-run preservation of the corpus. In concert with an appropriate investment policy, they encourage a sustainable rate of spending over time. As the market value of the corpus fluctuates, the spending dollar amount moves in lockstep. Assuming an appropriate target spending level is chosen, this precludes annual spending by the endowment from exceeding the ability of the corpus to support it.

Unfortunately, a protected corpus comes at the expense of stable and predictable spending levels. Over time a market value-based spending policy will produce more total dollars for the institution as it frees investment decisions from the spending policy, providing greater flexibility in selecting an asset allocation. The problem, however, is unstable spending from year to year, which

can make the annual budgeting process for the endowment more difficult. Institutions whose spending policies rely solely on the beginning market value each year risk extremely volatile spending levels from one year to the next. A partial solution to the problem has been to adopt a moving average market value, which reduces spending volatility but also places additional pressure on the corpus during declining markets.

Inflation-Adjusted/Constant-Growth Spending Model

Under an inflation-adjusted (constant-growth) spending model an endowment will spend the same amount as in the prior year (or a multi-period moving average of prior spending), adjusted for inflation or increased by a set percentage. This model places the utmost priority on stable and predictable spending over time, making budgeting considerably easier for the beneficiary institutions as they can anticipate (often years in advance) the funding level that they will enjoy in the future. An additional benefit of this model is that, like the market value-based model, it can be readily supported by total return-oriented investment policies.

The main drawback of the inflation-adjusted spending model is that it does not naturally adjust over time to reflect the underlying value of the corpus, creating two types of problems. During rapidly rising markets this approach can come under fire for “under-spending” (or spending less than the trust can support), often creating pressure to make ad hoc adjustments to the spending level to reflect the underlying growth in assets. These adjustments may or may not create future sustainable spending levels. Conversely, during declining markets this model places significant

stress on the corpus by spending more than can be supported over time. In extreme cases this can result in the value of the corpus temporarily dropping below the original dollar value of the trust. In the past this sometimes triggered UMIFA’s “historic dollar value” spending restriction, which precluded any additional spending until the corpus recovered. UPMIFA did away with the “historic dollar value” concept in July 2006, although sensitivity to this issue still exists in certain institutions.

Hybrid Spending Model

The hybrid model provides the greatest flexibility in allowing an endowment to satisfy multiple competing objectives by combining spending models. An infinite number of combinations exist under the hybrid model, allowing an institution to fine-tune its policy to meet its specific needs. The challenge under a hybrid model is finding the right combination and sticking with it during the difficult periods that it will inevitably face.

Some institutions utilize the hybrid model to balance the competing goals of producing stable spending levels while preserving the purchasing power of the endowment. Yale University is the most notable example, combining prior spending with a market value-based model.

Annual spending under the Yale model is determined using a weighted average of prior spending (80% weight) and 5.25% (current long-term spending rate target) of the market value two years prior (20% weight). The resulting amount is then adjusted for inflation and constrained to between 4.5% and 6% of the endowment’s inflation-adjusted market value one year prior. Incorporating prior spending levels helps to reduce large fluctuations from year to year.

Adjusting spending toward a long-term rate of 5.25% ensures that it will be linked to fluctuations in the endowment's market value, which helps to protect the long-term purchasing power of the fund. Finally, the 4.5% to 6% corridor helps to dampen spending volatility during extreme market environments.

The weighted average formula allows an institution to explicitly define the level of emphasis to place on smoothed spending relative to the preservation of the corpus. Beyond changing the weights in the equation, each of the formula's two components can be further modified to achieve more or less smoothing of spending over time.

Modifications to Basic Spending Policy Mechanics

Within the four general categories of spending models outlined above, countless variations have been designed to better meet the needs of the sponsoring entity. These variations typically take the form of an additional rule (or set of rules) that either reduces the volatility of spending or helps to protect the corpus during times of stress. Next we briefly discuss some of the more commonly used rules.

Inflation-adjusted or constant-growth spending policies result in very smooth predictable spending patterns over time. This stability, however, comes at a cost. The disconnect between spending growth and market value can result in unsustainable spending levels during times of severe market declines—particularly when coupled with high inflation. To mitigate this impact, many institutions employ spending ceilings (i.e., dollar or percentage limitations on spending), typically driven by the value of the underlying assets. The most common type of ceiling restricts spending to a set percentage of market value. For example, current year spending cannot exceed 7% of the previous year's ending market value. A second version requires that current spending cannot increase by more than a certain percentage or dollar amount over

the previous year's spending. Yet another variation restricts spending when the endowment value falls below a designated threshold.

As previously noted, spending rules tied to market value can result in significant year-to-year spending volatility. Spending floors help mitigate this issue by ensuring that spending does not fall dramatically in periods of weak market performance or negative inflation. Spending floors set dollar or percentage minimums and are typically driven by spending in previous years. For example, some endowment policies impose a floor on spending whereby the amount spent in one year must be equal to a set percentage of the amount spent in the previous year. Another version dictates that spending must be at least a certain percentage of market value.

When both a floor and a ceiling are employed (also known as the “snake in the tunnel” approach), year-to-year spending can fluctuate within reasonable bands, but volatility is significantly dampened during extreme periods. Used in conjunction with a market value-based spending model, this approach approximates the behavior of the hybrid models discussed in the previous section.

Survey of Current Practices

The 2009 NACUBO–Commonfund Study of Endowments provides insight into the popularity of the various spending models. **Exhibit 3** details

the frequency with which different models are employed across endowments of various sizes and types.

Exhibit 3 Spending Policy for Fiscal Year 2009

Endowment Assets/Type (Number of Respondents)	Spend all current income	Percentage of moving average	Decide on appropriate rate each year	Grow distribution at predetermined inflation rate	Spend pre-specified percentage of beginning market value	Last year's spending plus inflation with upper and lower bands	Weighted average or hybrid method	Meet IRS minimum of 5 percent	Other
> \$1.0 bil (52)	2%	56%	8%	4%	0%	19%	15%	0%	13%
\$500 mil to < \$1.0 bil (60)	2	70	7	0	0	5	12	0	9
\$100 mil to < \$500 mil (219)	5	75	6	2	2	5	7	0	7
\$50 mil to < \$100 mil (164)	4	82	7	0	5	1	7	0	4
\$25 mil to < \$50 mil (137)	4	79	12	0	7	1	4	0	12
< \$25 mil (210)	6	68	14	0	6	1	2	1	9
Public (306)	5	68	14	1	5	3	7	1	9
Private (536)	4	77	6	1	4	4	6	0	9
Total Institutions (842)	4	74	9	1	4	3	6	*	9

Multiple responses allowed; numbers in percent.

*Less than 1 percent, results not meaningful.

Source: NACUBO-Commonfund Study of Endowments 2009.

Market value-related policies (denoted as “percentage of moving average” and “spend pre-specified percentage of beginning market value” in Exhibit 3) are clearly the dominant model today with over three-quarters of respondents employing them. The “Other” category and the ad hoc model—where the endowment decides on an appropriate rate each year—tied for second, each capturing 9% of respondents. Endowments with assets of \$50 million and below especially favor the ad hoc method. Hybrid models represented 6% of total respondents and were favored by the largest institutions. Inflation-adjusted and constant-spending growth models are particularly favored by larger endowments, but only represent 4% of total respondents. The usage of income-related models (4%) has gradually declined over time.

These results clearly indicate that the majority of institutions have shifted from income-oriented policies toward models that can support a total-return investment policy. Callan clients, too, have migrated further toward hybrid policies that take into account both market value and prior spending over the last several years. Given the flexibility of the hybrid models and their early adoption by industry leaders such as Yale University, we expect that the endowment community will increasingly move in this direction over time.

Alternative Investment Allocations Give Rise to Liquidity Concerns

The liquidity crisis and market collapse of 2008 caught many endowments off guard, especially those with large, illiquid alternative investment programs. As buyers disappeared and liquidity dried up, many endowments were forced to sell or consider selling assets at large markdowns. With limited cash on hand, many institutions struggled to meet their basic spending needs. The financial press published articles with headlines such as: “Ivy Leagues Get a Lesson in Liquidity,” “Harvard: the Inside Story of Its Financial Meltdown,” and “Ivory-Towering Infernos.” While some journalists exaggerated, there was plenty of truth to be found.

Over the last decade many endowments rapidly increased their exposure to alternative investments. The 2009 NACUBO–Commonfund Endowment Study showed exposure to alternative investments increased with the size of the endowment. The smallest endowments (<\$25 million) had 11% of their assets dedicated to alternative investments while the largest endowments (>\$1 billion) allocated more than half (**Exhibit 4**).

According to NACUBO–Commonfund, the largest (>\$1 billion) endowments more than doubled their allocations to alternative investments over the last decade.

Exhibit 4 Asset Allocations for Fiscal Year 2009

Endowment Assets/Type (Number of Respondents)	Domestic Equities	Fixed Income	International Equities	Alternative Strategies ¹	Short-term Securities/ Cash/Other
> \$1.0 bil (52)	14%	11%	14%	56%	5%
\$500 mil to < \$1.0 bil (60)	20	14	17	43	6
\$100 mil to < \$500 mil (219)	27	18	16	32	7
\$50 mil to < \$100 mil (164)	34	21	17	22	6
\$25 mil to < \$50 mil (137)	37	23	15	18	7
< \$25 mil (210)	39	28	12	11	10
Total Institutions (842)	31	21	15	25	8

Table data are equal-weighted; numbers in percent.

¹Includes private equity, marketable alternative strategies, venture capital, private equity real estate, energy and natural resources, and distressed debt.

Source: NACUBO-Commonfund Study of Endowments 2009.

In the fall of 2008, the Journal of Portfolio Management published a paper by Laurence B. Siegel entitled *Alternatives and Liquidity: Will Spending and Capital Calls Eat Your “Modern” Portfolio?* which addresses the liquidity problem brought about by large alternative investment allocations in private foundation and other endow-

ment portfolios. In addition to the illiquid nature of alternative investments, Siegel said alternatives—private equity in particular—often have forward capital call commitments which add to the liquidity problem. He stipulates that endowments should attempt to build a self-funding program where distributions are sufficient to cover capital

calls, however, it can take years to build such a program. If spending is required when public markets are down and alternatives are not generating cash and are in lock-up, an endowment can be forced to sell at depressed prices. This scenario became a reality for some during the 2008 market collapse.

Besides spending needs and capital calls, many endowments with large allocations to alternative investments also employ portable alpha strategies which use derivative contracts. These derivative positions can require margin calls in a down market, further raising liquidity needs. Yet another drain on liquidity can come from hedge fund gating provisions during extreme market downturns, which can limit or slow redemptions.

Siegel concluded that a reasonable initial alternatives allocation (e.g., 15%) does not generally pose a liquidity challenge across most market scenarios, while a large allocation (e.g., 50%) can critically hinder spending under stressed market conditions. He also notes that illiquid alternative allocations are less of a problem for endowments with robust contributions as opposed to private foundations, which often have high spending requirements and no new contributions. Siegel's ultimate recommendation for those with large alternative investments programs or those interested in establishing such programs is to carefully assemble a laddered, self-funding structure over a number of years.

It is clear that liquidity is yet another piece of the endowment puzzle that must be considered when designing a spending policy.

Conclusion

Total return-oriented investment policies have become almost universally adopted, representing current best practices in the endowment community. To keep pace with this trend, spending policies have evolved from income-based to market value-based models. However, increased volatility in market values, due in part to higher equity allocations, has resulted in more volatile spending patterns under this new paradigm. Hybrid spend-

ing models are becoming increasingly popular amongst endowments of all sizes—a trend Callan expects to continue as institutions periodically review their investment/spending policy combinations. Finally, as endowments ramp up allocations to alternative investments, liquidity is becoming an issue which needs to be factored into the spending/investment equation.

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